

## 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

- Positive absolute performance for the quarter was driven largely by short duration yield convertibles, and select convertible arbitrage positions
- Hedging strategies designed to reduce exposure to macro volatility were a drag on fund performance during the quarter, as would be expected during periods of sustained low market volatility in credit and equity markets
- Performance was positive on an absolute basis and attractive in relation to comparable absolute return strategies
- Returns continued to be as targeted: positive during each monthly period, and relatively uncorrelated with market movements during the quarter

## Market Overview

The first quarter of 2017 saw robust returns in global equities and continued strength in corporate credit spreads, which provided a healthy backdrop for the global convertible bond market. As a result, convertibles performed well, trailing only global equities during the period, and the longer-term health of the asset class was reinforced by the stronger issuance quarter since 1Q15, with \$24.3 billion of new issuance in the quarter, led by \$13 billion in the U.S. While the primary market year to date has been largely characterized by repeat issuers and relatively tight pricing, new supply should help create opportunities within the existing universe of securities, either from new issuance that is attractively priced, or as market participants adjust portfolios to deploy capital into the primary market, which tends to create interesting opportunities in more seasoned issuance.

## By the Numbers

The Westwood Market Neutral Income Fund returned 1.33% in total during the first quarter of 2017, and posted a small income distribution during the period as well. In comparison, the HFRX Absolute Return Index, which serves as a representative sample for a broad range of global absolute return hedge fund strategies, returned roughly 0.65% during the quarter.

Fund performance during the quarter was led by the short-duration convertible yield strategy, and the diversity of returns in this strategy highlighted the opportunities that could continue to exist for astute convertible investors even as corporate credit spreads near cyclical tight levels. European positions were the standout performers in the quarter.

Positive contribution from the convertible arbitrage portfolio strategy was largely a function of individual security selection, as the overall valuation levels of the convertible bond asset class remained relatively stable during the quarter. Convertibles of a pharmaceutical company owned in the portfolio provided the largest gains during the quarter, as significant news arose regarding potential strategic partnerships for the company's main drug candidate, which resulted in subsequent volatility as activist investors took control of the board of directors for the company. Such a situation provided an excellent opportunity for convertible arbitrage, as the potential strategic partnership substantially verified the value of the company's assets and improved the credit profile of the company, while the resulting drama around the board created volatility around the company's share price.

## Strategy and Positioning

The fund's increased exposure to Europe aided 1Q17 performance, and we continue to see opportunities in short-duration yield convertibles in the region. Convertible arbitrage opportunities remain focused on the U.S. and Asia, and will likely become more plentiful if the primary issuance calendar remains strong, as portfolio repositioning for new issuance will create opportunities in the secondary market.

We remain resolute in maintaining the tail hedging strategy of the fund, in an effort to protect the fund from macro factors and to allow for maximum flexibility during market risk-off periods. Hedges are varied, and are selected based around fund exposures which need to be hedged against, as well as the relative value seen in the cost of the hedges. We continue to maintain some equity market hedges in the form of put options, and held options that would benefit in the event of a volatility spike in the market.

During the period, we also initiated positions designed to protect against potential credit market weakness, as we recognize that credit markets remain near cyclical tight levels,

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

and the relative cost of such protection was deemed to be attractive. We intend to continue to actively manage tail hedges in an effort to provide prudent and efficient protection against various market stresses which might impact portfolio performance.

We continue to position the fund to benefit from the reappearance of volatility in the global markets. With equity

market valuations becoming stretched in certain regions, and global rates and credit markets near cyclical or secular tightness, we remain prudent in positioning the fund to concurrently take advantage of prevailing market opportunities, while maintaining a flexible and defensive posture to capitalize on the opportunities that market weakness will likely provide.

**Westwood Market Neutral Income Fund as of 3/31/17**

	1 <sup>st</sup> Quarter	1 Year	Annualized Since Inception*
Westwood Market Neutral Income Fund	1.33%	7.85%	3.43%
Citigroup 1-Month Treasury Bill Index	0.11%	0.27%	0.17%

*\*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: 1.31%, gross expense ratio: 3.27%. The Adviser has contractually agreed to waive fees and reimburse expenses until February 28, 2018. 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.

The HFRX Absolute Return Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage.

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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