

Investment Objective

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

Strategy Description

The Westwood SMidCap Fund pursues long-term capital growth by investing in securities with market capitalizations of \$500 million to \$10 billion that trade on U.S. stock exchanges.

Key Highlights

Energy detracted from relative performance due to being overweight as the sector faced intense headwinds from the falling commodity prices. Equities continued their march higher posting gains across the board. The trends from last year continued unwinding as large-cap stocks and growth stocks outpaced small-caps and value stocks.

- Real Estate Investment Trusts (REITs) aided relative performance due to positive stock selection
- Producer Durables detracted from relative performance due to negative stock selection
- Consumer Discretionary added to relative performance due to stock selection
- Health Care and Technology were the best-performing sectors in the Russell 2500 while Energy and Consumer Staples were the worst-performing sectors

Market Overview

Looking back, the stock market produced another solid gain for the second quarter. Large-caps continued to beat small-caps and growth stocks outperformed value, which has been the case for both since the beginning of the year. The Federal Reserve (Fed) raised the benchmark rate in June by 25 basis points as expected, but, also indicated their intent to reduce the size of their balance sheet later this year by not reinvesting the proceeds as their bond holdings mature. Taken together, these actions to unwind the Fed's asset purchases, shrinking their balance sheet, and raising extremely low

rates put in place after the 2008-2009 financial crisis will continue to shift monetary policy back to more "normalized" levels. Global markets moved higher as economic conditions appeared stable to improving in many areas of the world.

Political noise remained high and investors continued to discount meaningful legislative impacts on businesses given the discourse so far this year. Noteworthy, most companies' outlooks were positive as their fundamentals came through strongly during the most recent quarterly earnings season.

By the Numbers

Several health care names were top contributors for the quarter including PerkinElmer, which moved higher on strong organic growth and the announcement of a large and accretive acquisition of a specialist in auto-immune and allergy diagnostic testing. STERIS posted solid results as organic growth trends improved and guidance for the upcoming fiscal year was well received. Wintrust Financial moved up as their business is strongly leveraged to higher interest rates and their credit quality remains very good. Cable One shares gained as their focus on growing their high-speed data subscribers comes with better margins and cash flows. Residential high-speed data and business services now comprise the majority of the company's revenues. STAG Industrial rallied as execution remained strong on their strategy which is driving strong acquisition volumes, a growing deal pipeline and visible accretion to earnings and cash flow.

However, weakness continued for several names in the Energy sector as commodity prices continued to fall during the quarter with both natural gas and crude oil now down over 10% year-to-date. This was again the worst-performing sector and negatively impacted several holdings including RSP Permian, Diamondback Energy, PDC Energy and Parsley Energy. Fears over rising shale production in the U.S. and persistent global petroleum product imbalances have weighed heavily on investors' perception of prices. Several holdings continue to see strong returns, even at lower price levels, and look to continue to post strong production and cash flow growth. Avnet declined as the company's guidance came in below expectations due to customer losses and pricing pressure within the channel.

2Q17 Largest Contributors and Detractors

Five Largest Contributors

Cable One Inc.
Wintrust Financial Corp.
PerkinElmer Inc.
STAG Industrial Inc.
STERIS Plc

Five Largest Detractors

RSP Permian Inc.
Parsley Energy Inc. Class A
PDC Energy Inc.
Diamondback Energy Inc.
Avnet Inc.

Summary and Positioning

Looking forward, companies both domestically and abroad are seeing improvements in their fundamental prospects even as political uncertainty remains elevated. While Washington headline noise appears unlikely to abate in the near-term, the more important regime change continues to be progressing as monetary policy becomes less accommodative in conjunction with improving economic indicators. Fundamentally, investors continue to forecast strong earnings growth. The upcoming second quarter 2017 earnings season for the S&P 500 is expected to be the fourth consecutive quarter of year-over-year improvement after a streak of four declines prior. Given the changes underway from both fiscal and monetary policies, dispersion remains a key watch item as different companies are better situated to cope with the changing landscape. Higher levels of inflation and interest rates should further help to reduce correlations within the equity markets. This should also raise the cost of capital, with high-quality business models being better able to offset the rising costs versus their lesser peers. We continue to focus on identifying high-quality businesses with undervalued growth prospects and attempt to limit downside risk in order to protect client capital should volatility increase from the low levels seen so far this year.

One opportunity we view in the market today is within the domestic cement business. Cement is consumed in regional markets within the U.S. by three primary end-markets: highways/infrastructure, residential construction and non-residential construction. The passage of a federal transportation bill provides a commitment that supports states to engage in building multi-year infrastructure projects and helping to drive a cyclical demand increase. Supply is constrained by secular forces limiting permits for construction of new cement plants due to environmental concerns as well as a “not in my backyard” (NIMBY) element for concerned local residents. Given the housing market remains strong, underpinned by the solid labor markets, the outlook appears favorable for potential price increases over the next several years as cement consumption increases amidst limited supply growth domestically. The combination of cyclical inflection and secular tailwinds make this group an attractive opportunity.

The team made changes to the portfolio to seek to improve expected risk-adjusted return, some of which included shifting exposures within cyclical, adding a top manufacturer of food preparation and kitchen equipment, exiting an office furnishings position and buying a high-quality, rural-focused community bank.

Westwood SMidCap Fund Performance as of 6/30/17

	2 nd Quarter	1 Year	Annualized			
			3 Year	5 Year	10 Year	Since Inception*
Westwood SMidCap Fund	0.49%	14.76%	3.11%	11.61%	7.38%	9.43%
Russell 2500 Index	2.13%	19.84%	6.93%	14.04%	7.42%	8.58%

**Inception date is 12/19/05. 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 0.98%. For performance data current to the most recent month end, please call 1-877-FUND-WHG or visit our website at 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.

Top 10 Holdings as of 6/30/17*

Wintrust Financial Corp.	Great Western Bancorp Inc.
Amdocs Ltd.	Teleflex Inc.
Western Alliance Bancorp	Alliant Energy Corp.
Chemical Financial Corp.	Cable One Inc.
Zions Bancorp	Cedar Fair L.P.

**Top 10 Holdings represent 23.40% 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.*

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.

A growth stock refers to a share in a company whose earnings are expected to grow at an above-average rate relative to the market.

A value stock refers to a stock that tends to trade at a lower price relative to its fundamentals and thus considered undervalued by a value investor.

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. 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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