WESTWOOD FUNDS®

Westwood SMidCap Plus Fund (WHGPX)

4Q16 Commentary

Investment Objective

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

Strategy Description

The Westwood SMidCap Plus Fund pursues long-term capital growth by investing in securities with market capitalizations between $2 billion and $20 billion that trade on U.S. stock exchanges. The Fund utilizes the same portfolio team and the same investment process as the Westwood SMidCap Fund (WHGMX). The Fund's strategy owns approximately 80% of the same securities as WHGMX.

Key Highlights

- Technology drove relative performance due to positive stock selection
- Consumer Staples hurt relative performance due to our overweight and poor performance
- Positive stock selection and an underweight to Real Estate Investment Trusts (REITs) aided relative performance
- Financial Services and Producer Durables were the best-performing sectors in the Russell 2500 Index while Health Care and REITs were the worst-performing sectors

Market Overview

Looking back, 2016 and more specifically, the fourth quarter, will be remembered for the beginning of the regime change in the markets and the optimism that unfolded post-election within equities. The confidence altered many investor paradigms which had previously centered on concerns over the economy and replaced them with the hope for a better growth environment going forward. As a result of the shift, investors moved further out on the risk spectrum pushing small-cap stocks up more than large-caps, although both posted strong absolute gains for the quarter. As expected, the Federal Reserve (Fed) hiked rates in December on the back of a brighter outlook for growth and rising prospects for inflation. The U.S. Dollar appreciated during the period as well as crude oil prices, which rallied strongly on the back of an agreement by the Organization of the Petroleum Exporting Countries (OPEC) to reduce supply. Consumer confidence hit the highest level for the year in December as did the Institute of Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI) as sentiment surged into year-end with employment continuing to remain strong.

By the Numbers

Regional banks broadly were bid higher during the quarter as rising interest rates were seen by investors as drivers for better net interest margins to come in conjunction with potential corporate tax reform to further complement fundamentals. A more favorable regulatory environment for regional banks was seen as an incremental positive for several quality franchises we own that were notable contributors to performance including Home BancShares, Zions Bancorp, Western Alliance Bancorp and Wintrust Financial. We continue to view the group favorably and believe high-quality franchises that are growing and taking market share can thrive regardless of the interest rate environment.

j2 Global moved higher as solid operating results showed strong cost controls and the company announced the acquisition of Everyday Health. Everyday Health roughly doubled j2's digital media segment and strategically fits well with their existing sites.

Pitney Bowes suffered a setback as their core North American mailing business disappointed expectations for stability. Management was forced to suggest that they would be at the low end of their guidance range as a result. Newell Brands moved lower as earnings underwhelmed as sales came in slightly below expectations. There continues to be opportunities from their acquisition of Jarden to reduce costs even as they layer in additional tuck-in acquisitions. Equifax faced pressures as investors questioned the impact of higher interest rates on their mortgage origination business. While quarterly results were inline, guidance was adjusted lower due to negative currency impacts. Patterson Companies declined as the company missed estimates and lowered guidance as a result of their decision to exit an exclusivity agreement with Sirona in their dental business. Energizer Holdings posted solid results but felt pressure as investors took profits and rotated into other names ahead of a difficult comparison in the upcoming quarter.

Summary and Positioning

Look forward, 2017 could see several important regime changes unfolding including: fiscal policy replacing monetary policy as the stimulant to the economy, regulatory burdens decreasing rather than increasing, pricing power expanding as disinflationary forces recede and interest rates moving higher from historic lows. The backdrop could provide for improving top-line growth for corporations who should see profits accelerate in tandem. Generational tax reform could also add an incremental tailwind, though, not without some potential offsets. High-quality business models should benefit as higher costs of capital helps differentiate their advantaged position versus lesser peers. We continue to focus on identifying high-quality businesses with what we believe are undervalued growth prospects and the potential to reduce downside risk in order to protect client capital should volatility increase.

One such opportunity we view are regional banks. High-quality franchises like Home BancShares and Chemical Financial appear poised to benefit from rising interest rates as well as market share gains from growth in their respective local economies. Falling rates over the past few years have pressured banks' net interest margin (NIM), which is the spread between what they earn in interest from making loans and the cost they pay to depositors. Higher NIM should aid returns and drive better earnings at banks going forward. Corporate tax reform could also serve as a tailwind for many of these banks given their high effective tax rates. Harder to quantify, but an important factor for the group, will be to what extent the incoming administration will be able to lower the regulatory burden for the banking system. With a clear pro-business set of appointees so far, the Trump administration likely provides a more favorable backdrop relative to the post-financial crisis era.

The team made changes to the portfolio to improve expected risk-adjusted return by shifting exposures within consumer sectors and exiting some media-related names, adding to our exposure in high-quality bank franchises, and adding to our cyclical exposures in industrials and building materials. The team also exited two names that agreed to be acquired at significant premiums.

4Q16 Largest Contributors and Detractors

Five Largest Contributors	Five Largest Detractors
Home BancShares Inc.	Pitney Bowes Inc.
Western Alliance Bancorp	Newell Brands Inc.
Zions Bancorp	Equifax Inc.
Wintrust Financial Corp.	Energizer Holdings Inc.
j2 Global Inc.	Patterson Companies Inc.

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Westwood SMidCap Plus Fund Performance as of 12/31/16			Annualized		
	4th Quarter	1 Year	3 Year	5 Year	Since Inception*
Westwood SMidCap Plus Fund	5.58%	11.13%	4.67%	12.11%	8.42%
Russell 2500 Index	6.12%	17.59%	6.93%	14.54%	10.85%

**Inception date is 3/28/11. 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 0.91%. Westwood Management Corp. (the Adviser) has contractually agreed to reduce fees and reimburse expenses in order to keep Total Annual Fund Operating Expenses (excluded expenses) from exceeding 1.00% of the Funds average daily net assets until February 28, 2017. Absent these waivers, total return would be reduced. For performance data current to the most recent month end, please call 1-877-FUND-WHG or visit our website at www.westwoodfunds.com.*

The Russell 2500 Index measures the performance of the 2,500 smallest companies in the Russell 3000 Index, which represents approximately 16% of the total market capitalization of the Russell 3000 Index. 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 into an index.

Large cap (sometimes "big cap") refers to a company with a market capitalization value of more than $5 billion. Large cap is a shortened version of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Small cap is a term used to classify companies with a relatively small market capitalization. A company's market capitalization is the market value of its outstanding shares. The definition of small cap can vary among brokerages, but it is generally a company with a market capitalization of between $300 million and $2 billion.

Top 10 Holdings as of 12/31/16*	
Western Alliance Bancorp	Teleflex Inc.
DTE Energy Co.	Avnet Inc.
Booz Allen Hamilton Holding Corp. Class A	RSP Permian Inc.
Cable One Inc.	Zions Bancorp
Home BancShares Inc.	Huntington Ingalls Industries Inc.

**Top 10 Holdings represent 23.08% of the total portfolio and represent the ten largest portfolio positions by market value in the Fund as of the period end date. Each quarter, the Westwood Funds use this same objective, non-performance based criteria to select the ten largest holdings. Holdings are subject to change. Current and future holdings are subject to risk.*

Mutual fund investing involves risk, including possible loss of principal. There are specific risks inherent in small-cap investing, such as greater share price volatility, as compared to other funds that invest in stocks of companies with larger and potentially more stable market conditions. In addition to the normal risks associated with investing, REIT investments are subject to changes in economic conditions, credit risk and interest rate fluctuations. There is no guarantee 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 www.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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