



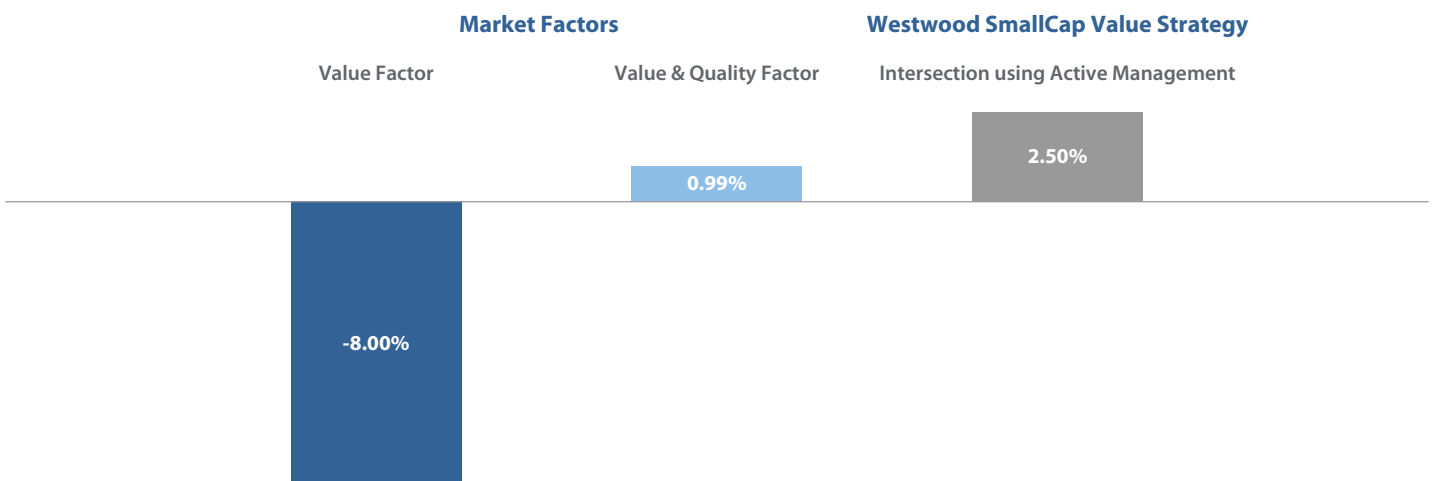
Quality Trumps Traditional Value

What Worked in Small Caps During 1Q20

The first quarter of 2020 proved to be a challenging time for small-cap stocks, particularly small-cap value stocks. The Russell 2000 Value, a small-cap value focused index, suffered the worst quarterly decline in history falling 35.67%. Investors looking to exploit the historical risk premia found in value stocks, particularly smaller cap shares, found themselves significantly underperforming during this period of market stress. As shown below, the value factor for the small-cap universe did even worse in the first quarter,

underperforming the Russell 2000 Value by 8%. We believe that investing in undervalued, high-quality businesses can generate a return premium resulting in lower absolute downside risk. This was observed in the first quarter, as a passive combination of quality and value factors netted 99 basis points in excess return versus the Russell 2000 Value while our actively-managed portfolio, at the intersection of quality and value, saw an even greater delta of 250 basis points better than the loss of the Russell 2000 Value.

Relative Performance versus Russell 2000 Value – 1Q 2020



Source: Jefferies, FactSet. Market factors are based on Jefferies' methodology for creating quintiles of the small cap universe based on groups of fundamental characteristics. Returns are based on the first quintile for each respective factor. Relative performance is the difference between the Russell 2000 Value return and the labeled factors and Westwood SmallCap Value Strategy Composite, net of fees. Past performance is not indicative of future returns. © 2020 FactSet Research Inc. Russell Investment Group is the owner of the trademarks, service marks and copyrights related to its indexes, which have been licensed for use by Westwood.



Traditional Value Not Enough on Its Own...

Investing in small-cap value stocks has historically been advantageous — over the last 20 years, small-cap stocks have outperformed large-cap stocks, and within small-caps, value outperformed growth. Currently, Small Value could be particularly attractive, as it is trading at just 73% of its long-term average P/E and well below the relative levels of Small Growth.

The most recent period has been more challenging for small-cap value, however, as investors looking to exploit the historical risk premia found in value stocks, particularly smaller cap shares, found themselves significantly underperforming during this period of market stress. This has created the potential for a reversal of “fortunes” as small-cap value is now trading at the cheapest multiples relative to other styles and caps.

Quality Critical to Realizing the Return Premium

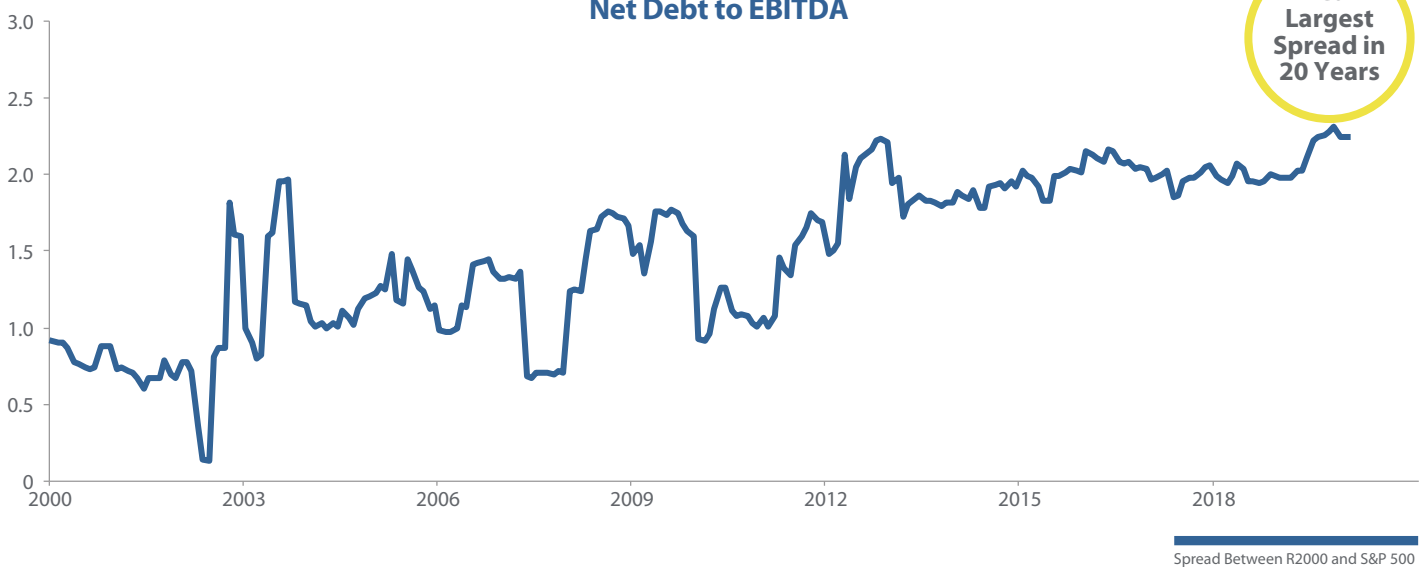
However, adding Quality into the mix helped improve relative performance, as shown on the first page, and generated nearly 1% better performance versus the Russell 2000 Value for the first quarter. Currently, nearly 40% of the small-cap universe is unprofitable, and that figure is likely to rise in the near term given the current economic uncertainty.

Current P/E as a Percentage of 20-Year Average P/E			
	Value	Blend	Growth
Large	89.7%	99.8%	106.3%
Mid	81.7%	90.0%	104.3%
Small	73.0%	95.1%	134.3%

Source: FactSet, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management. The price to earnings is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Data as of March 31, 2020.

Leverage is also elevated for small-caps relative to their large-cap peers as companies have enjoyed easy access to financing with low interest rates for many years. By focusing on the higher-quality cohort, those with stronger returns and balance sheets within the small-cap universe, investors improved their outcome significantly.

Spread Between Small Caps and Large Caps Net Debt to EBITDA



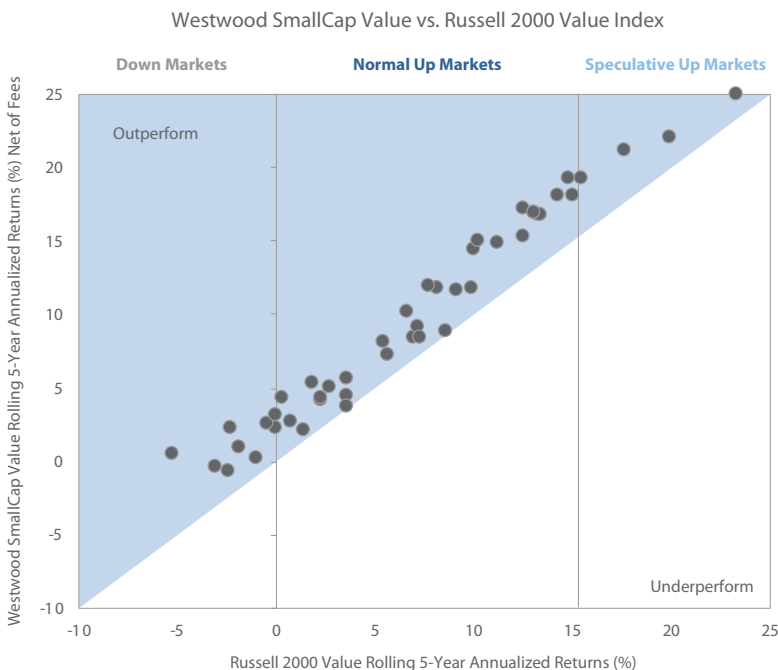
Time Period: 2/28/2000 – 3/31/2020. Source: Strategas. Small Caps shown above is represented by the Russell 2000 Index. Large Caps shown above is represented by the S&P 500 Index.

Westwood SmallCap Value: The Power of Active Management at the Intersection of Quality and Value

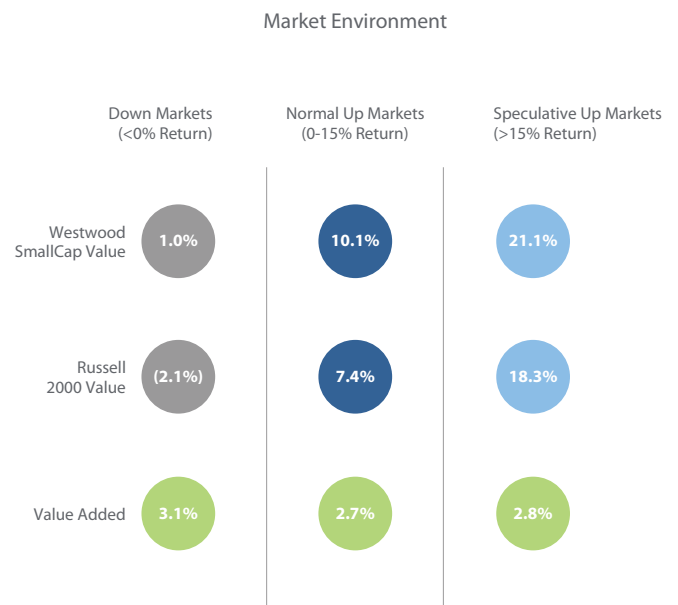
Adding one more element, active management, further improved the outcome for investors during the first quarter of 2020. While a passive quality and value combination generated nearly a 1% return premium to the Russell 2000 Value return in the first quarter, Westwood’s focus on investing at the intersection of quality and value through high-conviction portfolios increased the magnitude of the relative performance captured by 2.5 times. The uncertainty of the current market environment has had vastly different impacts on various businesses and industries, further separating “winners” from “losers” with expectations that this will persist into the future. Westwood believes

investing in these high-quality businesses with strong fundamentals and attractive valuations produces more consistent performance, not just during times of stress, but throughout the investment cycle. Westwood SmallCap Value has a long track record of generating superior risk-adjusted returns using rigorous fundamental analysis to identify undervalued companies with strong cash generation, return metrics and balance sheets. Additionally, our team-based approach to portfolio construction, with the intent to deliver high-conviction and high-active share portfolios, has generated strong risk-adjusted returns across multiple market environments over the last 15 years.

Annualized Rolling 5-Year Returns Net of Fees Since Inception



*Overall Batting Average: 100%



Inception: Jan. 1, 2004. Data Set: Jan. 1, 2004 – March 31, 2020 (Quarterly). Past performance is not indicative of future results. Performance shown assumes reinvestment of dividends and capital gains and is net of investment management fees. Please see appendix for full performance disclosure for the SmallCap Value strategy. Rolling 5-year returns graph calculated using quarterly data. The 5-year period was chosen as a proxy for a typical market cycle. Market environment returns reflect an average of the 5-year annualized returns within each market environment category. *Overall batting average reflects the percentage of rolling 5-year periods in which Westwood SmallCap Value outperformed the Russell 2000 Value Index on a net-of-fees basis.

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