Westwood Opportunistic High Yield Fund (WWHYX)

WESTWOOD FUNDS®

4Q16 Commentary

Investment Objective

The investment objective of the Westwood Opportunistic High Yield Fund is to see to maximize total return through a high level of current income and capital appreciation.

Strategy Description

The Westwood Opportunistic High Yield Fund ("the Fund") invests primarily in U.S. dollar denominated high yield securities of U.S. and non-U.S. companies. At least 80% of the Fund's assets are in high yield securities, including bonds rated BB+/Ba1 or below, as well as senior secured, second lien or other subordinated or unsecured fixed or floating rate bank loans. The Fund also has the flexibility to invest opportunistically in other fixed income securities, including investment-grade corporate bonds, U.S. government bonds and mortgage-backed securities, as well as equities. The Fund is sub-advised by SKY Harbor Capital Management, LLC, an institutional high yield manager with approximately $5 billion in assets under management (as of 12/31/16). The Opportunistic High Yield team seeks to identify issuers that it believes exhibit attractive characteristics, including stable businesses with projectable cash flow comparisons, positive year-over-year cash flows supported by stable industry conditions, and generation of cash in excess of corporate and financial obligations.

Market Commentary

Risk assets rallied following the conclusion of the U.S. presidential election and the U.S. High Yield market traded higher as investors interpreted a Trump victory to be pro-growth. The Organization of the Petroleum Exporting Countries' (OPEC) late November agreement to cut oil production stabilized energy markets and created a bid for energy-related investments. While the 0.25% rate hike at the Federal Open Market Committee's (FOMC) December meeting was widely expected, the more hawkish tone of the survey of economic projections suggesting the median member of the committee expects that three rate hikes in 2017 would be appropriate rather than two came generally as a surprise to the market. Yields on Treasuries were sharply higher following the release and the dollar stronger. While risk assets paused briefly following the rate hike, the high yield market was able to absorb the full rise in interest rates as spread tightening more than offset the rate increase. West Texas Intermediate (WTI) Crude oil prices were 11.36% higher for the quarter, closing at $53.72 per barrel, the U.S. Dollar Index rose 7.1% and the yield curve steepened.

High Yield technicals were generally supportive in the fourth quarter with lower demand offset by less supply. High yield funds saw outflows of $1.9 billion while loans saw $10.8 billion of inflows, as tracked by Lipper. High yield net supply was negative for Q4 with $83.8 billion of redemptions offset by $47.3 billion of new issuance reducing net new supply by $36.5 billion. The percentage of the market trading at distressed levels (below 70% of par) ended the year at 2.4%, per JPMorgan Chase & Co. The par-weighted twelve-month default rate was 4.9% at the end of December, per BofA-Merrill Lynch. Excluding commodities, the default rate was 1.0%.

The BofA Merrill Lynch U.S. High Yield Index returned 1.88% in Q4, ending the period with an average price of 99.56, a 0.55 point increase from the prior quarter. Credit spreads tightened by 81 basis points (bps) to 421 bps and the yield-to-worst was lower by 0.14% to 6.13%.

High Yield outperformed investment grade corporates, as represented by the BofA Merrill Lynch U.S. Corporate Index's -2.88%, but underperformed large and small cap equities as represented by the S&P 500's 3.82% quarterly return and the Russell 2000's 8.81%. In High Yield, performance was positive across all credit qualities. By quality, Double-B, Single-B and Triple-C sub-indices returned 0.68%, 2.11% and 5.94%, respectively. By sector, Energy was the top performer with a 5.98% return, while Healthcare was the bottom-performing sector, posting -2.42%.

Performance Drivers

The Westwood Opportunistic High Yield Fund outperformed the U.S. High Yield Market (as measured by the BofA Merrill Lynch U.S. High Yield Index) in the fourth quarter of 2016. Risk positioning (defined by duration to worst and yields), security selection and sector allocations all provided positive contributions to relative performance. The Fund benefitted from an underweight to the better-quality segment of the market that lagged and overweight to lower-rated credit that led the market in the quarter. Security selection within the Energy sector was also a strong contributor but was partially offset by security selection within Financial Services. Sector allocations' positive contribution to relative performance was driven by an underweight to both the Banking and Utility sectors, slightly offset by the Fund's modest underweight to Energy.

The Fund's largest positive contributor was Ahern Rentals Inc. 7.375% notes due 2023, which traded higher after the equipment rental company reported a solid Q3'16 and offered upbeat guidance for 2017. Last quarter's top contributor to absolute returns, Rex Energy Corp 1.0% notes due 2020 was among the top detractors for the fourth quarter after reporting weaker-than-expected Q3 numbers caused by higher-than-expected natural gas differentials. The bottom Q4 contributor was again Concordia International (CXRCN) 7.0% notes due 2023, after the pharmaceutical company reported weak results and suspended guidance amid a CEO transition. We sold our exposure to CXRCN due to lack of clarity around the future of the company's business model.

4Q16 Largest Contributors and Detractors

Five Largest Contributors
Ahern Rentals Inc. 7.375% Due 05/15/23
Bonanza Creek Energy Inc. 6.750% Due 04/15/21
TMS International Corp. 7.625% Due 10/15/21
California Resources CRP 8.000% Due 12/15/22
EP Ener/Everest Acq. Fin. 9.375% Due 05/01/20

Five Largest Detractors
Concordia International 7.000% Due 04/15/23
CHS/Community Health Systems 6.875% Due 02/01/22
Rue21 Inc. 9.000% Due 10/15/21
Valeant Pharmaceuticals 6.125% Due 04/15/25
Concordia International 9.500% Due 10/21/22

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Westwood Opportunistic High Yield Fund Performance as of 12/30/16

			Annualized
	4th Quarter	1 Year	Since Inception*
Westwood Opportunistic High Yield Fund	2.24%	14.67%	4.41%
BofA Merrill Lynch U.S. High Yield Index	*1.88%*	*17.49%*	*5.82%*

**Inception date is 12/29/14. 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 5.97% (gross) and 0.75% (net). The Adviser has contractually agreed to waive fees and reimburse expenses until February 28, 2017. In the absence of current fee waivers, performance 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. SEC 30-Day yield as of 12/31/16 is 6.10%, unsubsidized 30-day yield is 2.02%.*

The BofA Merrill Lynch U.S. High Yield Index tracks the performance of below-investment-grade U.S. dollar-denominated corporate bonds. The Index does not reflect any management fees, transaction cost or expenses. The Index is unmanaged and investors cannot invest directly in an index.

Top 10 Holdings as of 12/31/16*

Townsquare Media 6.500% Due 04/1/23	Coveris Holdings 7.875% Due 11/01/19
Sprint Corp. 7.875% Due 09/15/23	T-Mobile USA Inc. 6.500% Due 01/15/26
JLL/Delta Dutch 7.500% Due 02/01/22	Altice LX 7.750% Due 05/15/22
CSC Holdings LLC 5.250% Due 06/01/24	JB Poindexter 9.000% Due 04/01/22
Sprint Corp. 7.125% Due 06/15/24	First Data Corp. 7.000% Due 12/01/23

**Top 10 holdings represent 6.90% of the total portfolio. Holdings are subject to change. Current and future holdings are subject to risk.*

Duration to Worst is the duration of a bond computed using the bond's nearest call date or maturity, whichever comes first. Yield to Worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. Duration is a measure of the sensitivity of the price of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

S&P Ratings are a grade given to bonds that indicate their credit quality. S&P give ratings after evaluating a bond issuer's financial strength, or it's the ability to pay a bond's principal and interest in a timely fashion. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest).

BofA Merrill Lynch U.S. Corporate Index an unmanaged index comprised of U.S. dollar denominated investment grade corporate debt securities publicly issued in the U.S. domestic market with at least one year remaining term to final maturity.

S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

Mutual fund investing involves risk, including possible loss of principal. In addition to the normal risks associated with investing, bonds and bond funds are subject to interest rate risk and will decline in value as interest rates rise. High yield bonds are highly speculative and carry a greater degree of risk. International investments may involve risk of capital loss from unfavorable fluctuations in currency values, from differences in generally accepted accounting principles or from social, economic or political instability in other nations. A company may reduce or eliminate its dividend, causing losses to the Fund. There is no guarantee that the Fund will achieve its stated objective, which can be found in the prospectus, or that of the strategy. Diversification may not protect against market risk.

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.