



Westwood[®]

Investing Where It Counts

Avoid the Beta Bubble

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2018

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The Current State

- The Beta “ Bubble”- What is it?

The Challenge

- Benchmarks as investment strategy

Fundamentals matter

- Know what you own

How quality makes a difference in Small Caps

- Earnings matter

Multi-Asset Approach

- Emphasis on Loss Limitation- What is your plan for volatility?

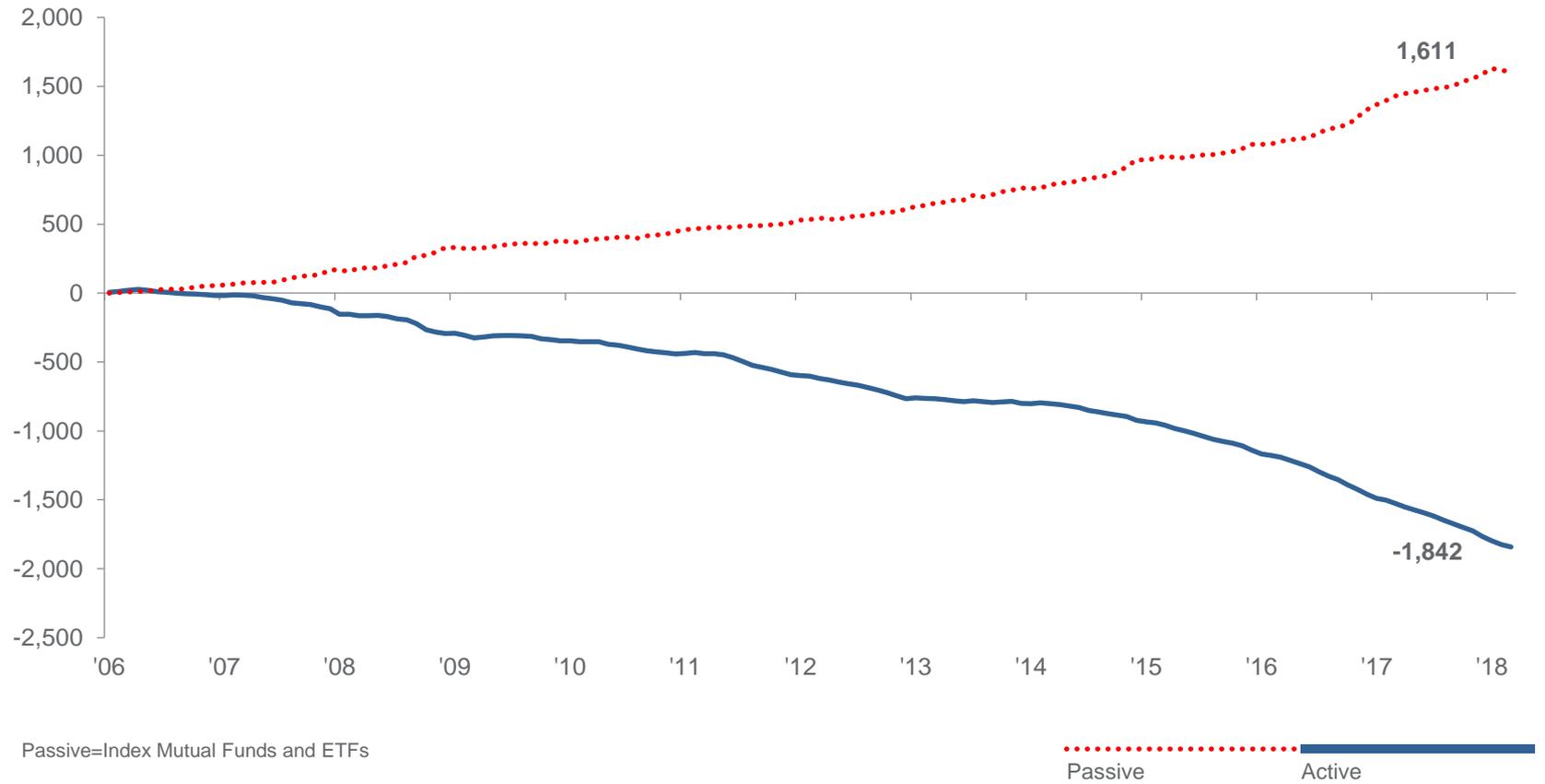


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Cumulative Net Flows into Domestic Equity Active Mutual Funds vs. Passive Funds

(\$Bil.; Jan 2006 - March 2018)



Source: Strategas Research Partners, 2018. Past performance is not indicative of future results.



Benchmarks most likely will not define outcomes going forward as capital market assumptions change

6 stocks made up 99% of the upside in the index at mid-year. Amazon, Apple, Netflix, MSFT, FB, Alphabet

7 of the 11 sectors in S&P 500 are down this year

The appearance of Diversification in the S&P 500 is deceiving and may expose institutional investors to unintended risks.

Owning the index with a focus on tracking error vs. absolute loss avoidance with potentially 400+ stocks of average-to-below average companies is not a recipe for success in the current market environment (See 2007/2008)

60/40 portfolios with heavy passive allocations will struggle to meet plan objectives going forward as fixed income allocations generate negative to flat results



2007

S&P 500	Average Performance		S&P 500	Average Performance	
	1H'07	2H'07		1H'07	2H'07
Top 50 Performing Stocks	42.0%	33.2%	Top 100 Performing Stocks	33.2%	24.2%
Bottom 50 Performing Stocks	-17.8%	-48.0%	Bottom 100 Performing Stocks	-12.8%	-38.7%
S&P 500 Performance	6.0%	-2.3%	S&P 500 Performance	6.0%	-2.3%

2008

S&P 500	Average Performance		S&P 500	Average Performance	
	1H'08	2H'08		1H'08	2H'08
Top 50 Performing Stocks	37.9%	10.7%	Top 100 Performing Stocks	23.5%	1.1%
Bottom 50 Performing Stocks	-47.6%	-72.7%	Bottom 100 Performing Stocks	-38.8%	-64.8%
S&P 500 Performance	-12.8%	-29.4%	S&P 500 Performance	-12.8%	-29.4%

Source: Strategas Research Partners, 2018. Past performance is not indicative of future results.



Fundamentals matter — know what you own

**Benchmarks
don't define
outcomes**

320 ETFs

Apple is included in over 320 ETFs making it the most widely held stock by number of ETFs in the S&P 500 (Intel, Microsoft, Cisco Systems, and AT&T round out the top 5 and are included in over 300 ETFs, respectively)

22%

Of the Russell 1000 Value Index maintains high debt levels as measured by Net Debt/EBITDA

32%

Of the Russell 2500 Index is unprofitable

100%

ETFs may capture 100% of the upside, however, in times of volatility passive vehicles are unable to mitigate any of the potential losses with tactical changes (liquidity becomes an issue as smaller and less-traded names take disproportionate losses when investors try to exit in a downturn)

47%

Of the Russell 2000 Index is illiquid, trading less than \$5M daily

14%

Of the Russell 1000 Value Index is unprofitable

Source: Strategas Research Partners, 2018
Bloomberg L.P., 2018



Passive investments are strongly tied to interest rates. This can lead to a number of unintended consequences:

Active Managers tend to be underexposed to yield factors (and likely for good reason given asset allocation demands.)

Illiquidity is a rising issue, particularly in small caps, as indiscriminate passive flows bid up low-quality stocks equally.

Rising interest rates create better decisions regarding returns on capital as the cost of capital rises for companies and lesser business models suffer disproportionately to higher quality businesses.



Beta Bubble | Small Cap Rise in Non-Earners



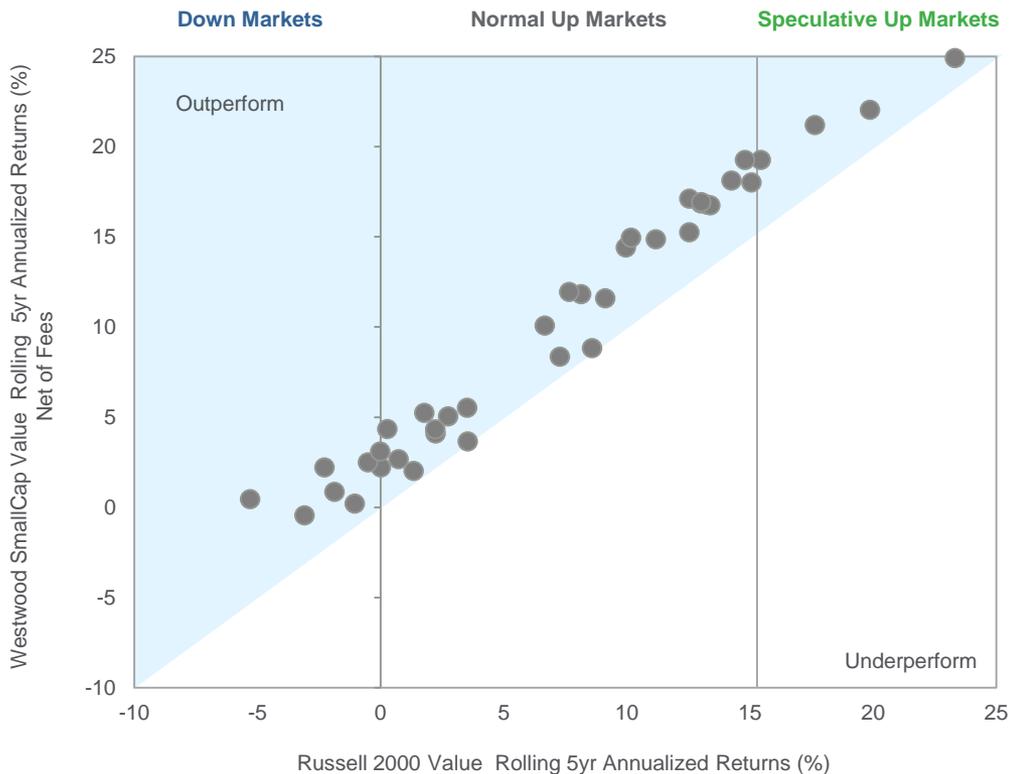
Time Period: 1/1/1990 – 6/30/2018. Source: Strategas.



Beta Bubble | Small Cap Strategy Consistency

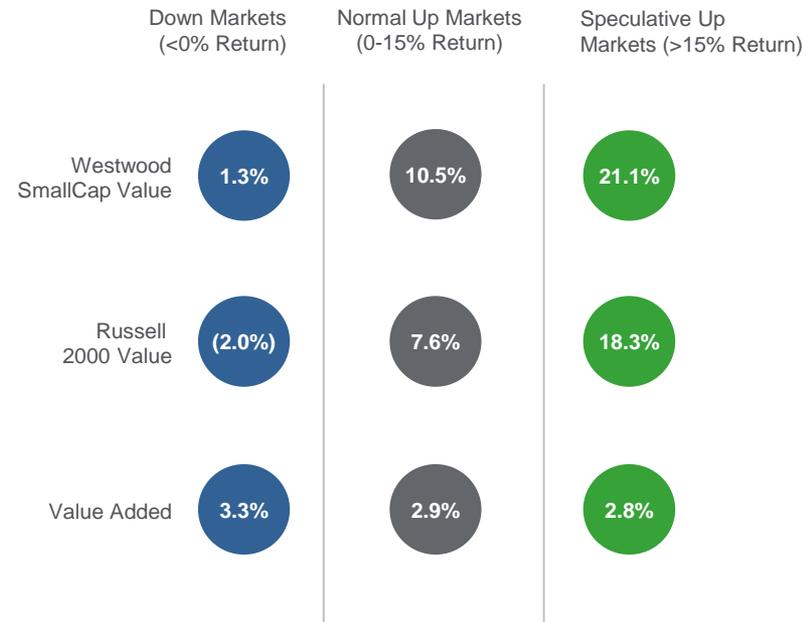
Annualized Rolling 5-Year Returns Net of Fees Since Inception

Westwood SmallCap Value vs. Russell 2000 Value Index



***Overall Batting Average: 100%**

Market Environment

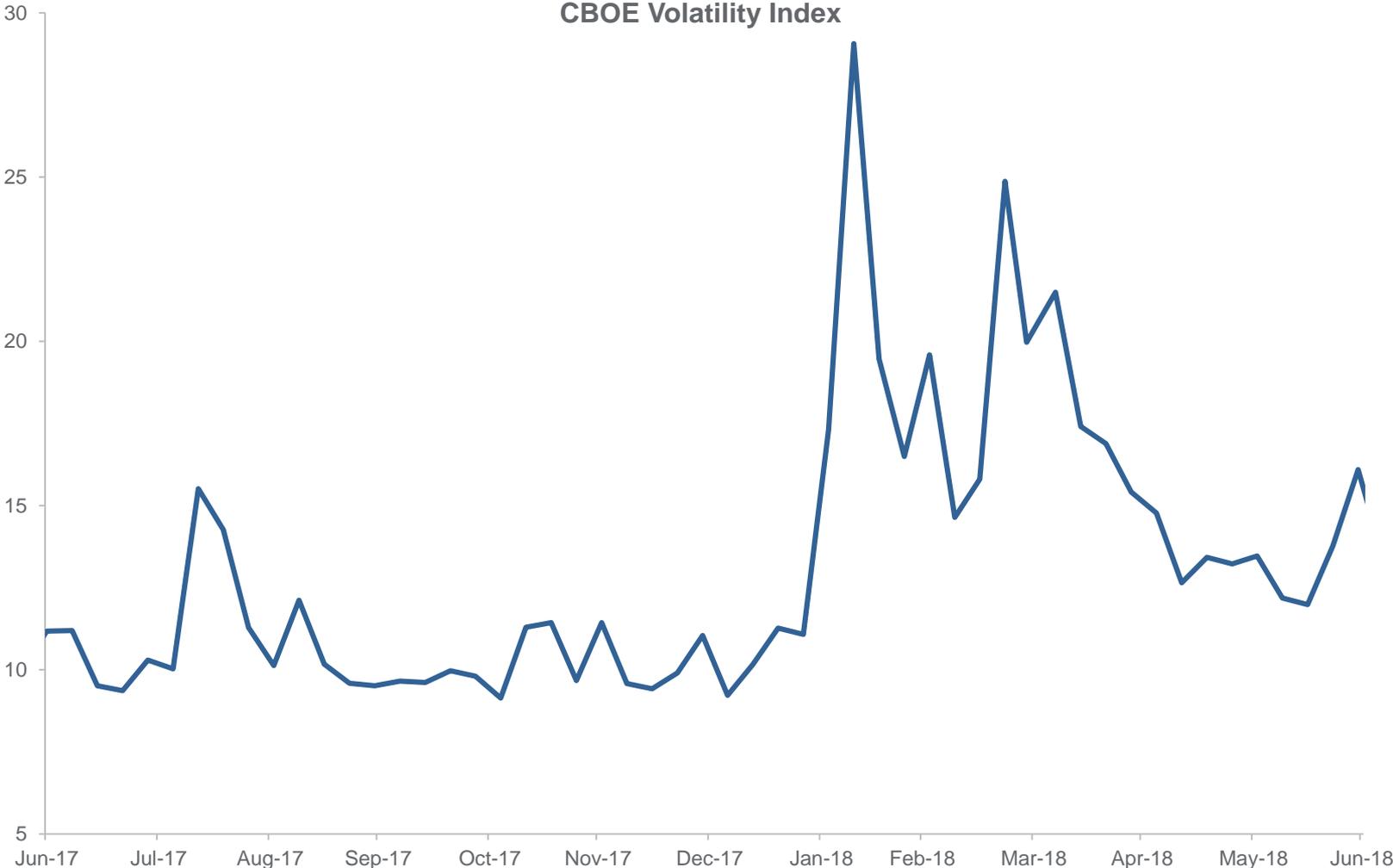


Inception : January 1, 2004. Data Set: January 1, 2004 – June 30, 2018 (Quarterly). Past performance is not indicative of future results. Performance shown assumes reinvestment of dividends and capital gains and is net of investment management fees. Please see appendix for full performance disclosure for the SmallCap Value strategy. Rolling 5-year returns graph calculated using quarterly data. The five year period was chosen as a proxy for a typical market cycle. Market environment returns reflect an average of the 5-year annualized returns within each market environment category.

*Overall batting average reflects the percentage of rolling 5-year periods in which Westwood SmallCap Value outperformed the Russell 2000 Value Index on a net of fees basis.



Beta Bubble | **Welcome Back Volatility**



Source: Bloomberg, as of 6/30/2018.



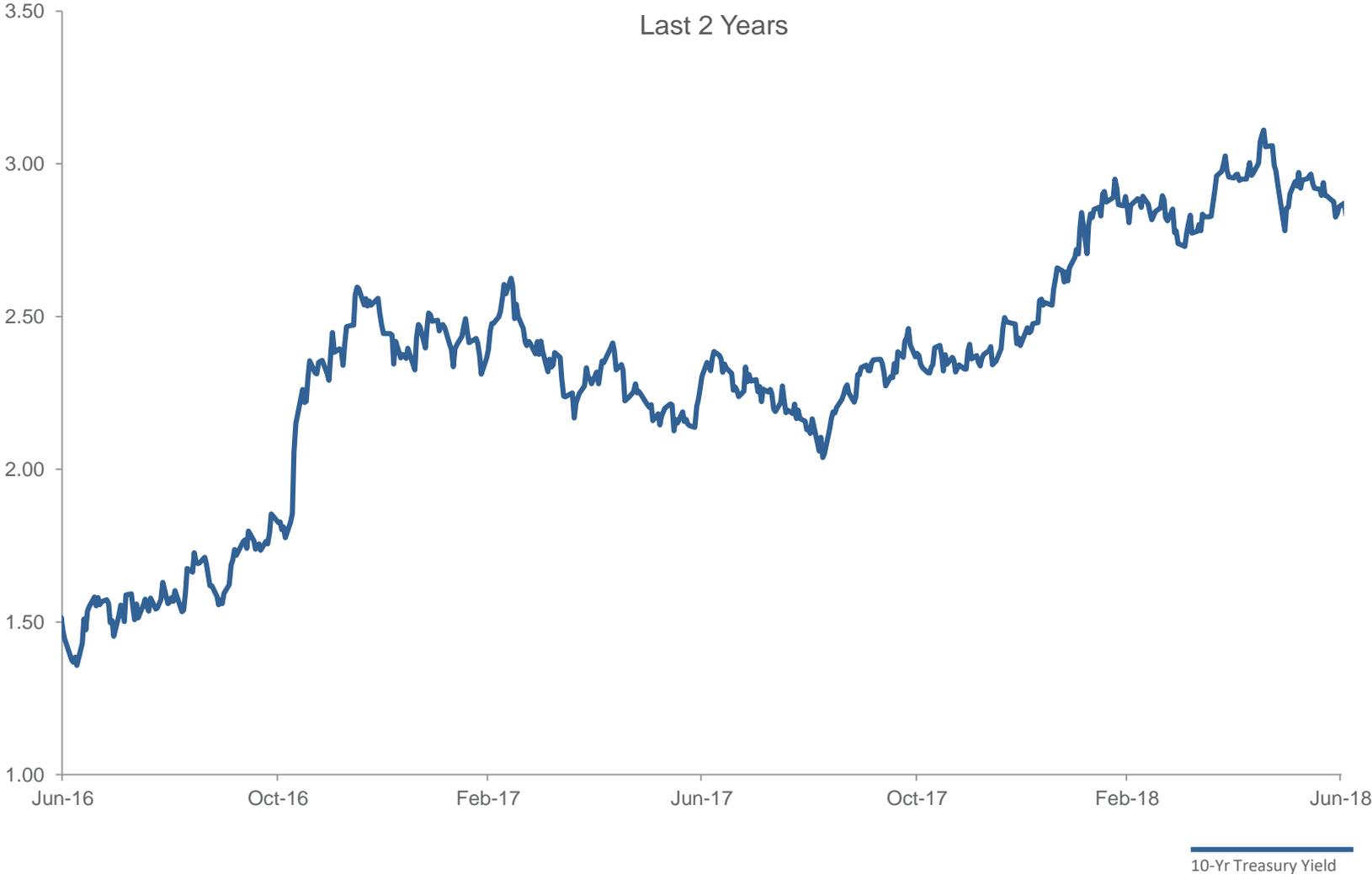
To Ensure Success, Bring in An Expert!



So there I was . . . just relaxing in front of the T.V. when the kids yelled, “Hey Dad, come see the kittens!”

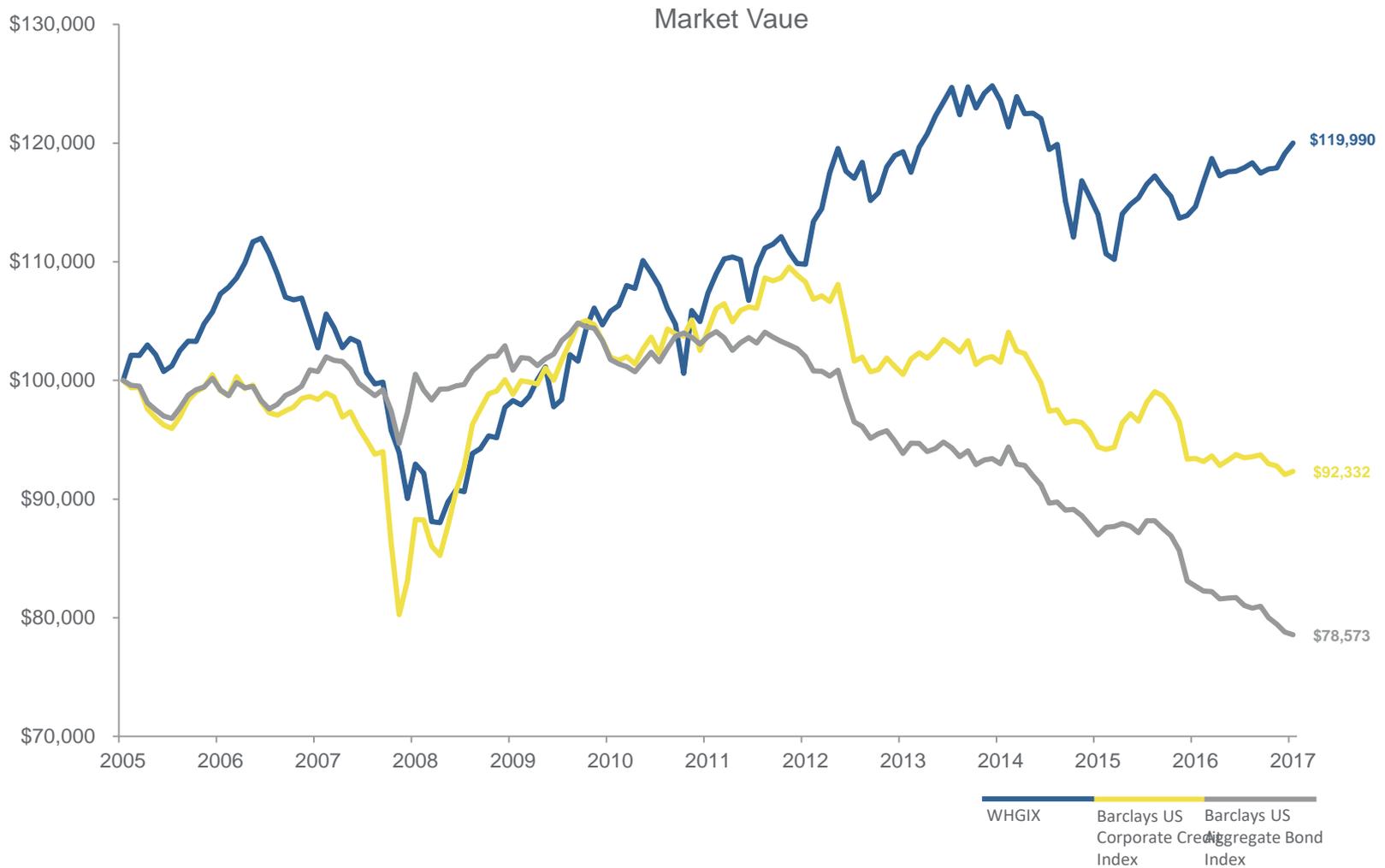


Yield Chart | 10-Yr US Treasury



Source: Bloomberg. As of 6/30/2018.

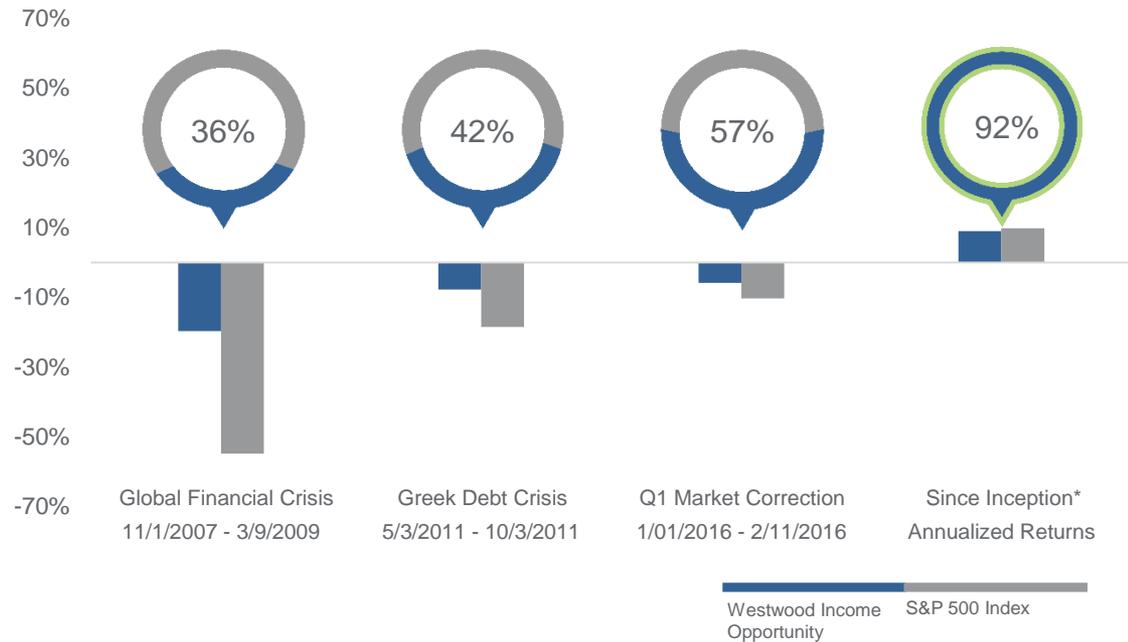
Westwood Income Opportunity (WHGIX) | Hypothetical Investment & Withdrawal Example
 \$100,000 Initial Investment, 5% Annual Withdrawal, 3% Annual Distribution Growth, Monthly Distributions, Since 2006



Performance data source: eVestment, 2006 – 2017. This is an illustration of a simulated investment that assumes the portfolio holdings were purchased on the first day of the period indicated. Performance data quoted represents past performance. Past performance is not indicative of future results. The investment return and principal value of an investment 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.

Market imbalances require asset allocators to consider multi-asset strategies that have a strong emphasis on loss limitation in down markets.

Performance During Periods of Market Stress

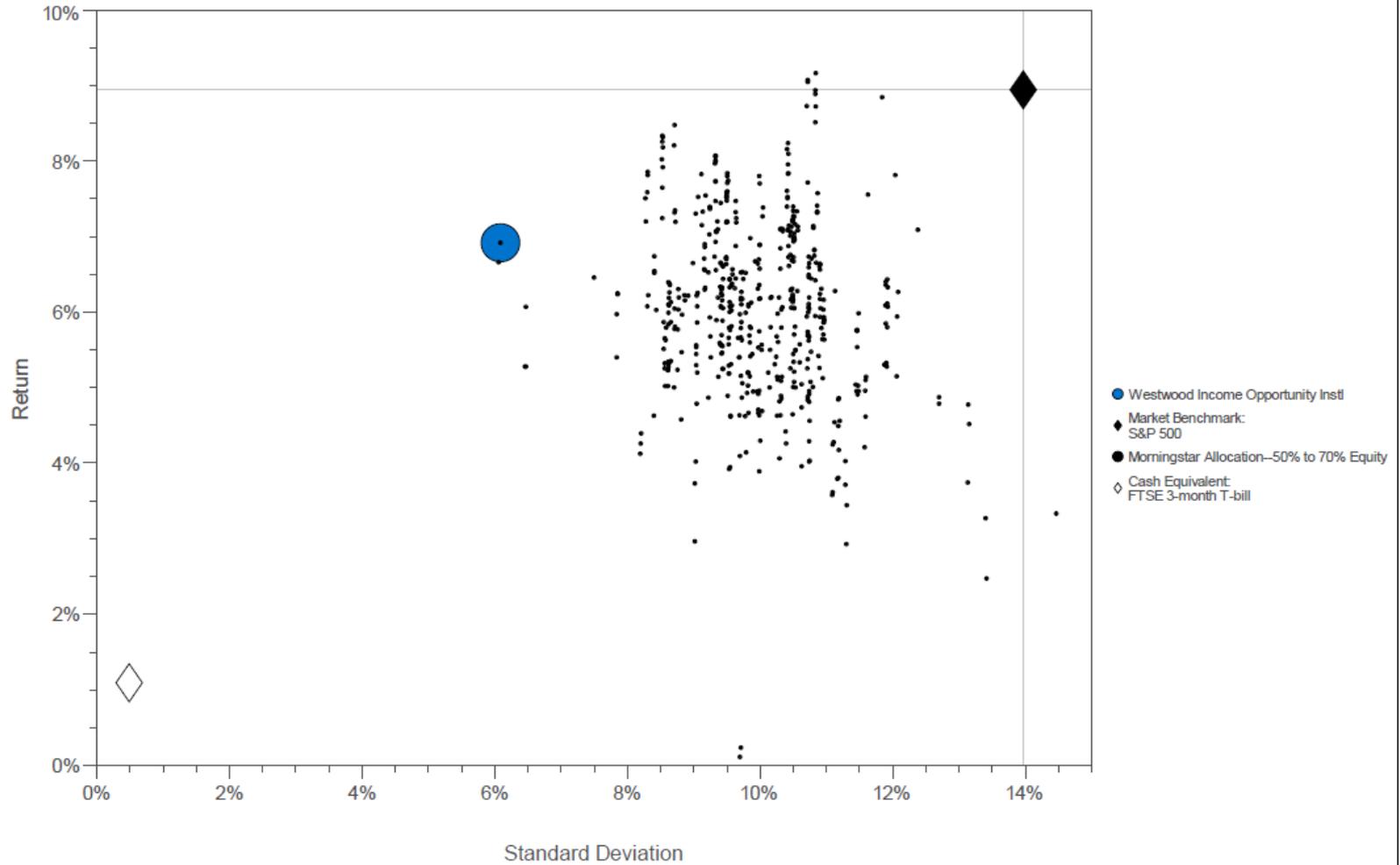


*Inception: 1/01/2003. Data Set: Gross of fees, As of 6/30/2018. Drawdown periods based on daily cumulative returns. Data Source: Greek Debt Crisis; Data from © FactSet Research Systems Inc. All Rights Reserved. All other data points, Advent APX. Past performance is not indicative of future results. Portfolio returns reflect the reinvestment of dividend and interest income. As with any investment strategy, this strategy involves risk of loss. Please see appendix for full performance disclosures. The disclosures provided are considered an integral part of this presentation.



Risk / Return

January 2006 - July 2018 (Single Computation)



Created with Zephyr StyleADVISOR. Manager returns supplied by: Morningstar, Inc.



The Current State

- The Beta “ Bubble”

The Challenge

- Benchmarks most likely will not define outcomes

Fundamentals matter

- Know what you own

Don't overlook quality in Small Caps

- Rise in Non-Earners

Multi-Asset Approach

- Emphasis on Loss Limitation



Westwood | Firm Overview

Our mission is to exceed client expectations through exceptional performance and ethical conduct.

Multi-Investment Team Structure

U.S. Value
Global and Emerging Markets Equities
Global Convertible Securities



Deep, Experienced Investment Staff

Over 50 investment professionals

Employee Ownership Culture

Employees and directors own equity, totaling approximately 21%;³ no employee owns more than 5%

Thoughtful Growth Strategy

Carefully manage capacity of investment strategies

Institutional
Mutual Funds
Wealth Management

Overview¹

Founded | 1983

AUM | \$21.6 B

Employees | 173

Publicly Listed | NYSE: WHG 2002



¹Westwood Management Corp. was founded and registered with the SEC in April 1983. Its parent company, Westwood Holdings Group, Inc., was launched as a public company in 2002, trading on the New York Stock Exchange under the symbol WHG. Except as otherwise noted, all references to or information about the “firm” or “Westwood” throughout this presentation describe Westwood Holdings Group, Inc. and its wholly owned subsidiaries, which include Westwood Management Corp., Westwood Trust, Westwood Advisors, LLC, and Westwood International Advisors Inc.

²Selection criteria based 25% on corporate application and 75% on anonymous employee questionnaires within the “100-499 employees” category. Awarded on December 11, 2017.

³ As of March 05, 2018

As of June 30, 2018



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