Westwood Emerging Markets Fund

4Q16 Commentary

Investment Objective

The investment objective of the Westwood Emerging Markets Fund is to seek long-term capital appreciation.

Strategy Description

The Westwood Emerging Markets Fund Primarily invests in the common stocks of companies located (or with primary operations) in emerging markets. The strategy has diversified exposure to the best global investment opportunities, located or primarily engaged in emerging market countries, with risk controls limiting position sized and country exposure. The strategy invests in businesses that we believe are mispriced and that can generate positive and sustainable earning growth which could enable superior economic profits over time.

Key Highlights

- The Emerging Markets asset class declined in the fourth quarter, underperforming the developed world, but retaining a healthy return of roughly 9% for the year
- Within the portfolio, Financials, Consumer Discretionary and Consumer Staples were the leading detractors, while Information Technology contributed
- Within the portfolio, exposure to South Korea, Mexico, Taiwan and Egypt detracted, while Brazil and China/Hong Kong were positive

Market Overview

The Emerging Markets asset class declined in the fourth quarter, underperforming the developed world, but retaining a healthy return of roughly 9% for the year. The U.S. dollar jumped to its highest level since 2003, spurred by possible interest rate hikes from the Federal Reserve, as bond yields rose sharply from growth optimism in expectation of greater fiscal spending and reduced regulatory headwinds under the Trump presidency. The rotation out of Emerging Markets assets was compounded by currency declines in most markets, particularly in the Turkish lira, Mexican peso and the Egyptian pound. From a sector perspective, Consumer Staples, Consumer Discretionary and Health Care led declines, while Energy and Materials were the only sectors to post a positive return.

Asia equities fell almost 6% in aggregate as Philippines and Malaysia underperformed. Major markets like China, India and South Korea also declined while Thailand and Taiwan were relative outperformers. A depreciation in the yuan raised liquidity concerns and fears of capital outflows in China, resulting in the resetting of the foreign exchange purchase quota for 2017. The appointment of a new finance chief to address mounting debt and fiscal deficit concerns failed to reassure markets, as a possible end to monetary easing could lead to a deterioration in corporate earnings growth. Indian equities were neutral as the RBI kept interest rates unchanged, providing some time to gauge the impact of the demonetization drive of the government — a measure to improve tax compliance and eliminate the menace of black money and corruption by the immediate cessation of INR500 and INR1000 currency notes as legal tender. Korean equities suffered from a further depreciation in the won as the country continued to experience political turmoil following the impeachment of President Park, while the Bank of Korea revised its Gross Domestic Product (GDP) forecast downward for this year. Taiwan fell amid concerns of U.S. protectionist measures against the export-dependent tech component manufacturing sector, and from recent diplomatic tension with China on state and trade relations.

The Europe, Middle Ease and Africa (EMEA) region benefited from a recovery in Russia as oil prices rose, offsetting renewed losses in Turkey and stagnation in South Africa. Turkey was weighed down by geopolitical risk and decelerating domestic growth as the lira weakened. After seven rate cuts since February, the central bank refrained from further easing to stem the decline. South Africa continued to face a potential downgrade to junk rating by S&P due to prolonged political uncertainty.

Returns in Latin America were muted as rising commodity prices helped to offset the impact of rising treasury yields. Weakness in the Mexican peso from growth uncertainty remained a headwind for investors, as the currency posted its worst total return in five years. This prompted the central bank to hike rates by 50 basis points to contain inflation. Macroeconomic data in retail sales and industrial production showed a continued contraction in economic activity in Brazil, but the approval by senate of a 20-year government expenditure-cap bill to control the widening budget deficit provided optimism for further policy reform and potential economic recovery. The Central Bank of Brazil also implemented its first rate cut in four years to stimulate growth. Chile advanced as the President signed a law that will allow pension funds to invest indirectly in closely held companies, real estate and infrastructure for the first time. Colombians rejected a peace accord between the government and the Revolutionary Armed Forces rebel group as the central bank implemented a 25 basis point rate cut to stimulate growth.

By the Numbers

Within the portfolio, security selection detracted, combined with negative sector allocation. Financials, Consumer Discretionary and Consumer Staples were the leading detractors, while Information Technology contributed. At the country level, exposure to South Korea, Mexico, Taiwan and Egypt detracted, while Brazil and China/Hong Kong were positive.

In Financials, Commercial International Bank of Egypt was the highest detractor, as valuation was adversely impacted by Egypt's decision to move to a free floating currency regime, leading to a massive devaluation in the pound. In local currency terms, however, the stock has since recovered over 30% from strong fundamentals. Reported 3Q earnings was up 28% year over year from higher net interest margins and deposit growth reached 15% this year. AIA detracted from ongoing policy risks in mainland China to curb capital outflows, as new restrictions were announced on insurance products purchased through UnionPay, Visa and MasterCard. Meanwhile, sales in Southeast Asia have been adversely impacted by volatile equity markets, and weaker local currencies could have a negative translation impact in the near-term. Axis Bank in India continued to face pressure from the uncertainty of its NPL exposure while deposit growth and credit demand have remained challenged in the wake of the currency clampdown by the government. Other detractors included BNK Financial of South Korea and Kasikornbank in Thailand.

By the Numbers *(continued)*

BB Seguridade in Brazil also detracted, primarily from a weak third quarter that saw net income below consensus and guidance. Management attributed the disappointment from a workers' strike in September affecting sales, and increased tax expense.

Consumer Discretionary detracted from overweight allocation, and primarily from security selection. PT Media Nusantara, one of the country's top broadcasting companies, detracted amid slower than expected top-line growth and disappointing ad revenue figures, but consensus may have been too optimistic in the near-term. The company's earnings margin, however, is expected to show material improvement due to higher operating leverage and continued monetization of its leading audience share. Other detractors were holdings in South Korea — Hanon Systems, Hankook Tire and Coway. Hanon remains a long-term holding and the investment thesis includes industry leading climate-control technology, ongoing restructuring and market dominance that should continue to drive pricing power, new business opportunities and long-term growth prospects. Coway has maintained strong operating margin of 18%, and Hankook Tire has been able to offset softer top-line growth with cost-driven margin accretion. Giant Manufacturing in Taiwan reported disappointing 3Q results as operating profit was down over 30% compared to a year ago, mainly from a slowdown in the Chinese sport bicycle market. However, sales of e-bikes in Europe and progress towards destocking in many developed markets should provide some offset as consensus estimates are downgraded to more realistic levels. Indian jewelry company Titan Company fell sharply as the removal of currency by the government negatively impacted consumer spending and store traffic. A notable contributor was Grendene in Brazil, which holds a prominent position in the domestic footwear market. The company is also a leading exporter with 37% of industry volume, offering a number of strong brands across different consumer segments using proprietary technology.

Negative security selection and allocation effect led to detraction in Consumer Staples. Korea Kolmar underperformed as positive sales growth was offset by an increase in operating margin pressure, partially from one-time charges related to a tax audit and increased development costs in pharma, and reduced guidance in profitability for its business in China. Holdings in Mexico such as Kimberly-Clark, FEMSA, and Wal-Mart de Mexico, which is an implicit relative overweight exposure to the country, detracted amid concerns of trade tensions with the U.S. and slower domestic economic growth from lower remittances and Foreign Direct Investment. Contributors included a new position in Ambev SA, and South African AVI Limited.

Positive security selection and underweight allocation drove contribution in Information Technology. ASM Pacific was the leading contributor as the company reported solid Q3 results, with positive revenue growth in all major segments. Other contributors included electronics manufacturer VTech Holdings, which provides a high-dividend yield, and Tripod Technology, manufacturer of printed circuit boards. The company continued to see positive momentum in operating leverage from top-line growth and effective cost control, leading to growth in operating margin and a positive outlook for this year. Detractors included Samsung Electronics, still recovering from recent negative consumer sentiment on the issue of battery overheating, Catcher Technology which designs and produces smartphone and computer casings, and payments processing firm Cielo SA.

4Q16 Largest Contributors and Detractors

Five Largest Contributors	Five Largest Detractors
Vale SA Preferred – Brazil	Korea Kolmar Ltd. – Korea
ASM Pacific Technology Ltd. – China/H.K.	CT Environmental Group Ltd. – China/H.K.
Petroleo Brasileiro SA – Brazil	Commercial International Bank SAE – Egypt
Tenaris SA – Argentina	Hanon Systems – Korea
VTech Holdings Ltd. – China/H.K.	Impala Platinum Holdings Ltd. – South Africa

WESTWOOD FUNDS®

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Top 10 Holdings as of 12/31/16*	
Petroleo Brasileiro SA	BGEO Group Plc.
ASM Pacific Technology Ltd.	PT Bank Mandiri Tbk.
Vale SA Preferred	Reliance Industries
Credicorp Ltd.	Largan Precision Co. Ltd.
Tripod Technology Corp.	Hankook Tire Co. Ltd.

**Top 10 holdings represent 19.43% of the total portfolio. Holdings are subject to change. Current and future holdings are subject to risk.*

Westwood Emerging Markets Fund Performance as of 12/31/16

			Annualized	
	4th Quarter	1 Year	3 Years	Since Inception*
Westwood Emerging Markets Fund	-7.43%	12.47%	-1.39%	-4.26%
MSCI Emerging Markets Index	-4.08%	11.60%	-2.19%	-2.00%

**Inception date is 12/26/12. The performance data quoted represents past performance. Past performance is not indicative of future results. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. Total expense ratio for the Fund is 1.86% (gross) and 1.20% (net). The Adviser has contractually agreed to waive fees and reimburse expenses until February 28, 2016. In the absence of current fee waivers, total return and yield would be reduced. For performance data current to the most recent month end, please call 1-877-FUND-WHG or visit our website at westwoodfunds.com.*

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. The Benchmark Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance does not reflect any management fees, transaction costs or expenses. The Benchmark Index is unmanaged and investors cannot invest directly in the an index.

Mutual fund investing involves risk, including possible loss of principal. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from social, economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. The Fund uses derivatives. The primary risk of derivative instruments is that changes in the market value of securities held by the Fund and of the derivative instruments relating to those securities may not be proportionate. Derivatives are also subject to illiquidity and counterparty risk. In addition, REIT investments are subject to the changes in economic conditions, credit risk and interest rate fluctuations. Investments in smaller companies typically exhibit higher volatility. There can be no assurance that the Fund will achieve its stated objective, which can be found in the prospectus, or that of the strategy.

To determine if this Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the Fund's summary or full prospectus, which may be obtained by calling 1.877.FUND.WHG (877-386-3944), or by visiting our website at westwoodfunds.com. Read the prospectus carefully before investing or sending money.

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