

# **Investment Adviser Brochure**

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This brochure provides information about the qualifications and business practices of Westwood Management Corp. If you have any questions about the contents of this brochure, please contact us at (214) 756-6900 or [sfry@westwoodgroup.com](mailto:sfry@westwoodgroup.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Westwood Management Corp. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration does not imply a certain level of skill or training.

## **Material Changes**

This page discusses only the material changes to this brochure since the last annual update on March 26, 2014. Those changes include:

Fees and Compensation: Added Concentrated LargeCap

Fees and Compensation: Lowered the fees on MLP Infrastructure Renewal to 95 basis points on the first \$10 Million

Fees and Compensation: Lowered the fees on MLP Opportunities to 95 basis points on the first \$10 Million

Fees and Compensation: Added Concentrated AllCap

Methods of Analysis, Investment Strategies and Risk of Loss: added Concentrated LargeCap, Concentrated AllCap and MLP Opportunities

Principal Risks: added Concentrated LargeCap and Concentrated AllCap to the principal risk list.

Principal Risks :added the risk specific for concentrated portfolios that result from investing in fewer stocks

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## Advisory Business

Westwood Management Corp. (“Westwood”) is an investment advisory firm that has been in business since 1983. Westwood is a wholly owned subsidiary of Westwood Holdings Group, Inc. (“WHG”), a publicly held company listed on the New York Stock Exchange since July 1, 2002. WHG is also the owner of Westwood Advisors, L.L.C., formerly known as McCarthy Group Advisors, L.L.C. (“Westwood Advisors”), a registered investment adviser that has been in business since 1986. WHG is also the owner of Westwood International Advisors, Inc. (“WIA”), a Canadian investment adviser registered with the Ontario Securities Commission and the *Autorité des Marché Financiers* in Quebec. Westwood, Westwood Advisors and WIA are wholly owned by WHG.

Westwood provides portfolio management services to individuals, investment companies, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, state and municipal government entities and pooled investment vehicles. Westwood provides its model portfolio in three separate strategies to another investment adviser for use in managing that adviser’s client accounts. Westwood is responsible for providing a timely update to its recommendations for the strategies for which it has contracted to provide advice. The investment advisor to whom Westwood provides investment models/buy lists has full discretion for its own clients and is solely responsible for evaluating suitability and adhering to client imposed investment restrictions.

In providing services to its clients, Westwood may rely on the resources of WIA, a non-U.S. affiliate that supplies services pursuant to a participating affiliate agreement (“Participating Affiliate.”). WIA is further discussed under “Other Financial Industry Activities and Affiliations.”

Westwood tailors its services to individual client needs. Westwood carries out its investment management responsibilities in accordance with the investment guidelines and policy directives provided by the client. In these written guidelines, clients may impose restrictions on investing in certain securities or types of securities. Clients may also impose restrictions on investments in certain industries, sectors, or asset classes.

Westwood implements and monitors a client’s guidelines by utilizing Advent’s Rules Manager, a trade compliance software that interfaces with our trade order management system (MOXY). Before any trade activity begins, the Portfolio Implementation Specialist identifies all guideline restrictions and inputs the information into Rules Manager. Rules Manager electronically monitors and enforces guideline restrictions including stock, industry, and sector specific restrictions. Portfolio Teams and the Portfolio Implementation Specialist monitor account guidelines on a daily basis via Rules Manager. Any restrictions that cannot be entered into Rules Manager are monitored manually and reported to the Portfolio Teams on a monthly or quarterly basis by the Portfolio Implementation Specialist. In addition, Westwood’s Performance Evaluation & Technology Committee (PETC) reviews all accounts annually to ensure that the investment guidelines are current and correctly entered into Rules Manager.

Westwood provides portfolio management services for three wrap fee programs and fifteen managed account platforms for the following investment strategies: LargeCap Value, SMidCap

Value and AllCap Value. All of these programs are managed identically to the model strategies; however, managed account trades are not aggregated with Westwood's other trades because they trade on the sponsors' platforms. Generally, according to our trade rotation policy, the managed accounts are traded after Westwood's separate accounts. Westwood receives a management fee for its services for these accounts.

As of December 31, 2013, Westwood managed 604 accounts on a discretionary basis with a value of \$17,399,000,000. Westwood also managed 15 accounts on a non-discretionary basis with a value of \$307,000,000. Westwood's total assets under management on December 31, 2013 were \$17,706,000,000.

## Fees and Compensation

Westwood offers investment advisory services for a percentage of assets under management. Westwood does not have a standard fee schedule for sub-advised accounts. Fees may be negotiable depending on the size of the account, the complexity of the issues involved and the breadth of services requested. The minimum account size may be waived at Westwood's discretion.

The following fees apply to new separately managed accounts:

<b>LARGECAP EQUITY</b> (Minimum investment - \$25 MM)	0.75% on the first \$25 million, negotiable thereafter
<b>CONCENTRATED LARGECAP EQUITY</b> (Minimum investment - \$25 MM)	0.85% on the first \$25 million, negotiable thereafter
<b>SMIDCAP EQUITY</b> Closed to new investors	0.85% on the first \$25 million, negotiable thereafter
<b>SMIDCAP PLUS EQUITY</b> (Minimum investment - \$10 MM)	0.85% on the first \$25 million, negotiable thereafter
<b>SMALLCAP EQUITY</b> (Minimum investment - \$10 MM)	1.00% on the first \$25 million, negotiable thereafter
<b>INCOME OPPORTUNITY</b> (Minimum investment - \$25 MM)	0.80% on the first \$25 million, negotiable thereafter
<b>DIVIDEND GROWTH</b> (Minimum investment - \$10 MM)	0.80% on the first \$10 million, negotiable

	thereafter
<b>MLP INFRASTRUCTURE RENEWAL</b> (Minimum investment - \$2.5 MM)	.95% on the first \$10 million, negotiable thereafter
<b>MLP OPPORTUNITIES</b> (Minimum investment - \$2.5 MM)	.95% on the first \$10 million, negotiable thereafter
<b>ALLCAP EQUITY</b> (Minimum investment - \$10 MM)	0.85% on the first \$25 million, negotiable thereafter
<b>CONCENTRATED ALLCAP EQUITY</b> (Minimum investment - \$10 MM)	0.95% on the first \$25 million, negotiable thereafter
<b>REIT</b> (Minimum investment - \$10 MM)	0.75% on the first \$10 million, negotiable thereafter
<b>BALANCED</b> (Minimum investment - \$25 MM)	0.625% on the first \$25 million, negotiable thereafter
<b>INTERMEDIATE FIXED INCOME</b> (Minimum investment - \$10 MM)	0.40% on the first \$10 million, negotiable thereafter
<b>GLOBAL EQUITY AND GLOBAL DIVIDEND</b> (Minimum investment - \$10 MM)	0.85% on the first \$10 million, negotiable thereafter
<b>EMERGING MARKETS AND EMERGING MARKETS PLUS</b> (Minimum investment - \$25 MM)	0.95% on the first \$25 million, negotiable thereafter
<b>EMERGING MARKETS SMIDCAP</b> (Minimum investment - \$25 MM)	1.25% on the first \$25 million, negotiable thereafter

The fee schedules for the accounts that were assigned to Westwood after WHG's acquisition of Westwood Advisors (hereinafter referred to as "Legacy Omaha Accounts") are as follows:

<b>LEGACY OMAHA ACCOUNTS</b> (No minimum investment)	1.00% up to \$750,000 negotiable thereafter
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### Billing Practices

It is our normal practice to bill separately managed accounts quarterly in advance and pooled investments monthly in arrears. However, the billing method is negotiable. Westwood has several wrap fee/managed account relationships where, with the pre-approval of the sponsor, we report fees to the custodian, who automatically pays Westwood directly from account assets.

All fee calculations are based on the market value of an account. If management of an account begins at any time other than the start of the calendar quarter, then the first quarterly fee is prorated. Upon termination by either party (upon thirty (30) days written notice), fees are prorated to the date of termination and any unearned portion of prepaid fees is refunded to the client.

In addition to Westwood's fees discussed above, clients will incur brokerage fees and other transaction costs. See the section titled "Brokerage Practices" below.

### **Performance-Based Fees and Side-By-Side Management**

Westwood currently has a limited number of relationships for which it receives performance-based fees. Generally, performance-based fee structures are only available to clients who have at least \$500 million under management with Westwood at the time that performance-based fees are agreed upon or have a long standing relationship with Westwood.

Performance-based fees can increase compensation to Westwood as a client's rate of return increases, creating an incentive for Westwood to favor such arrangements over accounts that pay only an asset-based fee. Performance-based fees may create an incentive for an adviser to make riskier or more speculative investments than would be made under a different fee arrangement. This difference in fees could also create an incentive for the adviser to favor one account over another, for example, in terms of access to investment opportunities. We may face conflicts of interest in managing performance-based fee accounts at the same time that we manage asset-based fee accounts, as we may have an incentive to favor performance-based fee accounts because we could receive a higher fee if their performance exceeds the applicable benchmark. It is our policy not to favor the interest of one client over another. We address the conflicts of interest created by "side-by-side management" by having a trade allocation policy that requires trades to be allocated among client accounts in a fair and equitable manner over time.

Investment performance for accounts with performance-based fees is measured relative to the representative benchmark. Performance-based fees are calculated quarterly or annually in arrears based on performance for the defined performance period.

We manage one performance-based fee account in one strategy for a long-term client alongside other non-performance based fee accounts in the same strategy. The account is managed in a substantially identical manner to other similar accounts and receives no special consideration.

## **Types of Clients**

See the section titled “Advisory Business” above for a description of the types of clients to which Westwood generally provides investment advice. Westwood has initial investment requirements ranging from \$2.5 million to \$25 Million depending on the mandate. Clients are able to negotiate this requirement and the minimum may be waived at Westwood’s direction.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

Westwood utilizes a value style of investing and selects investments that we believe are currently undervalued in the market. Key metrics for evaluating the risk/return profile of an investment may include an improving return on equity, a declining debt/equity ratio and, in the case of common equities, positive earnings surprises without a corresponding increase in Wall Street estimates. Westwood has disciplines in place that serve as sell signals, such as a security reaching a predetermined price target or a change to a company’s fundamentals that negatively impacts the original investment thesis. Westwood will not necessarily sell a security that has depreciated below the stated market capitalization defined below.

The equity securities that Westwood invests in are primarily common stocks, but may also include shares of exchange-traded funds, real estate investment trusts (“REITs”), royalty trusts, preferred stock and master limited partnerships (“MLPs”).

The fixed-income investments are, in the aggregate, of investment grade, but may at times include securities rated below-investment-grade (high yield or “junk” bonds). In addition, the fixed-income securities may include unrated securities, if deemed by Westwood to be of comparable quality to investment grade.

### **LargeCap Strategy**

For the LargeCap strategy, Westwood generally invests in companies with market capitalizations of greater than \$5 billion. The strategy typically invests in approximately 40-60 securities that are well diversified among market sectors.

### **Concentrated LargeCap Strategy**

For the Concentrated LargeCap strategy, Westwood generally invests in companies with market capitalizations of greater than \$5 billion. The strategy typically invests in approximately 15-30 securities with the maximum security size not to exceed 12.5% of the portfolio at the time of purchase.

### **SMidCap Strategy**

For the SMidCap strategy, Westwood typically invests in companies with market capitalizations between \$100 million and \$8 billion, at purchase. The strategy invests in approximately 50-65 securities that are well diversified among market sectors.



### **SMidCap Plus Strategy**

For the SMidCap Plus strategy, Westwood typically invests in companies with market capitalizations between \$2 billion and \$15 billion, at purchase. The strategy invests in approximately 45-65 securities that are well diversified among market sectors.

### **SmallCap Strategy**

For the SmallCap strategy, Westwood typically invests in companies with market capitalizations between \$100 million and \$2 billion, at purchase. The strategy invests in approximately 50-70 securities that are well diversified among market sectors.

### **AllCap Strategy**

For the AllCap strategy, Westwood typically invests in companies with market capitalizations greater than \$100 million. The strategy invests in approximately 50-80 securities that are well diversified among market sectors.

### **Concentrated AllCap Strategy**

For the Concentrated AllCap strategy, Westwood typically invests in companies with market capitalizations greater than \$100 million. The strategy invests in approximately 15-30 securities with the maximum security not to exceed 12.5% of the portfolio at the time of purchase.

### **Dividend Growth Strategy**

For the Dividend Growth strategy, Westwood invests in companies with market capitalizations greater than \$1 billion. The strategy typically invests in dividend paying securities that are well diversified among market sectors.

### **Income Opportunity**

For the Income Opportunity strategy, Westwood seeks to invest in securities of companies with strong and improving cash flow sufficient to support a sustainable or rising income stream for investors. The strategy typically invests in a diversified group of income-producing securities that may include equity securities with market capitalizations of any size, preferred equity, convertible preferred, fixed income, REITs, Royalty Trusts, MLPs and cash.

### **Balanced & Fixed Income Strategies**

For the Balanced strategy, Westwood invests in a combination of equity and debt securities. The strategy typically invests in equity securities that have market capitalizations of \$1 billion or more and have been operating for at least three years. For both the Balanced and Fixed Income strategies, Westwood invests in fixed income securities that are, in the aggregate, investment grade securities of corporate and government issuers and commercial paper and mortgage- and asset-backed securities.

The Balanced strategy invests in approximately 40-60 equity securities and approximately 40-60 debt securities that are well diversified among market sectors. The Fixed-Income strategy typically invests in approximately 40-60 debt securities with attractive valuations.

### **Global Equity and Global Dividend Strategies**

Westwood typically invests in global companies with market capitalizations of greater than \$1 billion for the Global Equity strategy and \$500 million for the Global Dividend strategy. Westwood invests in approximately 65-85 securities in the Global Equity strategy and approximately 65-90 securities in the Global Dividend strategy. Both strategies are well diversified among market sectors.

Westwood may rely on the resources of WIA with respect to these strategies.

### **Emerging Markets and Emerging Markets Plus Strategies**

For the Emerging Markets and Emerging Markets Plus strategies, Westwood typically invests in securities of companies located in, or with primary operations in emerging markets. For the Emerging Markets strategy, Westwood invests in approximately 70-90 companies with market capitalizations greater than \$500 million that are well diversified among market sectors. For the Emerging Markets Plus strategy, Westwood invests in approximately 50-70 companies with market capitalizations greater than \$1.5 billion that are well diversified among market sectors. Westwood may rely on the resources of WIA with respect to these strategies.

### **Emerging Markets SMidCap Strategy**

For the Emerging SMidcap strategies, Westwood typically invests in securities of companies headquartered in, or with primary operations in, emerging markets. Westwood typically invests in approximately 70-90 companies with market capitalizations between \$150 million to \$9 billion at purchase that are well diversified among market sectors.

Westwood may rely on the resources of WIA with respect to these strategies.

### **MLP Infrastructure Renewal Fund Strategy**

For the MLP Infrastructure Renewal strategies, Westwood typically invests in 25 to 35 securities across MLP subsectors and in securities with MLP-like characteristics with market capitalizations of any size.

### **MLP Opportunities Strategy**

For the MLP Opportunities strategy, Westwood typically invests in 25 to 35 securities across MLP subsectors and in securities with MLP-like characteristics with market capitalizations of any size. The MLP Opportunities strategy will not invest more than 4% in any security at cost and will tend to be less heavily weighted towards larger capitalization MLPs than the MLP Infrastructure Renewal strategy.

## **REIT Strategy**

For the REIT strategies, Westwood typically invests in REIT securities of companies that own, and usually operate, income producing real estate assets. Westwood invests in approximately 50 to 75 publicly traded REITs with attractive income and growth characteristics.

## **Principal Risks**

As with all investments there is a risk of loss of money. The principal risk factors affecting client funds are as follows.

**Equity Risk** – Any investment in an equity security is subject to the risk that stock prices will fall over short or extended periods of time. Historically, the equity markets have moved in cycles, and the value of the investment's equity securities may fluctuate drastically from day to day. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments. The prices of securities issued by such companies may suffer a decline in response. These factors contribute to price volatility, which is the principal risk of investing in any equity security.

**Foreign Company Risk** – Investing in foreign companies, including direct investments and through ADRs and Global Depository Receipts ("GDRs"), which are traded on U.S. exchanges and represent an ownership interest in a foreign security, poses additional risks since political and economic events unique to a country or region will affect those markets and their issuers. These risks will not necessarily affect the U.S. economy or similar issuers located in the United States. In addition, investments in foreign companies are generally denominated in a foreign currency. As a result, changes in the value of those currencies compared to the U.S. dollar may affect (positively or negatively) the value of the investment. These currency movements may occur separately from, and in response to, events that do not otherwise affect the value of the security in the issuer's home country. While ADRs and GDRs provide an alternative to directly purchasing the underlying foreign securities in their respective national markets and currencies, investments in ADRs and GDRs continue to be subject to many of the risks associated with investing directly in foreign securities.

**Investment Style Risk** – Westwood pursues a "value style" of investing. Value investing focuses on companies with stocks that appear undervalued in light of factors such as the company's earnings, book value, revenues or cash flow. If Westwood's assessment of a company's value or its prospects for exceeding earnings expectations or market conditions is inaccurate, the client could suffer losses or produce poor performance. In addition, "value stocks" can continue to be undervalued by the market for long periods of time.

The following risks apply to the specific investment mandates in which Westwood invests:

**LargeCap, Concentrated LargeCap, SMidCap, SMidCap Plus, SmallCap, AllCap, Concentrated AllCap, Dividend Growth, Income Opportunity, Balanced and REIT Strategies.**

**REIT Risk** – REITs are pooled investment vehicles that own, and usually operate, income-producing real estate. REITs are susceptible to the risks associated with direct ownership of real

estate, such as the following: declines in property values; increases in property taxes, operating expenses, rising interest rates or competition overbuilding; zoning changes; and losses from casualty or condemnation. REITs typically incur separate fees that result in the layering of expenses such that shareholders of REITs will indirectly bear a proportionate share of the REITs' operating expenses.

**LargeCap, Concentrated LargeCap, SMidCap, SMidCap Plus, SmallCap, AllCap, Concentrated AllCap, Dividend Growth, Income Opportunity, Balanced, MLP and REIT Strategies.**

**Royalty Trust Risk** – Westwood may invest in royalty trusts on behalf of client accounts. A royalty trust generally acquires an interest in natural resource companies and distributes the income it receives to the investors of the royalty trust. A sustained decline in demand for crude oil, natural gas and refined petroleum products could adversely affect income and royalty trust revenues and cash flows. Factors that could lead to a decrease in market demand include a recession or other adverse economic conditions, an increase in the market price of the underlying commodity, higher taxes or other regulatory actions that increase costs, or a shift in consumer demand for such products. A rising interest rate environment could adversely impact the performance of royalty trusts. Rising interest rates could limit the capital appreciation of royalty trusts because of the increased availability of alternative investments at more competitive yields. The investment in royalty trusts may result in the layering of expenses such that shareholders will indirectly bear a proportionate share of the royalty trusts' operating expenses.

**MLP Risk** – MLPs are limited partnerships in which the ownership units are publicly traded. MLP units are registered with the U.S. Securities and Exchange Commission ("SEC") and are freely traded on a securities exchange or in the over-the-counter market. MLPs often own several properties or businesses (or own interests) that are related to oil and gas industries or other natural resources, but they also may finance other projects. To the extent that an MLP's interests are all in a particular industry, the MLP will be negatively impacted by economic events adversely impacting that industry. The risks of investing in a MLP are generally those involved in investing in a partnership as opposed to a corporation. For example, state law governing partnerships is often less restrictive than state law governing corporations. Accordingly, there may be fewer protections afforded to investors in a MLP than investors in a corporation. For example, investors in MLPs may have limited voting rights or be liable under certain circumstances for amounts greater than the amount of their investment. In addition, MLPs may be subject to state taxation in certain jurisdictions which will have the effect of reducing the amount of income paid by the MLP to its investors.

**SMidCap, SMidCap Plus, AllCap, Concentrated AllCap, Dividend Growth, Emerging Markets, Emerging Markets Plus, Emerging Markets SMidCap, Global Equity and Global Dividend Strategies**

**Small- and Mid-Capitalization Company Risk** – The small- and mid-capitalization companies in which Westwood may invest may be more vulnerable to adverse business or economic events than larger, more established companies. In particular, these small- and mid-sized companies may pose additional risks, including liquidity risk, because these companies tend to have limited product lines, markets and financial resources, and may depend upon a relatively small

management group. Therefore, small- and mid-cap stocks may be more volatile than those of larger companies.

### **Concentrated LargeCap, Concentrated AllCap**

**Non-Diversified Fund Risk** – The Fund is non-diversified, which generally means that it will invest a greater percentage of its total assets in the securities of fewer issuers than a “diversified” fund. This increases the risk that a change in the value of any one investment held by the Fund could affect the overall value of the Fund more than it would affect that of a diversified fund holding a greater number of investments. Accordingly, the Fund's value will likely be more volatile than the value of a more diversified fund.

### **SmallCap Strategy**

**Small-Capitalization Company Risk** – The small-capitalization companies in which Westwood will invest may be more vulnerable to adverse business or economic events than larger, more established companies. In particular, these small-sized companies may pose additional risks, including liquidity risk, because these companies tend to have limited product lines, markets and financial resources, and may depend upon a relatively small management group. Therefore, small-cap stocks may be more volatile than those of larger companies.

**Micro-Capitalization Company Risk** – Micro-capitalization companies may be newly formed or in the early stages of development with limited product lines, markets or financial resources. Therefore, micro-capitalization companies may be less financially secure than large-, mid- and small-capitalization companies and may be more vulnerable to key personnel losses due to reliance on a smaller number of management personnel. In addition, there may be less public information available about these companies. Micro-cap stock prices may be more volatile than large-, mid- and small-capitalization companies and such stocks may be more thinly traded and thus difficult for Westwood to buy and sell in the market.

### **Fixed Income, Balanced & Income Opportunity Strategies**

**Fixed-Income Risk** – The prices of fixed-income securities respond to economic developments, particularly interest rate changes, as well as to perceptions about the creditworthiness of individual issuers. Generally, fixed-income securities will decrease in value if interest rates rise and vice versa, and the volatility of lower-rated securities is even greater than that of higher-rated securities. Also, longer-term securities are generally more volatile, so the average maturity or duration of these securities affects risk. Credit risk is the possibility that an issuer will fail to make timely payments of interest or principal or go bankrupt. Generally, risk of a debt security rises as the rating falls. In addition, these risks are often magnified for securities rated below-investment-grade, often referred to as “junk bonds,” and adverse changes in economic conditions or market perception are likely to cause issuers of these securities to be unable to meet their obligations to repay principal and interest to investors.

**U.S. Government Securities Risk** – Although U.S. government securities are considered to be among the safest investments, they are not guaranteed against price movements due to changing interest rates. Obligations issued by some U.S. government agencies are backed by the U.S. Treasury, while others are backed solely by the ability of the agency to borrow from the U.S.

Treasury or by the government-sponsored agency's own resources. As a result, investments in securities issued by the government-sponsored agencies that are not backed by the U.S. Treasury are subject to higher credit risk than those that are.

### **Emerging Markets/Emerging Markets Plus, Emerging Markets SMidCap, Global Equity and Global Dividend Strategies**

**Emerging Markets Risk** – The risks of foreign investing mentioned previously are heightened when investing in emerging markets. Emerging markets securities involve a number of additional risks, which may result from less government supervision and regulation of business and industry practices (including the potential lack of strict finance and accounting controls and standards), stock exchanges, brokers, and listed companies, making these investments potentially more volatile in price and less liquid than investments in developed securities markets, resulting in greater risk to investors. There is a risk in developing countries that a future economic or political crisis could lead to price controls, forced mergers of companies, expropriation or confiscatory taxation, seizure, nationalization, or creation of government monopolies, any of which may have a detrimental effect on these investments. In addition, these investments may be denominated in foreign currencies and, therefore, changes in the value of a country's currency compared to the U.S. dollar may affect the value of these investments. To the extent that there is a significant portion of assets in the securities of issuers in or companies of a single country or region, it is more likely to be impacted by events or conditions affecting that country or region, which could have a negative impact on performance. Some of the risks of investing directly in foreign and emerging market securities may be reduced when investments are made indirectly in foreign securities through various other investment vehicles including derivatives, which also involve specialized risks.

**Foreign Currency Risk** – The value of investments in a foreign security will be affected by the value of the local currency relative to the U.S. dollar. When a foreign currency denominated security is sold, its value may be worth less in U.S. dollars even if the security increases in value in its home country. U.S. dollar-denominated securities of foreign issuers may also be affected by currency risk, as the value of these securities may also be affected by changes in the issuer's local currency.

### **Derivatives Risk**

Derivatives can be highly volatile and involve risks in addition to the risks of the underlying referenced securities. Gains or losses from a derivative can be substantially greater than the derivative's original cost, and can therefore involve leverage. Derivatives can be complex instruments and may involve analysis that differs from that required for other investment types utilized. If the value of a derivative does not correlate well with the particular market or other asset class to which the derivative is intended to provide exposure, the derivative may not produce the anticipated result. Derivatives can also reduce the opportunity for gain or result in losses by offsetting positive returns in other investments. Derivatives can be less liquid than other types of investments and entail the risk that the counterparty will default on its payment obligations. If the counterparty to a derivative transaction defaults, an investment would risk the loss of the net amount of the payments that it contractually is entitled to receive. To the extent

that an investment enters into short derivative positions, there may be exposure to risks similar to those associated with short sales, including the risk that losses are theoretically unlimited.

Investing in securities involves a risk of loss that clients should be prepared to bear.

## **Disciplinary Information**

Westwood and its management persons have not been involved in any disciplinary events.

Westwood is involved in the following legal actions:

On August 3, 2012, AGF Management Limited and AGF Investments Inc. (“AGF”) filed a lawsuit in the Ontario Superior Court of Justice against Westwood Holdings Group (“WHG”), Westwood, and certain officers and employees of the company, and executive recruiting firm Warren International, LLC (“Warren”). The action relates to the hiring of certain members of Westwood’s global and emerging markets investment team who were previously employed by AGF. AGF is alleging that the former employees breached certain obligations when they resigned from AGF, and that WHG, Westwood and Warren induced such breaches. AGF is seeking an unspecified amount of damages and punitive damages of \$10 million (CAD) in the lawsuit. On November 5, 2012, WHG, Westwood and the named officers and employees filed a Statement of Defence and Counterclaim to AGF’s lawsuit. WHG, Westwood and the named officers and employees are seeking \$1 million (CAD) in general damages, \$10 million (CAD) in special damages, \$1 million (CAD) in punitive damages and costs. The pleadings phase is complete and we are now in the discovery schedule phase, which we hope to complete in the first half of 2014.

On November 6, 2012, AGF filed a second lawsuit against WHG, Westwood and an employee, alleging that the employee made defamatory statements about AGF. In this second lawsuit, AGF is seeking \$5 million (CAD) in general damages, \$1 million (CAD) per defendant in punitive damages, unspecified special damages, interest and costs. On December 4, 2012 WHG, Westwood and the named employee filed a Statement of Defence to AGF’s lawsuit.

WHG, Westwood and the named officers and employees intend to vigorously defend both actions and pursue the counterclaim in the first lawsuit.

## **Other Financial Industry Activities and Affiliations**

Westwood has three affiliated companies: Westwood Advisors, LLC, an SEC registered investment adviser, Westwood Trust, a trust company chartered by the Texas Department of Banking, and Westwood International Advisors, Inc., a Canadian investment adviser registered with the Ontario Securities Commission, all of which are wholly owned subsidiaries of Westwood’s parent company, WHG. Westwood is the investment adviser for the Westwood Funds family of mutual funds. Westwood has a sub-advisory agreement with Westwood Trust pursuant to which Westwood serves as a sub-advisor to the Westwood Trust Commingled Funds. Westwood also has sub-advisory agreements with nine private funds managed by Westwood Advisors.

With respect to Westwood's advisory services, WIA, its Participating Affiliate, is registered with the Ontario Securities Commission and the *Autorité des Marché Financiers* in Quebec. In reliance on a series of SEC no-action letters, Westwood has entered into arrangements with its Participating Affiliate whereby Westwood utilizes the investment management capabilities and related services, including certain personnel, of the Participating Affiliate in providing advice to Westwood's clients. The Participating Affiliate is not registered with the SEC as an investment adviser. However, employees of the Participating Affiliate that assist in providing investment advice to Westwood are subject to the regulatory oversight of both Westwood and the SEC, and are subject to Westwood's Code of Ethics and other compliance policies and procedures adopted by Westwood pursuant to the requirements of the Investment Advisers Act of 1940, as amended.

### **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Westwood has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. The Code is based on the principle that the officers, directors and employees of Westwood owe a fiduciary duty to clients to conduct their personal securities transactions in a manner, which does not interfere with client portfolio transactions, or otherwise take advantage of their relationship with clients, and which reflects the principles referenced above. The Code of Ethics requires employees to pre-clear all personal securities transactions through the Chief Compliance Officer (CCO) or his or her designee.

The Code prohibits Westwood employees from purchasing or selling securities for their own account that are owned in a Westwood strategy, with a limited exception for *de minimus* trades. The exception allows employees to personally transact in securities that are owned in a Westwood strategy if the security has a market cap greater than \$5 billion and the value of the trade is \$5,000 or less. Employees are restricted to five such *de minimus* trades per month. If an employee personally holds any securities that are also owned in a Westwood strategy and such securities have a market cap of \$5 Billion or less, Westwood will place those holdings on "restricted status" and the employee may not sell the securities until Westwood has exited the security for client accounts. The Code provides for "black-out periods" during which employees may not purchase or sell a stock that Westwood is in the process of purchasing or selling for client accounts unless such trade qualifies for the *de minimus* exception. To monitor compliance with its Code of Ethics, the firm's CCO receives duplicate brokerage statements and transaction confirmations for every employee with personal brokerage accounts and employees must sign a quarterly compliance certification.

Westwood also has an Insider Trading Policy that, along with the Code of Ethics, prohibits the use of material non-public information in a personal or professional capacity. Westwood requires that all employees act in compliance with all applicable Federal and State regulations governing registered investment advisory practices. Any employee not in observance of the above may be subject to disciplinary action, up to and including termination.

Westwood does not invest client funds in the securities of its parent company, Westwood Holdings Group, Inc. (WHG).



Upon request, Westwood will provide a complete copy of its Code of Ethics to any client or prospective client. Clients can submit requests by contacting their Westwood representative or the firm's CCO.

## **Brokerage Practices**

In arranging for the execution of client transactions, Westwood seeks to obtain best execution at favorable prices on behalf of its clients. In selecting broker-dealers to execute client transactions, Westwood generally considers all relevant information including, without limitation:

- price of the security;
- size and difficulty of the order;
- quality of execution and liquidity services provided by the broker-dealer,
- commission rates;
- broker-dealer's research and investment ideas;
- broker-dealer's ability to obtain a timely execution;
- broker-dealer's execution policies and commitment to providing best execution;
- size and volume of the broker-dealer's order flow;
- reliability, efficiency, accuracy, integrity of the broker-dealer's general execution and operational capabilities; and
- financial condition of broker-dealer.

## **Research and Other Soft Dollar Benefits**

Westwood may pay a brokerage commission in excess of that which another broker-dealer may charge for effecting the same transactions in recognition of the value of the brokerage and research services provided by or through the broker-dealer. Westwood will make a good faith determination that the amount of commissions paid is reasonable in relation to the value of the brokerage and research services provided. The brokerage and research services received by Westwood generally include proprietary or third-party research, general economic and market information, portfolio strategy advice, industry and company comments, technical data, evaluations of securities, pricing services, credit research analysis, general reports, consultations, performance measuring data, on-line pricing, special execution capabilities, newswire and quotation services (*e.g.*, Reuters, Bloomberg, Factset), and recommendations as to the purchase or sale of securities.

To the extent that certain items have research and non-research components ("mixed-use") (*e.g.*, FactSet and Bloomberg), Westwood will allocate commissions for only those portions of the service or product that is research or execution related. This cost basis analysis will be

conducted on a case-by-case basis depending upon the total costs for a service or product and the extent to which the product or service is used by Westwood for research or brokerage execution related services.

Westwood may use the products and services received from broker-dealers to service all Westwood accounts. Thus, not all such services may be used for the benefit of the client that pays the brokerage commission, which procures the receipt of such research or brokerage services.

The use of brokerage commissions to obtain research and brokerage-related products and services creates a conflict of interest between Westwood and its clients because the clients pay for products or services that are not exclusively for the benefit of advisory clients and that may be primarily or exclusively for the benefit of Westwood. To the extent that Westwood is able to acquire products and services without expending its own resources (including management fees paid by clients), Westwood's use of commission sharing arrangements would tend to increase its profitability. In addition, the availability of these non-monetary benefits may influence Westwood to select one broker-dealer over another to perform services for clients. Moreover, the use of "mixed-use" products or services creates a conflict in that the cost of the product or service will be allocated to soft dollars.

Westwood generally will only use commission sharing for brokerage and research related products and services. Non-brokerage and non-research products and services received by Westwood from broker-dealers in connection with client trades will be paid for directly by Westwood. Notwithstanding Westwood's good faith determination that certain products and services are research or brokerage-related, Westwood may inadvertently use commissions to pay for non-brokerage or non-research products or services to the extent that Westwood's good faith determination is not accurate.

Westwood intends to use commission sharing only for those products and services that fall within the safe harbor provisions of the Securities Exchange Act of 1934.

Westwood will provide a commission sharing report to clients upon request. Clients may direct Westwood as to how to prepare this report.

#### Directed Brokerage

Westwood permits clients to select brokers to execute securities transactions for the client's account. If the client elects to direct brokerage transactions to a particular broker-dealer, Westwood may not be able to aggregate such client's order with orders for other clients. Consequently, Westwood may not be able to obtain best execution for a client that directs brokerage. Further, a client that directs brokerage may pay higher commissions because Westwood may not participate in the negotiation of commission rates for those transactions.

#### Trade Aggregation and Allocation

Pursuant to Westwood's trade allocation policy, on occasions when Westwood deems the purchase or sale of a security to be in the best interests of more than one of its clients, Westwood may aggregate multiple contemporaneous client purchase or sell orders into a block order for execution.

Client accounts for which orders are aggregated receive the average price of such transaction, which could be higher or lower than the price that would otherwise be paid by a client absent the aggregation. Any transaction costs incurred in the transaction are shared *pro rata* based on each client's participation in the transaction. In some cases, this procedure could have an adverse effect on a particular account. In the opinion of Westwood, however, the results of such procedures will, on the whole, be in the best interest of each of its advisory accounts.

When a decision is made to aggregate orders, Westwood seeks to allocate securities among its client accounts in a fair and equitable manner. Under Westwood's trade allocation policy, securities generally are allocated among client accounts according to each account's pre-determined participation in the transaction. Westwood considers a number of factors when determining if investments are appropriate and suitable for allocation to an account. These factors include, but are not limited to:

- The investment objective, policies and strategy of the account;
- The appropriateness of the investment to an account's time horizon and risk objectives;
- Existing levels of account ownership in the investment and in similar securities; and
- The immediate availability of cash or buying power to fund the investment.

Westwood seeks to allocate transactions before execution of a block order. However, under certain circumstances, trades may not be allocated prior to entering the trade order. In such event, Westwood will seek to allocate such orders at the earliest practicable time. Pre-allocated and unallocated block trades that are partially filled are generally allocated on the basis of the relative net assets of the participating accounts.

When aggregating trades among client accounts, managed account trades cannot be included in the aggregation due to the separate trading platform used for managed accounts. Therefore, Westwood has chosen to execute managed account trades after the separate account trades have been completed.

Westwood may execute transactions in the same securities on behalf of a number of accounts, including accounts in which Westwood and/or its officers or employees may have a financial interest, such as the mutual funds managed by Westwood. Thus, there may be a conflict of interest to the extent that trades are allocated to accounts in which Westwood or its officers and employees may have a financial interest that may not also be allocated to other clients. These transactions may be executed separately or they may be aggregated when, in Westwood's reasonable judgment, aggregation may result in an overall economic benefit to those accounts in terms of pricing, brokerage commissions or other expenses. Westwood will not aggregate client trades with proprietary (insider) accounts of Westwood.

In general, trades are allocated among portfolio managers on a *pro rata* basis (to the extent a portfolio team decides to participate fully in the trade), for further allocation by each portfolio team between that portfolio's eligible accounts. Where *pro rata* allocation is not practicable, Westwood will seek to make trade allocations consistent with the factors identified above, and in

a fair and equitable manner. Once trades are allocated, they may be reallocated only in unusual circumstances due to recognition of specific account restrictions.

From time to time, Westwood has access to security distributions during an initial or secondary public offering (“IPO”). However, due to the small size of Westwood’s business compared to other asset managers and market participants, Westwood rarely, if ever, obtains access to a sufficient number of IPO shares so as to make a material allocation of such shares among all, or even many, of its client accounts for which such investments otherwise might be appropriate. However, to the extent practicable, Westwood will allocate IPO shares on a *pro rata* basis among applicable accounts. Where *pro rata* distribution is not practicable, Westwood will seek to make a fair and equitable allocation taking into consideration such factors as:

- The investment objective, policies and strategy of the account;
- The appropriateness of the investment to an account’s time horizon and risk objectives;
- Existing levels of account ownership in the investment and in similar securities; and
- The immediate availability of cash or buying power to fund the investment.

Often, mutual funds and commingled fund accounts managed by Westwood may receive a greater allocation of IPO shares because of the higher immediately available cash or buying power of these accounts. In addition, IPOs may be allocated to accounts in which Westwood or its officers or employees may have a financial interest. Thus, there may be a conflict of interest to the extent IPOs are allocated to these accounts and not allocated to other client accounts.

Clients that direct their brokerage to a specific broker-dealer, including any wrap account clients, will not participate in IPO allocations.

Westwood will document each allocation and maintain appropriate books and records.

## **Review of Accounts**

Client reviews are scheduled and structured according to the client’s stated guidelines or in response to specific client requests. In the absence of guidelines, client meetings are generally scheduled annually and to a lesser degree, on a semi-annual or quarterly basis. Client reviews generally involve a meeting between the client and the Westwood Relationship Manager to review strategy, objectives, key concerns and outlooks. The materials reviewed may include, but are not limited to, monthly and/or quarterly performance numbers, portfolio holdings, asset mix, cash flow and liquidity requirements, specific guidelines and objectives applicable to the account and other pertinent matters. In addition to account reviews with the client, the Portfolio Team formally reviews the account on a weekly basis looking at items such as recent events, the performance of each holding, and sector and industry metrics versus the market using a variety of tools including formal attribution analysis. The team also reviews the portfolio to evaluate changes, additions or deletions to the portfolio that might be appropriate. The Portfolio Team meets informally on a daily basis to monitor the portfolio and its holdings. We have also established the Performance Evaluation Technology Committee (PETC) which meets twice per

quarter to review performance calculation policies, dispersion for each investment management account and to monitor account guidelines on an annual basis.

Monthly reports are distributed based upon client request and generally include an asset statement, performance for the month and, frequently, quarter-to-date, and status of the portfolio. On a quarterly basis, we include all of the above information, as well as an overall review of results for the quarter, year-to-date, and inception-to-date. We may also include a strategic forecast, highlighting our investment outlook for the capital markets.

Legacy Omaha Accounts will receive statements that present account valuation and transactions from the bank or brokerage firm that acts as custodian of their securities. These statements will be provided as contracted for with the custodian. In most cases, they are provided monthly, but they may be provided quarterly. These clients also receive quarterly reports from Westwood Advisors that present quarter-end valuation, asset allocation, account performance information and fees.

## **Client Referrals and Other Compensation**

Not applicable.

## **Custody**

Westwood does not maintain custody of client funds or securities. Custody of some client funds (namely 28 common trust funds) is maintained by Westwood Trust, a qualified custodian. Westwood reconciles these common funds monthly and reports any differences to Westwood Trust personnel for reconciliation. No other accounts managed by Westwood are custodied at Westwood Trust.

Custody of Legacy Omaha Account funds and securities is maintained by First National Bank – Omaha & TD Ameritrade. These clients will receive monthly/quarterly account statements from both their custodian and Westwood.

Clients should carefully review the statements sent to them by Westwood and compare them with account statements sent by their custodian.

## **Investment Discretion**

Westwood accepts discretionary authority to manage securities accounts on behalf of its clients pursuant to a signed investment management agreement and any necessary accompanying documentation (e.g. board resolutions, list of individuals authorized to direct disbursements and/or contributions, client's driver's license in the case of individuals) and has broad authority to determine, without specific client approval, the amount and type of securities to be bought and sold, the broker-dealer to be used and the commission rate to be paid to such broker-dealer.

Any limitations on this authority are as follows:

- (1) regarding securities bought or sold, as detailed in the account guidelines per individual account;

- (2) regarding the amount of securities to be bought or sold, factors determining the amount of securities bought or sold, or size of the account, diversification for the portfolio and account guidelines;
- (3) regarding the selection of brokers, best execution is used for selection of brokers or subject to the client's request to direct brokerage to a specific broker dealer; and
- (4) commission rates are competitively set by the market.

## **Voting Client Securities**

Westwood typically has authority to vote client securities and has engaged Broadridge Financial Solutions, Inc. for proxy voting services and Glass Lewis & Co., LLC for proxy research for our clients. Broadridge is a leading provider to the global financial industry for full-service proxy support. Glass Lewis provides complete analysis and voting recommendations on all proposals and is designed to assist investors in mitigating risk and improving long-term value. In most cases, we agree with the recommendations of Glass Lewis, however, ballots are reviewed bi-monthly by our analysts and we may choose to vote differently than Glass Lewis if we believe it in the best interest of our clients.

Westwood maintains complete proxy record keeping files for all clients. These files include a listing of all proxy material sent on behalf of our clients along with individual copies of each response. Client access to these files can be arranged upon request. A summary of voting is sent to each client on an annual basis.

Westwood will identify any conflicts of interests between the interests of itself and the client. If a material conflict exists, Westwood will determine whether it is appropriate to inform the affected client or to address the issue by voting consistent with the independent third party Glass Lewis recommendation. Westwood will maintain a record of the resolution of any proxy voting conflict of interest.

Clients may request a complete copy of Westwood's Proxy Voting policies and procedures by contacting their representative or the firm's CCO.

Clients can retain the authority to vote their securities, or they can request to receive proxy research and voting recommendations and can direct Westwood as to how to vote.

## **Financial Information**

Westwood does not require or solicit prepayments of more than \$1,200 in fees per client six months or more in advance.

There is no financial condition that is reasonably likely to impair Westwood's ability to meet contractual commitments to clients.

Westwood has not been the subject of a bankruptcy petition.