

### **Investment Objective**

The investment objective of the Westwood Market Neutral Income Fund is to seek to generate positive total returns in all the market conditions through a combination of current income and capital appreciation.

### **Strategy Description**

The Westwood Market Neutral Income Fund utilizes a market-neutral investment approach to investing primarily in global convertible securities. A market-neutral investment strategy means that the Fund seeks to earn a positive return throughout market cycles by maintaining a portfolio that is designed to have a lower volatility and low correlation with the general stock market. The Fund combines investing in income producing, shorter-duration convertible securities with a convertible arbitrage strategy to enhance return potential. Tail risk hedging strategies are incorporated to reduce volatility. Active management, along with quantitative and fundamental analysis, are utilized to emphasize prudent risk management.

### **Key Highlights**

- Short duration yield convertibles continued to provide a stable source of return in the fourth quarter
- The convertible arbitrage strategy provided the majority of positive performance in the quarter
- Macro hedges continued to provide downside protection to investors, though created a drag on performance during markets exhibiting low volatility or in a “risk-on” environment, as seen in the prior three months.
- Financials, industrials and health care convertibles in both the arbitrage and yield strategies were the main drivers of positive performance during the final quarter of 2016

### **Market Overview**

The final quarter of 2016 certainly provided a dramatic conclusion to the year, as early weakness in the markets was replaced by a post-election rally in the U.S. While investors rightfully remain concerned with the specter of U.S. rate hikes and the recent steepening of the yield curve, the markets have thus far taken it in stride, bidding up financial sector assets and potential inflationary asset classes, including energy. The possibility of a friendlier regulatory regime from the incoming Republican-dominated government gave a lift to the materials, energy, telecom and industrial sectors. While investment grade and rate-sensitive asset classes suffered somewhat in the quarter, the

fallout was relatively mild, as high yield held in due to its still-attractive yield characteristics, and credit spreads tightened throughout Investment Grade and High Yield corporates. While convertible bonds performed ably against this backdrop, we continue to see opportunity in the asset class, both in the U.S. and in short-duration European yield convertibles. The asset class continues to create reasonable supply, with \$77.2 billion of total issuance in 2016, just below the \$81 billion seen in the prior year. New issuance drivers including mergers and acquisitions, rising rates and healthy equity valuations indicate that supply should continue at a healthy pace into the new year.

### **By the Numbers**

The steepening curve and the likelihood of a friendlier regulatory environment drove financial companies higher in the fourth quarter and performance reflected this, as top performers in both the yield portfolio and the arbitrage book were convertibles from debt servicing firms, insurance companies, banks and brokerage firms. Industrial holdings also performed well, though one swap position was negatively impacted by a takeover attempt which favored the underlying equity relative to the convertible. Undervalued health care convertibles held on swap richened substantially in the quarter and provided a significant boost to performance. Energy related holdings were mixed despite the strong movement in oil and gas; however, we remain comfortable with our sector exposure in both yield and arbitrage positions, and expect these names to benefit in the longer term. The largest detractor from performance in the fourth quarter was from macro hedging positions, though we expect such positions to provide significant benefit, as they have in the past, during periods of short-term and extended market volatility.

### **Strategy and Positioning**

The dynamics within the investable universe of convertible bonds as well as the flexibility of a global mandate have allowed us to continually find opportunities within the asset class, and the coming year should prove to be no exception. Yield opportunities have arisen in U.K. and European convertibles, as securities become unreasonably discounted due to technical factors, or simply the result of being overlooked because of index exclusion. From an arbitrage standpoint, the overall fragmentation of the convertibles market remains a reality. While certain regions and characteristics (such as indexed convertibles) remain prone to overvaluation, a significant portion of the universe remains attractively valued. We will continue to seek to

**Summary and Positioning** *(continued)*

exploit both sides of these inefficiencies, while maintaining our market-neutral focus. Finally, we continue to maintain a disciplined macro hedging strategy, both to seek to provide protection against significant market moves, but also as a means to allow for flexibility in the event of such volatility, as experience has shown that such periods provide rich opportunity in an asset class that is uniquely suited to benefit from volatility.

**Westwood Market Neutral Income Fund as of 12/31/16**

	4 <sup>th</sup> Quarter	1 Year	Annualized Since Inception*
Westwood Market Neutral Income Fund	0.12%	5.23%	3.13%
<i>Citigroup 1-Month Treasury Bill Index</i>	<i>0.06%</i>	<i>0.21%</i>	<i>0.13%</i>

*\*Annualized. Inception date is 5/1/15. 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. Institutional Share Class net expense ratio: 1.45%, gross expense ratio: 4.24%. The Adviser has contractually agreed to waive fees and reimburse expenses until February 28, 2017. The expense ratio does not reflect the ability of the Adviser to recover all or a portion of prior waivers, which would result in higher expenses for the investor. This option is available contractually to the Adviser until three years after the year in which the Adviser incurred the expense if the recoupment does not exceed the existing expense limitation. For performance data current to the most recent month end, please call 1-877-FUND-WHG or visit our website at westwoodfunds.com. Performance data source: SEI Investments Co.*

*The Citigroup 1-Month Treasury Bill Index is an unmanaged index representing monthly return equivalents of yield averages of the last 1 month Treasury Bill issue. 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.*

Macro hedge is an investment technique used to eliminate the risk of a portfolio of assets. In most cases, this would mean taking a position that offsets the whole portfolio.

Mutual fund investing involves risk, including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise. The value of a convertible security in which the Fund invests is influenced by changes in interest rates, the credit standing of the issuer and the price of the underlying common stock. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from 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 may invest in derivatives, which are often more volatile than other investments and may magnify the Fund's gains or losses. There can be no assurance that the Portfolio will achieve its stated objectives.

***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.***

*This material represents the manager's assessment of the market environment and should not be relied upon by the reader as research or investment advice regarding any security, nor is it intended to be a forecast of future events or a guarantee of future results.*

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