WESTWOOD HOLDINGS GROUP INC
Form 10-K
February 21, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-31234

WESTWOOD HOLDINGS GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	75-2969997
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 Crescent Court, Suite 1200 Dallas, Texas 75201	75201
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (214) 756-6900
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class:	Name of each exchange on which registered:
Common Stock, par value $0.01 per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

Indicate by check mark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”,“smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

The aggregate market value on June 30, 2018 of the voting and non-voting common equity held by non-affiliates of the registrant was $427,426,109. For purposes of this calculation, the registrant has assumed that stockholders that are not officers or directors of the registrant are not affiliates of the registrant.

The number of shares of registrant’s Common Stock, par value $0.01 per share, outstanding as of February 15, 2019: 8,899,174.

DOCUMENTS INCORPORATED BY REFERENCE

Selected portions of the registrant’s definitive Proxy Statement for the 2019 Annual Meeting of Stockholders, which will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates, are incorporated by reference into Part III hereof.

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PART I

Item 1. Business.

Unless the context otherwise requires, the term “we,” “us,” “our,” “Westwood,” or “Westwood Holdings Group” when used in this Form 10-K (“Report”) and in the Annual Report to the Stockholders refers to Westwood Holdings Group, Inc., a Delaware corporation, and its consolidated subsidiaries taken as a whole. This Report contains some forward-looking statements within the meaning of the federal securities laws. Actual results and the timing of some events could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors, including without limitation those set forth under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 1A. Risk Factors.”

General

We manage investment assets and provide services for our clients through our subsidiaries, Westwood Management Corp. and Westwood Advisors, L.L.C. (each of which is an SEC-registered investment adviser and referred to hereinafter together as “Westwood Management”), Westwood International Advisors Inc. (“Westwood International Advisors”) and Westwood Trust. Westwood Management, founded in 1983, provides investment advisory services to institutional investors, a family of mutual funds called the Westwood Funds®, other mutual funds, an Irish investment company authorized pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulation 2011 (as amended) (the “UCITS Fund”), individual investors and clients of Westwood Trust. Westwood International Advisors was established in 2012 and provides investment advisory services to institutional clients, the Westwood Funds®, other mutual funds, the UCITS Fund and clients of Westwood Trust. Westwood Trust, founded as a state-chartered trust company in 1974, provides trust and custodial services and participation in self-sponsored common trust funds to institutions and high net worth individuals. Our revenues are generally derived from fees based on a percentage of assets under management. Westwood Management, Westwood International Advisors and Westwood Trust collectively managed assets valued at approximately $16.6 billion at December 31, 2018. We were incorporated under the laws of the State of Delaware on December 12, 2001. Our common stock is listed on the New York Stock Exchange under the ticker symbol “WHG.” We are a holding company whose principal assets consist of the capital stock of Westwood Management, Westwood Trust and Westwood International Advisors.
The success of our business is dependent on client, institutional investment consultant and intermediary relationships. We believe that, in addition to investment performance, client service is paramount in the asset management business. Accordingly, a major business focus is to build strong relationships with clients to enhance our ability to anticipate their needs and satisfy their investment objectives. Our team approach is designed to deliver efficient, responsive service to our clients.

We have focused on building our foundation in terms of personnel and infrastructure to support a larger business. We have developed investment strategies that we expect to be desirable within our target institutional, wealth management and mutual fund markets. Developing new investment strategies and building the organization can result in incurring expenses before significant offsetting revenues are realized. We continue to evaluate new strategies and resources in terms of meeting actual and potential investor needs.

Available Information

We maintain a website at westwoodgroup.com. Information contained on, or connected to, our website is not incorporated by reference into this Report and should not be considered part of this Report or any other filing that we make with the Securities and Exchange Commission (“SEC”). All of our filings with the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are available free of charge on our website. Our Code of Business Conduct, Corporate Governance Guidelines and Audit Committee, Compensation Committee and Governance/Nominating Committee Charters are available without charge on our website. Stockholders also may obtain print copies of these documents free of charge by submitting a written request to Terry Forbes, our Chief Financial Officer and Treasurer, at the address set forth on the front of this Report. The public can also obtain any public document we file with the SEC at www.sec.gov.

Advisory

General

Our advisory business is comprised of Westwood Management and Westwood International Advisors and encompasses three distinct investment teams – the U.S. Value Team, the Global Convertible Securities Team and the Emerging Markets Equity Team.

Westwood Management provides investment advisory services to large institutions, including corporate retirement plans, public retirement plans, endowments and foundations. Institutional separate account minimums vary by investment strategy and generally range from $5 million to $25 million. Westwood Management also provides advisory services to individuals, the Westwood Funds® and the UCITS Fund, as well as subadvisory services to other mutual funds and pooled investment vehicles. Westwood Management's investment strategies are managed by the U.S. Value Team, based in Dallas, Texas, and by the Global Convertible Securities Team, based in Boston, Massachusetts. Our U.S. investment professionals average fifteen years of investment experience. We believe team continuity and years of experience are among the critical elements required for successfully managing investments.

Westwood International Advisors, based in Toronto, Canada, provides investment advisory services to large institutions, pooled investment vehicles and the UCITS Fund, as well as subadvisory services to the National Bank Westwood Funds, which are mutual funds offered by National Bank of Canada. Institutional separate account minimums vary by investment strategy and generally range from $10 million to $25 million. Westwood International Advisors' investment strategies are managed by the Emerging Markets Equity Team, with an average of 23 years of investment experience. Westwood International Advisors has entered into a Memorandum of Understanding ("MOU") with Westwood Management pursuant to which Westwood International Advisors is considered a "participating affiliate" of Westwood Management as that term is used in relief granted by the staff of the SEC allowing U.S. registered investment advisers to use portfolio management or research resources of advisory affiliates subject to the supervision of a registered adviser. Pursuant to the MOU, Westwood International Advisors professionals provide advisory and subadvisory services to certain Westwood Funds®, pooled investment vehicles and large institutions under the supervision of Westwood Management.

Investment Strategies

We offer a broad range of investment strategies, which enables us to serve a variety of client types with different investment objectives, including five investment strategies each with over $1 billion in assets under management: our Income Opportunity, LargeCap Value, SMidCap, SmallCap Value and Emerging Markets strategies.

U.S. Value Team

The U.S. Value team employs a value-oriented approach. The common thread that permeates the team's strategies is a disciplined approach to controlling risk and preserving client assets whenever possible. The team seeks to invest in companies with high levels of free cash flow, improving returns on equity and strengthening balance sheets that are well positioned for growth but whose value is not fully recognized in the marketplace. Through investments in companies that exhibit these characteristics, we seek to generate consistently superior performance relative to our industry peers and relevant benchmark indices. This investment approach is intended to preserve capital during unfavorable periods and provide superior real returns over the long term. We have established a track record of delivering competitive risk-adjusted returns for our clients. The principal investment strategies currently managed by the U.S. Value Team are as follows:

LargeCap Value: Investments in equity securities of approximately 40 to 60 companies with market capitalizations at purchase generally over $5 billion.

LargeCap Select: Investments in equity securities of approximately 15 to 30 companies with market capitalizations at purchase generally over $5 billion.

SMidCap Plus: Investments in equity securities of approximately 45 to 65 companies with market capitalizations generally within the range of the Russell Midcap Index above $2 billion.

SMidCap: Investments in equity securities of approximately 50 to 70 companies with market capitalizations generally within the range of the Russell 2500 Index.

SmallCap Value: Investments in equity securities of approximately 50 to 70 companies with market capitalizations generally within the range of the Russell 2000 Index.

AllCap Value: Investments in equity securities of approximately 50 to 80 companies with market capitalizations at purchase generally over $100 million.

Income Opportunity: Investments across a broad spectrum of income-producing securities of approximately 60 to 80 companies.
Worldwide Income Opportunity: Investments across a broad spectrum of income-producing securities of approximately 60 to 80 global companies.
Master Limited Partnership Infrastructure Renewal: Investments in the securities of approximately 25 to 35 companies that span Master Limited Partnership ("MLP") subsectors and/or have MLP-like characteristics, with market capitalizations of any size and generally with a 7.5% maximum position size at purchase, unless the security is held by the index. If the security is held by the index, then the portfolio may hold up to its weight in the index.
Master Limited Partnership Opportunities: Investments in the securities of approximately 25 to 35 companies that span MLP subsectors and/or have MLP-like characteristics, with market capitalizations of any size and generally with a 4% maximum position size at purchase.
Master Limited Partnership and Strategic Energy: Investments in the securities of approximately 25 to 40 companies that span MLP subsectors, have MLP-like characteristics, and/or primarily involve energy-related activities, with market capitalizations of any size. Investments in publicly traded partnerships for this strategy will be limited to 25% of the portfolio.
Low Volatility Equity: Investments in the common stock or convertible securities of approximately 40 to 80 companies, seeking a lower level of volatility than traditional equity-oriented strategies. (Jointly managed by U.S. Value and Global Convertible Securities teams).
Flexible Income: Investments in securities across a company's capital structure with the objective of achieving higher yield and lower volatility than other income alternatives strategies.
Global Convertible Securities Team
The Global Convertible Securities Team manages both long-only and liquid alternative global convertible securities strategies combining a disciplined investment process with rigorous risk management. The team's investment philosophy is based on the following beliefs:

- the asymmetric return profile of balanced convertible bonds can provide superior risk-adjusted returns over medium- to long-term time horizons;
- convertible securities markets are inefficient, creating opportunities to benefit from pricing anomalies;
- a global focus provides more robust opportunities and a clearer picture of the broad convertibles universe; and
- proprietary fundamental research is the best way to identify solid companies with attractive risk-adjusted return profiles.

The team draws on the proprietary fundamental research of all three of Westwood's investment teams in order to identify securities with attractive risk-adjusted return profiles. The principal investment strategies currently managed by the Global Convertible Securities Team are as follows:
Strategic Global Convertibles: Investments in convertible securities of approximately 60 to 90 global companies, utilizing both a top-down and bottom-up investment process.
Market Neutral Income: Investments utilizing three primary strategies, consisting of short-duration yield-oriented portfolio of global convertible securities, a convertible arbitrage strategy, and a macro hedging strategy.
Emerging Markets Equity Team
The Emerging Markets Equity Team emphasizes Economic Value Added (EVA) in its investment process and seeks to identify mispriced businesses that can generate sustainable earnings growth. The team offers emerging markets equity investment strategies as follows:
Emerging Markets: Investments in equity securities of approximately 70 to 90 emerging markets companies with market capitalizations generally over $500 million.

Emerging Markets Plus: Investments in equity securities of approximately 70 to 90 emerging markets companies with market capitalizations generally over $1.5 billion.

Emerging Markets SMidCap: Investments in equity securities of approximately 50 to 70 emerging markets companies with market capitalizations at purchase generally between $165 million and $9 billion.

Our ability to grow assets under management is primarily dependent on our ability to generate competitive investment performance, our success in building strong relationships with investment consulting firms and other financial intermediaries, as well as our ability to develop new client relationships while nurturing and maintaining existing relationships. We continually seek to expand assets under management by growing our existing investment strategies, as well as identifying and developing new ones. We intend to grow our investment strategies internally but may also consider acquiring new investment strategies from third parties, as discussed under "Growth Strategy" below. Our growth strategy provides clients with more investment opportunities and diversifies our assets under management, thereby reducing risk in any one area of investment and increasing our competitive ability to attract new clients. Our ten largest clients accounted for approximately 20% of our fee revenues for the year ended December 31, 2018. The loss of some or all of these large clients could have a material adverse effect on our business and our results of operations.

Advisory and Subadvisory Agreements

Westwood Management and Westwood International Advisors manage client accounts under investment advisory and subadvisory agreements. Typical for the asset management industry, these agreements are usually terminable upon short notice and provide for compensation based on the market value of client assets under management. Westwood's advisory fees are paid quarterly in advance based on assets under management on the last day of the preceding quarter, quarterly in arrears based on assets under management on the last day of the quarter just ended, or are based on a daily or monthly analysis of assets under management for the stated period. A few clients have contractual performance-based fee arrangements, which generate additional revenues if we outperform a specified index over a specific period of time. Revenue for performance-based fees is recorded at the end of the measurement period. Revenue from advance payments is deferred and recognized over the period that services are performed. Pursuant to these agreements, Westwood provides overall investment management services, including directing investments in conformity with client-established investment objectives and restrictions. Unless otherwise directed in writing by clients, Westwood has the authority to vote all proxies with respect to securities in client portfolios.

Westwood Management and Westwood International Advisors are parties to subadvisory agreements with other investment advisers under which they perform similar services under advisory agreements. Our subadvisory fees are generally computed based upon the average daily assets under management and are payable on a monthly basis.

Westwood Management provides investment advisory services to the Westwood Funds® family of mutual funds:

Westwood Emerging Markets (WWEMX)	Westwood Opportunistic High Yield (WWHYX)(1)
Westwood Flexible Income (WFLEX)	Westwood Short Duration High Yield (WHGHX)(1)
Westwood Income Opportunity (WHGIX)	Westwood SmallCap (WHGSX)
Westwood LargeCap Value (WHGLX)	Westwood SMidCap (WHGMX)
	Westwood SMidCap Plus (WHGPX)

Westwood Low Volatility Equity (WLVIX)	
Westwood Market Neutral Income (WMNIX)	Westwood Strategic Convertibles (WSCIX)
Westwood MLP & Strategic Energy (WMLPX)	Westwood Worldwide Income Opportunity (WWIOX)

(1) Subadvised by SKY Harbor Capital Management, LLC, a registered investment adviser based in Greenwich, Connecticut

As of December 31, 2018, the Westwood Funds® had assets under management of $3.2 billion.

Trust

General

Through the combined efforts of the Dallas and Houston offices of Westwood Trust, we provide fiduciary and investment services to high net worth individuals and families, non-profit endowments and foundations, public and private retirement plans and individual retirement accounts (“IRAs”). Westwood Trust is chartered and regulated by the Texas Department of Banking. Fees charged by Westwood Trust are separately negotiated with each client and are typically based on assets under management. Clients generally have at least $1 million in investable assets.

On September 6, 2017, we entered into an agreement to sell the Omaha-based component of our Wealth Management business. The sale was completed on January 12, 2018. The sale does not represent a major strategic shift in our business. Further information on the sale is included in Note 1 “Description of the Business” to our Consolidated Financial Statements included in Part II, Item 8, “Financial Statements and Supplementary Data” accompanying this Report.

Fiduciary Services

Westwood Trust’s fiduciary services include but are not limited to: financial planning, wealth transfer planning, customizable trust services, trust administration and estate settlement. Westwood Trust also provides custodial services, tax reporting, accounting of trust income and principal, beneficiary and retiree distributions and safekeeping of assets.

Investment Services

Westwood Trust utilizes a consultative approach in developing a client’s portfolio asset allocation. Our approach involves examining clients' financial situations, including their current portfolio of investments, and advising clients on ways to reduce risk, enhance investment returns and strengthen their financial position based on each client’s unique objectives and constraints. Westwood Trust seeks to define and improve risk/return profiles of client investment portfolios by offering a comprehensive investment solution or enhancing clients’ existing investment strategies. Westwood Trust manages separate portfolios of equity and fixed income securities for certain agency and trust clients. Equity portfolios are generally patterned after the institutional strategies offered by Westwood Management or developed by the internal investment team in our Houston office. Fixed income portfolios consist of targeted “laddered” portfolios of primarily high-quality municipal securities.

Westwood Trust also sponsors a range of common trust funds in which client assets are commingled to achieve economies of scale. Westwood Trust’s common trust funds fall within two basic categories: personal trusts and employee benefit trusts. Westwood Trust sponsors common trust funds for most of the investment strategies managed by Westwood Management and Westwood International Advisors. Westwood Trust has also engaged SKY Harbor Capital Management, LLC and Brandywine Global Investment Management, LLC, both registered investment advisers, to subadvise our High Yield Bond and International Fixed Income common trust funds, respectively.

Westwood Trust also develops asset allocation models for certain clients utilizing mutual funds managed by Westwood Management and Westwood International Advisors, as well as from certain other mutual fund families.

Enhanced Balanced® Portfolios

Westwood Trust is a strong proponent of asset class diversification and offers its clients the ability to diversify among many different asset classes. Westwood Trust Enhanced Balanced® portfolios allocate assets among these asset classes into a customizable portfolio for clients seeking to maximize return for a given level of risk. Periodic adjustments are made to asset class weightings in Enhanced Balanced® portfolios based on historical returns, risk and correlation data, and our current capital markets outlook.

Select Equity Strategy

The Westwood Select Equity strategy aims to provide low-frequency turnover and tax efficiency to high net worth individuals. The offering allows individuals to own a diversified portfolio of best ideas from across Westwood's investment teams. The portfolios are diversified and include value and growth stocks, along with small-, mid- and large-cap stocks. Westwood Select Equity is also available without the tax efficiency overlay.

Distribution Channels

We market our services through several distribution channels to optimize the reach of our investment advisory and trust services. These channels enable us to leverage distribution infrastructures and capabilities of other financial services firms and intermediaries while focusing on our core competency of developing and managing investment strategies.

Institutional

In our institutional channel, we market our investment strategies through institutional investment consultants, financial intermediaries, managed accounts programs and directly to institutional investors. Institutional investment consultants serve as gatekeepers to the majority of corporate retirement plans, public retirement plans, endowments and foundations, which represent Westwood's primary institutional target markets. Consultants provide guidance to their clients in setting asset allocation strategies and creating investment policies. Consultants also make recommendations for investment firms they believe can best meet their clients' investment objectives. We have established strong relationships with many global, national and regional investment consulting firms, which collectively have contributed to our being considered and hired by their clients. Continuing to enhance existing consulting firm relationships, as well as forging new relationships, increases the awareness of our services in both the consultant community and within their institutional client base.

Marketing our investment strategies to financial intermediaries, via subadvisory relationships, allows us to extend the reach of our investment advisory services to clients of other investment companies with broad, established distribution capabilities. In subadvisory arrangements, our client is generally the investment company through which our services are offered to investors, typically via mutual fund offerings. The investment company that sponsors the mutual fund is responsible for appropriate marketing, distribution and operational and accounting activities.

Managed accounts are similar in some respects to subadvisory relationships in that a third-party financial institution, such as a brokerage firm or turnkey asset management program provider, handles distribution to the end client. The end client in a managed account is typically a high net worth individual or small institution. In these arrangements, the third-party financial institution is responsible to the end client for client service, operations and accounting.

We also market our investment strategies directly to pension funds, endowments, foundations and other institutional investors.

Mutual Funds

In our mutual funds channel, we market our registered mutual funds, the Westwood Funds®, to institutional investment consultants, financial intermediaries, registered investment advisers, select broker-dealers and fund supermarkets. By leveraging our existing relationships with institutional investment consulting firms we are able to participate when their defined contribution and other retirement plan clients require a mutual fund vehicle. We also seek relationships with financial intermediaries that manage discretionary fund models in order to have our funds placed in such models. Our wholesaling group markets our funds directly to registered investment advisers, select broker-dealers and mutual fund supermarkets.

Wealth Management

In our wealth management channel, we generate awareness of our trust fiduciary and investment services through investment consultants, centers of influence, community involvement, and targeted direct marketing to high net worth individuals, families and small to medium-sized institutions. We also seek asset growth generated by referrals from existing clients.

Growth Strategy

We believe that we have established a strong platform to support future growth, deriving our strength in large part from the experience and capabilities of our management team and skilled investment professionals. We believe that this focused, stable team has contributed significantly to our solid investment performance, superior client service and a growing array of investment strategies. We believe that opportunities for future growth will come from our ability to:

- generate growth from new and existing clients and consultant relationships;
- attract and retain key employees;
- grow assets in our existing investment strategies;
- enhance our digital capabilities;
- foster continued growth of the wealth management platform and distribution channel;
- foster expanded intermediary distribution;
- pursue strategic corporate development opportunities;
- pursue opportunities internationally through targeted sales and relationships with international distributors and institutional investors;
- continue to strengthen our brand name; and
- develop or acquire new investment strategies.

Generate growth from new and existing clients and consultant relationships. As our primary business objective, we intend to maintain and enhance existing relationships with clients and investment consultants by providing solid investment performance and attentive client service. During 2018, we hired a new Head of Institutional Sales, who has already created distinct sales and service roles to improve our proactive sales and client engagement strategy. We also intend to pursue growth via targeted sales and marketing efforts that emphasize our investment philosophy, performance and superior client service. New institutional client accounts are sourced from either investment consultants or from our direct sales efforts with institutional investors. We believe that the in-depth knowledge of our firm, our people and our processes embedded in our consultant relationships, as well as in existing and prospective client relationships, is a key factor when being considered for new client investment mandates.

Attract and retain key employees. To achieve our investment performance and client relationship objectives, we must be able to attract and retain talented professionals. We believe that we have created a workplace environment in which motivated, performance-driven and client-oriented individuals can thrive. As a public company, we offer our employees a compensation program that includes strong equity incentives to closely align their success with that of our clients and stockholders. We believe that these factors are critical to maintaining a stable, client-focused environment that can support significant future growth.

Grow assets in our existing investment strategies. We have significant capacity to manage additional assets across our existing range of investment strategies, which we have continued to expand. We have developed a range of institutional investment strategies by building on the core competencies of our U.S. Value Team. Our Emerging Markets Equity Team provides equity strategies that focus on emerging markets that have experienced strong investor demand, and we believe they provide additional growth opportunities. Our Global Convertible Securities Team manages a long-only strategy called Strategic Global Convertibles and a market neutral strategy called Market Neutral Income. We have the team in place to support these investment strategies and, with strong investment performance, we believe that demand for these strategies can provide meaningful growth for our assets under management.

Enhance our digital capabilities. Over the past three years we have invested significant capital to enhance our automation and digital efficiency. We moved our technology infrastructure to secure, cloud-based access, created a data warehouse to improve our investment operations work flow and upgraded our trade order management and trade compliance systems. We are currently in the process of digitizing our portfolio accounting and reconciliation system and developing a fully digital platform for our institutional and wealth management clients. We believe these investments position us to improve efficiencies and better respond to consumer demand for digital interaction with investment advisors.

Foster continued growth of the wealth management platform and distribution channel. Westwood Trust serves small to medium-sized institutions as well as high net worth individuals and families. We anticipate continued interest from clients and prospects in our diversified, highly attentive service model. A significant percentage of asset growth at Westwood Trust stems from referrals, as well as gathering additional assets from existing clients. We believe that our Enhanced Balanced® strategy, which offers diversified exposure to multiple asset classes in a comprehensive manner, our Select Equity strategy, which offers diversified equity exposure in a tax-efficient manner, and our offerings for separately managed portfolios will all provide opportunities for growth. Additionally, we are exploring opportunities to offer passive investment management strategies to enhance our wealth management client experience.

Foster expanded intermediary distribution. During 2018 we hired a new Head of Intermediary Sales in order to expand and target our geographic approach and focus coverage for intermediary distribution. We plan to expand our intermediary sales team to extend our coverage and accelerate growth in top markets. We believe that providing investors access to our mutual funds is a key component to achieving asset growth in the defined contribution and retirement marketplaces as well as with registered investment advisers.

Pursue strategic corporate development opportunities. We evaluate strategic corporate development opportunities to augment organic growth. We may pursue various transactions, including acquisitions of asset management firms, mutual funds, wealth management firms, or other financial institutions, as well as hiring investment professionals or teams. We consider opportunities to enhance our existing operations, expand our range of investment strategies and services or further develop our distribution capabilities. By acquiring investment firms or by hiring investment professionals or teams that successfully manage investment strategies beyond our current expertise, we can both attract new clients and provide existing clients with an even more diversified range of investment strategies. We may also consider forging alliances with other financial services firms to leverage our core competency of developing and managing investment strategies with alliance partners that can provide enhanced distribution capabilities or additional service offerings.

Pursue opportunities internationally through targeted sales and relationships with international distributors and institutional investors. In recent years we have increased our sales efforts outside of the U.S. As of December 31, 2018, non-U.S. clients represented approximately 20% of our assets under management compared with 16% as of December 31, 2014. The growth in our non-U.S. client base has primarily been a function of the broadening of our range of investment strategies to include Emerging Markets equity and Global Convertible Securities. In addition, we established a UCITS platform in 2013 for non-U.S. investors. We intend to continue our sales efforts outside of the U.S. We have also engaged a third-party distribution firm focused on intermediary and institutional distribution throughout Continental Europe. We may consider forging alliances with additional international financial services firms or partners to obtain enhanced distribution capabilities and greater access to global customers. Additionally, we continue to target select institutional clients around the globe.

Continue to strengthen our brand name. We believe that the strength of our brand name has been a key component to our long-term success in the investment industry and will be instrumental to our future success. We have developed strong brand name largely through our performance, coupled with high profile coverage in investment publications and electronic media. Several of our investment professionals have been visible in print and electronic media, and we will continue to look for creative ways to strengthen our brand name and reputation in our target markets.

Develop or acquire new investment strategies. We continue to look for opportunities to expand the range of investment strategies that we offer to existing and prospective clients. We may consider internally-developed strategies that extend our existing investment process to new markets, and we may also consider externally acquired investment strategies. An expanded range of investment strategies offers additional ways to serve our client base, generating more diversified revenue streams, as well as providing asset and revenue growth opportunities.

Competition

We are subject to substantial and growing competition in all aspects of our business. Barriers to entry in the asset management business are relatively low, and we expect to face a growing number of competitors. Although no single company dominates the asset management industry, many companies are larger, better known and have greater resources.

We compete with other asset management firms on the basis of investment strategies offered, their investment performance both in absolute terms and relative to peer groups, quality of service, fees charged, the level and type of compensation offered to key employees and the manner in which investment strategies are marketed. Many of our competitors offer more investment strategies and services and have substantially greater assets under management.

We compete against numerous investment dealers, banks, insurance companies, mutual fund companies, exchange-traded funds, brokerage and investment firms and others that sell equity funds, taxable income funds, tax-free investments and other investment products. In addition, the allocation of assets by many investors from active equity investment to index funds, fixed income or similar asset classes has enhanced the ability of firms offering non-equity asset classes and passive equity management to compete effectively with us. The demand for passive strategies with low-fee structures has rapidly increased, and investors more frequently demand customized and personalized strategies to fit their investment needs. This shift in the marketplace may benefit competitors that offer certain investment vehicles that we do not currently offer. In summary, our competitive landscape is intense and dynamic, which may affect our ability to compete successfully in the future as an independent company.

Additionally, most prospective clients perform a thorough review of an investment manager’s background, investment policies and performance before committing assets to that manager. In many cases, prospective clients invite a number of competing firms to make presentations. The process of obtaining a new client typically takes twelve to eighteen months from the time of the initial contact. While we have achieved success in competing for new clients, it is a process to which we dedicate significant resources over an extended period, with no certainty of winning.

Regulation

Virtually all aspects of our business are subject to federal, state and other non-U.S. jurisdictions' laws and regulations. These laws and regulations are primarily intended to protect investment advisory clients. Under such laws and regulations, agencies that regulate investment advisers have broad administrative powers, including the power to limit, restrict or prohibit advisers from carrying on their business if they fail to comply with such laws and regulations. Possible sanctions include suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of investment adviser and other registrations, censures and fines. We believe that we are in compliance with all material laws and regulations.

Westwood Management

Our business is subject to regulation at federal and state levels by the SEC and other regulatory bodies. Westwood Management Corp. and Westwood Advisors, L.L.C. are registered with the SEC under the Investment Advisers Act of 1940 (the “Investment Advisers Act”) and under the laws of various states. As registered investment advisers, Westwood Management Corp. and Westwood Advisors, L.L.C. are regulated and subject to examination by the SEC. The Investment Advisers Act imposes numerous obligations on registered investment advisers, including fiduciary duties, record keeping, operational and marketing requirements and disclosure obligations. Westwood Management Corp. also acts as adviser to the Westwood Funds®, a family of mutual funds registered with the SEC under the Investment Company Act of 1940 (the “Investment Company Act”). As an adviser to a registered investment company, Westwood Management Corp. must comply with the Investment Company Act and related regulations. The Investment Company Act imposes numerous obligations on registered investment companies, including requirements relating to operations, fees charged, sales, accounting, record keeping, disclosure, governance, and restrictions on transactions with affiliates. Under SEC rules and regulations promulgated pursuant to the federal securities laws, we are subject to periodic SEC examinations. The SEC can institute proceedings and impose sanctions for violations of the Investment Advisers Act and the Investment Company Act, ranging from censure to termination of an investment adviser’s registration. The failure of Westwood Management Corp. and Westwood Advisors, L.L.C. to comply with SEC requirements could have a material adverse effect on Westwood. We must also comply with anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001, as subsequently amended and reauthorized (the “Patriot Act”). We believe that we are in compliance with the regulations under the Investment Advisers Act, the Investment Company Act and the Patriot Act.

As an investment adviser, we have a fiduciary duty to our clients. The SEC has interpreted that duty to impose standards, requirements and limitations on, among other things: trading of client accounts, allocation of investment opportunities among clients, use of soft dollars, execution of transactions and recommendations to clients. We manage accounts for our clients with the authority to buy and sell securities, select broker-dealers to execute trades and negotiate brokerage commission rates. We may receive soft dollar credits from certain broker-dealers that are used to pay for brokerage and research-related products, which reduces certain company operating expenses. We intend to use soft dollars to pay for only those brokerage and research related products and services that fall within the safe harbor provisions of the Securities Exchange Act of 1934. If our ability to use soft dollars were reduced or eliminated as a result of the implementation of statutory amendments or new regulations, our operating expenses would increase.

Westwood Trust

Westwood Trust operates in a highly regulated environment and is subject to extensive supervision and examination. As a Texas chartered trust company, Westwood Trust is subject to the Texas Finance Code (the “Finance Code”), the rules and regulations promulgated under the Finance Code and supervision by the Texas Department of Banking. These laws are intended primarily for the protection of Westwood Trust’s clients and creditors rather than for the benefit of investors. The Finance Code provides for and regulates a variety of matters, such as:

- minimum capital maintenance requirements;
- restrictions on dividends;
- restrictions on investments of restricted capital;
- lending and borrowing limitations;
- prohibitions against engaging in certain activities;
- periodic fiduciary and information technology examinations by the Texas Department of Banking Commissioner;
- furnishing periodic financial statements to the Texas Department of Banking Commissioner;
- fiduciary record keeping requirements; and
- prior regulatory approval for certain corporate events (such as mergers, the sale or purchase of all or substantially all trust company assets and transactions transferring control of a trust company).

The Finance Code also gives the Banking Commissioner broad regulatory powers (including penalties and civil and administrative actions) if the trust company violates certain provisions of the Finance Code, including implementing conservatorship or closure if Westwood Trust is determined to be in a “hazardous condition” (as defined by applicable law). Westwood Trust’s failure to comply with the Finance Code could have a material adverse effect on Westwood.

Westwood Trust is limited by the Finance Code in the payment of dividends to undivided profits, which is described as the part of equity capital equal to the balance of net profits, income, gains and losses since formation minus subsequent distributions to stockholders and transfers to surplus or capital under share dividends or appropriate board resolutions. At the discretion of its Board of Directors, Westwood Trust has made quarterly and special dividend payments to Westwood Holdings Group, Inc. out of undivided profits.

Westwood International Advisors

Westwood International Advisors is registered with the Ontario Securities Commission (“OSC”) and the Autorité des marchés financiers (“AMF”) in Québec.

The OSC is an independent Crown corporation responsible for regulating the capital markets in Ontario. Its statutory mandate is to provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in capital markets. The OSC has rule making and enforcement powers to help safeguard investors, deter misconduct and regulate participants involved in capital markets in Ontario. It regulates firms and individuals that sell securities and provide advice in Ontario, and also regulates public companies, investment funds and marketplaces, such as the Toronto Stock Exchange. The OSC’s powers are granted under the Securities Act (Ontario), the Commodity Futures Act (Ontario) and certain provisions of the Business Corporations Act. It operates independently from the government and is funded by fees charged to market participants. The OSC is accountable to the Ontario Legislature through the Minister of Finance.

The AMF is the entity mandated by the government of Québec to regulate the province's financial markets and provide assistance to consumers of financial products and services. Established on February 1, 2004 under an Act regarding the Autorité des marchés financiers, the AMF integrates the regulation of the Québec financial sector, notably in the areas of insurance, securities, deposit institutions (other than banks) and the distribution of financial products and services. Specifically, the AMF's mission is to:

- provide assistance to consumers of financial products and services;
- ensure that financial institutions and other regulated financial sector entities comply with applicable solvency and other obligations imposed by law;
- supervise activities connected with distribution of financial products and services;
- supervise stock market and clearing house activities and monitor the securities market;
- supervise derivatives markets, including derivatives exchanges and clearing houses and ensure that regulated entities and other derivatives market practitioners comply with obligations imposed by law; and
- implement protection and compensation programs for consumers of financial products and services, and administer compensation funds set up by law.

Employee Retirement Income Security Act of 1974

We are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and to its related regulations insofar as we are a "fiduciary" under ERISA with respect to some clients. ERISA and applicable provisions of the Internal Revenue Code impose certain duties on fiduciaries under ERISA or on entities that provide services to ERISA plan clients and prohibit certain transactions involving ERISA plan clients.

Tax Reform Act

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "Tax Reform Act"). The legislation significantly changed U.S. tax law by, among other things, lowering corporate income tax rates and creating a territorial tax system with a one-time mandatory deemed repatriation tax on previously deferred earnings of foreign subsidiaries. The Tax Reform Act reduced the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018.

We have recognized the incremental tax impacts related to deemed repatriated earnings and the revaluation of deferred tax assets and liabilities and included these amounts in our Consolidated Financial Statements for the year ended December 31, 2017. We completed the accounting for our 2017 U.S. corporate income tax return in the third quarter of 2018 and made no significant changes to the amounts provisionally recognized. Further information on the tax impacts of the Tax Reform Act is included in Note 7 "Income Taxes" to our Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data" accompanying this Report.

Employees

At December 31, 2018, we had 182 full-time employees (164 based in the United States and 18 based in Canada). No employees are represented by a labor union, and we believe our employee relations are favorable.

Item 1A. Risk Factors.

We believe these represent the material risks currently facing our business. Our business, financial condition or results of operations could be materially adversely affected by these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. You should carefully consider the risks described below before making an investment decision. You should also refer to the other information included or incorporated by reference in this Report, including our financial statements and related notes.

Risks Related to the Investment Industry

Our results of operations depend upon the market value and composition of assets under management, which can fluctuate significantly based on various factors, some of which are beyond our control.

Our revenues are primarily generated from fees derived as a percentage of assets under management ("AUM"). The value of our AUM can be negatively impacted by several factors, including:

- Market performance: Performance of the securities markets could be impacted by a number of factors beyond our control, including, among others, general economic downturns, political uncertainty, acts of terrorism or natural disasters. Negative performance within the securities markets or short-term volatility within the securities markets could result in investors withdrawing assets, decreasing their rates of investment or shifting assets to cash or other asset classes or strategies that we do not manage, all of which could reduce our revenues. In addition, during periods of slowing growth or declining revenues, profits and profit margins are adversely affected because certain expenses remain relatively fixed.
- Investment performance: Because we compete with many asset management firms on the basis of our investment strategies, the maintenance and growth of assets under management is dependent, to a significant extent, on the investment performance of the assets that we manage. Poor performance may result in the loss or reduction of client accounts, which decreases revenues. Underperformance relative to peer groups and/or relevant benchmarks for our various investment strategies could adversely affect our results of operations, especially if such underperformance continues for an extended period of time. The historical returns of our strategies and the ratings and rankings we, or the mutual funds that we advise, have received in the past should not be considered indicative of the future results of these strategies or of any other strategies that we may develop in the future. The investment performance we achieve for our customers varies over time and variances can be wide. In addition, certain of our investment strategies have capacity constraints, as there may be a limit to the number of securities available for certain strategies to operate effectively. In those instances, we may choose to limit access to new or existing investors.

Our business is subject to extensive regulation, which is subject to frequent change, with attendant compliance costs and serious consequences for violations; expansion into international markets and introduction of new products and services increases our regulatory and operational risks.

Virtually all aspects of our business are subject to laws and regulations, including the Investment Advisers Act, the Investment Company Act, the Patriot Act, the Finance Code and anti-money laundering laws. These laws and regulations generally grant regulatory agencies broad administrative powers, including the power to limit or restrict us from operating our business, as well as powers to place us under conservatorship or closure if we fail to comply with such laws and regulations. Violations of such laws or regulations could subject us or our employees to disciplinary proceedings and civil or criminal liability, including revocation of licenses, censures, fines or temporary suspensions, permanent barring from the conduct of business, conservatorship or closure. Any such proceeding or liability could have a material adverse effect upon our business, financial condition, results of operations and business prospects.

In addition, the regulatory environment in which we operate is subject to change. We may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations. In recent years, regulators have increased their oversight of the financial services industry. Some regulations are focused directly on the investment management industry, while others are more broadly focused but affect our industry as well.

The Dodd-Frank Act of 2010 significantly increased and revised the federal rules and regulations governing the financial services industry and, in addition to other regulations, has generally resulted in increased compliance and administrative requirements. For example, the SEC's adoption of Form PF and revisions to Form ADV impose additional reporting requirements for SEC-registered investment advisors. Additionally, ERISA Section 408(b)(2) and related regulations require additional information to be provided to ERISA-governed retirement plans. While we believe that changes in laws, rules and regulations, including those discussed above, have increased our administrative and compliance costs, we are unable to quantify the increased costs attributable to such changes. See "Item 1. Business — Regulation."

We engage in product offerings and international business activities through our emerging markets, global multi-asset and global convertible securities product offerings that we make available to our international and domestic clients. As of December 31, 2018, approximately 20% of our AUM is managed for clients who are domiciled outside the United States. As a result, we face increased operational, regulatory, compliance, marketing, client service, reputational and foreign exchange rate risks. In particular, rapid regulatory change is occurring internationally with respect to financial institutions, including, but not limited to, anticipated revisions to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 and the Markets in Financial Instruments Directive (MiFID II). The failure of our compliance and internal control systems to properly identify and mitigate such additional risks, or of our operating infrastructure to support international activities, could result in operational failures and actions by regulatory agencies, which could have a material adverse effect on our business.

We devote considerable time and resources to both domestic and international compliance; however, we may fail to timely and properly identify regulatory requirements or modify our compliance procedures for changes in our regulatory environment, which may subject us to legal proceedings, domestic and foreign government investigations, penalties and fines.

The investment management and wealth management industry is highly competitive and innovative.

The investment management and wealth management industry is highly competitive based on a variety of factors, including investment performance, fee rates, continuity of investment professionals and client relationships, the quality of services provided to clients, corporate positioning, business reputation and differentiated products. A number of factors increase our competitive risks, including the following:

- Potential competitors have a relatively low cost of entering the investment management industry;
- Many competitors have greater financial, technological, marketing and other resources, more comprehensive name recognition and more personnel than we do;
- The continuing trend toward consolidation in the investment management industry, and the securities business in general, has served to increase the size and strength of some of our competitors;
- Recent changes in consumer demand for technological capabilities, including the enhanced ability for firms to offer lower fee passive management strategies, has increased competition in our industry;
- Shifts in demand for alternative investment styles, asset classes and distribution vehicles may cause our competitors to be perceived as more attractive;
- Other industry participants, hedge funds and alternative asset managers may seek to recruit our investment professionals;
- Some competitors charge lower fees for their investment management services than we do;
- Some competitors may provide more comprehensive client services, including banking, financial planning and tax planning at levels beyond what we currently provide; and
- Some competitors may have more sophisticated, innovative or advanced distribution networks than we do.

In particular, we have faced significant competition from competitors with lower fee, passive investment strategies. Investment advisors that emphasize passive products have gained, and may continue to gain, significant market share from active managers like us, which could have a material adverse effect on our business. If we are unable to compete effectively, our earnings could be reduced and our business could be adversely affected.

Some of our strategies invest in the securities of non-U.S. companies, which involve foreign currency exchange, tax, political, social and economic uncertainties and risks.

As of December 31, 2018, approximately 24% of our assets under management were invested in strategies offering access to global and emerging markets with significant exposure to non-U.S. companies. Fluctuations in foreign currency exchange rates could negatively affect the returns of clients invested in these strategies. Investments in non-U.S. issuers may also be affected by tax positions taken in countries or regions in which we are invested, as well as political, social and economic uncertainty or other diplomatic developments. Many financial markets are less developed or efficient than U.S. financial markets with limited liquidity and higher price volatility, and may lack an established regulatory framework. Liquidity and price volatility may be adversely affected by political or economic events, government policies and social or civil unrest within a particular country. These risks, among others, could adversely affect the performance of our strategies invested in securities of non-U.S. issuers and may be particularly acute in emerging or less developed markets. As a result, we may be unable to attract or retain client investments in these strategies, or assets invested in these strategies may experience significant declines in value and our results of operations may be negatively affected.

Due to the substantial cost and time required to introduce new investment strategies or expand the market for current strategies, we may not be able to successfully introduce investment strategies in a timely manner, or at all.

We have incurred significant costs to develop new investment strategies, launch new mutual funds under the Westwood Funds® name, launch the UCITS Fund and upgrade our business infrastructure. We expect to continue to incur significant costs related to such improvements.

The development of new investment strategies, whether through acquisition or internal development, requires a substantial amount of time and significant financial resources, including expenses related to compensation, sales and marketing, information technology, legal counsel and other professional services. Our ability to market and sell a new investment strategy depends on our financial resources, the investment performance of the specific strategy, the timing of the offering, the timing of regulatory approvals and our marketing strategies. Once an investment strategy is developed, we must effectively introduce the strategy to existing and prospective clients. Our ability to sell new investment strategies to existing and prospective clients may depend on our ability to meet or exceed the performance of our competitors offering the same or a similar strategy. We may not be able to manage the assets within a given investment strategy profitably, and it may take years before we produce the kind of results that will attract clients. If we are unable to realize the benefits of the costs and expenses incurred in developing new investment strategies, we may experience losses as a result of our management of these investment strategies, and our ability to introduce further new investment strategies and compete in our industry may be hampered.

To introduce new investment strategies, we may seek to add new investment teams. To the extent we are unable to recruit and retain investment teams to complement our existing business model, we may not be successful in further diversifying and increasing our investment strategies and client assets, which could have a material adverse effect on our business and future prospects. The addition of a new team using an investment strategy with which we may have limited or no experience may require additional resources to update our operational platform and could strain our operational resources and increase the possibility of operational errors. Additional investments may be required to improve our operational platform. If any new teams or strategies perform poorly and fail to attract sufficient assets, our results of operations and reputation may be adversely affected.

Risks Related to our Business

Damage to our reputation could harm our business and have a material adverse effect on our results of operations.

Our brand is a valuable intangible asset that could be vulnerable to threats that can be difficult or impossible to anticipate or control. Regulatory inquiries and rumors could damage our reputation, even if they are unfounded or satisfactorily addressed. Our reputation could also be negatively affected by employees and third parties acting on our behalf, who may circumvent our controls or act in a manner inconsistent with our policies and procedures. Damage to our brand could impede our ability to attract and retain customers and key employees and could reduce our assets under management, which could have a material adverse effect on our results of operations.

Our success depends on certain key employees and our ability to attract and develop new, talented professionals. Our inability to attract and retain key employees could compromise our future success.

Our future success depends upon our ability to attract and retain professional and executive employees, including investment, marketing, client service and management personnel. There is substantial competition for skilled personnel within the asset management business, and the failure to attract, develop, retain and motivate qualified personnel could negatively impact our business, financial condition, results of operations and future prospects. A limited number of our employees, including our Chief Executive Officer and certain investment employees, have employment contracts, while other key employees do not have employment contracts. In order to retain or replace key personnel, we may be required to increase compensation, which would decrease net income. Investment and sales professionals often maintain strong relationships with their clients, and their departure may cause us to lose client accounts, which could have a material impact on our revenues and results of operations.

Failure to implement and maintain effective cyber security controls could disrupt our operations and have a material adverse effect on our results of operations, reputation and stock price.

Our business is dependent on information technology systems and the cyber security controls we and our third party vendors have in place to protect those systems and the information contained therein. Despite the implementation of protective measures and endeavoring to modify them as circumstances warrant, our computer systems, software, networks and vendors may be vulnerable to human error, natural disasters, power loss, spam attacks, unauthorized access, distributed denial of service attacks, computer viruses and other malicious code, and other events that could result in significant liability and damage to our reputation, and have an ongoing impact on the security and stability of our operations. The techniques used in these attacks are increasingly sophisticated, change frequently and are often not recognized until launched. A failure of our and our third party vendors' controls to protect our information technology from an external or internal attack or to prevent a breach of confidential client or competitive information could materially interrupt our operations and expose us to regulatory and legal actions, which could have a material adverse effect on our operating results, reputation and stock price. As attempted attacks continue to evolve in scope and sophistication, we may be required to expend substantial additional resources to modify or enhance our protective measures, to investigate and remediate vulnerabilities or other exposures or to communicate about cyber attacks to our customers.

Additionally, the SEC issued guidance in February 2018 stating that, as a public company, we are expected to have controls and procedures that relate to cyber security disclosure, and are required under the federal securities laws to disclose information relating to certain cyber attacks or other information security breaches. Successful cyber attacks at other asset management companies or other market participants, whether or not we are affected, could lead to a general loss of customer confidence in the industry that could negatively affect us, including harming the market perception of the effectiveness of our security measures, which could result in a loss of business.

Failure to perform operational tasks or the misrepresentation of products and services could have an adverse effect on our reputation and our business, financial condition and results of operations.

Our operations are complex, and our failure to properly perform portfolio responsibilities, including security pricing, corporate actions, investment restrictions compliance, daily net asset value calculations, account reconciliations, tax reporting, investment performance calculations and portfolio oversight could result in reputational harm or subject us to regulatory sanctions, fines, penalties and litigation.

We use advertising materials, public relations information and other external communications to market and sell our investment products. Failure to accurately calculate and present investment performance data within established guidelines and regulations could result in reputational harm or subject us to regulatory sanctions, fines, penalties and litigation.

Damage to our reputation could impede our ability to attract and retain customers and key employees and could reduce our assets under management, which could have a material adverse effect on our results of operations. Significant regulatory sanctions, fines, penalties, and litigation could also materially adversely affect our financial condition and results of operations.

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Failure to correctly identify our strategic growth plan or execute our strategic plan could result in damage to our reputation and could have a material adverse effect on our business, financial condition and results of operations.
We believe that we have established a strong platform to support future growth, but there is no assurance that we will appropriately execute our strategic plans, including but not limited to acquisitions, divestitures or other strategic transactions.
Acquisitions involve inherent risks that could compromise the success of the combined business and dilute the holdings of current stockholders. As part of our long-term business strategy, we may pursue corporate development transactions including the acquisition of asset management firms, mutual funds, wealth management firms and investment professionals or teams. See “Item 1. Business — Growth Strategy.” If we are incorrect when assessing the value, strengths, weaknesses, liabilities and potential profitability of such transactions, or if we fail to adequately integrate the acquired businesses or individuals, the success of the combined business could be compromised. Business acquisitions are subject to the risks commonly associated with such transactions including, among others, potential exposure to unknown liabilities of acquired companies and to acquisition costs and expenses, the difficulty and expense of integrating the operations and personnel of the acquired companies, potential disruptions to the business of the combined company and potential diversion of management’s time and attention, the impairment of relationships with and the possible loss of key employees and clients as a result of changes in management, potential litigation or other legal risks, potential write-downs related to goodwill impairments in connection with acquisitions and dilution to the stockholders of the combined company if the acquisition is made for stock of the combined company. In addition, investment strategies, technologies or businesses of acquired companies may not be effectively assimilated into our business or may have a negative effect on the combined company’s revenues or earnings. The combined company may also incur significant expenses to complete acquisitions and support acquired investment strategies and businesses. Further, any such acquisitions may be funded with cash, debt or equity, which could dilute the holdings or limit the rights of stockholders. Finally, we may not be successful in identifying attractive acquisition candidates or completing acquisitions on favorable terms.
Divestitures involve inherent risks that could compromise the success of our business. Risks related to divestitures can include difficulties in the separation of the divested business, loss of clients, retention or obligation to indemnify certain liabilities, the failure of counterparties to satisfy payment obligations, unfavorable market conditions that may impact any earnout or contingency payment due to us and unexpected difficulties in losing employees of the divested business.
As consumer demand for digital interaction with investment advisors and portfolios continues to grow, we are exploring opportunities to develop digital solutions to enhance services to our clients. If we are incorrect in assessing the value, strengths, weaknesses and potential profitability of such passive strategies, or if we fail to adequately integrate the strategies into our wealth management business, the success of our overall business could be compromised. The initial investment in the necessary technological capabilities and the potential diversion of management’s time and attention could have a material impact to our business, financial condition and results of operations.
There is no assurance that we will be successful in overcoming these or other risks encountered with acquisitions, divestitures and other strategic transactions. These risks may prevent us from realizing the expected benefits from acquisitions or divestitures and could result in the failure to realize the full economic value of a strategic transaction.
Our business is vulnerable to systems failures that could have a material adverse effect on our business, financial condition and results of operations.
Any delays or inaccuracies in securities pricing information or information processing could give rise to claims that could have a material adverse effect on our business, financial condition and results of operations. We are highly dependent on information systems and third-party vendors for securities pricing information, information processing and updates for certain software. We, or our third-party vendors, may suffer a systems failure or interruption, whether caused by an earthquake, fire, other natural disaster, power or telecommunications failure, unauthorized access, force majeure, act of war or otherwise, and back-up procedures and capabilities may be inadequate to prevent the risk of extended interruptions in operations.

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Failure to select appropriate third-party vendors and apply appropriate oversight of third-party vendors could disrupt our operations and have a material adverse effect on our business, financial condition and results of operations.

We rely on third-party vendors to perform important portions of our operations, and there is no assurance that our third-party vendors will properly perform or follow our processes, policies and procedures. There is no assurance that our plans for transition or delegation to a third-party vendor will be successful or that there will not be interruptions in service from these third parties. A third-party vendor's failure to accurately perform important operations or follow our processes, policies and procedures could result in the loss of clients, significant regulatory sanctions, fines, penalties and litigation, which could have a material adverse effect on our business, financial condition and results of operations.

Misuse of assets and information in the possession of our employees and third-party vendors could damage our reputation and result in costly litigation and liability for our clients and us.

Our employees and certain third-party vendors handle significant amounts of assets along with financial and personal information for our clients. Our employees or third party vendors could misuse or improperly disclose such information, either inadvertently or intentionally, which could harm our reputation. We have implemented a system of controls to minimize the risk of fraudulent use of assets and information; however, our controls may be insufficient to prevent fraudulent actions by employees or third party vendors. If our controls are ineffective, we could be subject to costly litigation, which could consume financial resources, distract management, damage our reputation and result in regulatory sanctions. Such fraudulent actions could also adversely affect clients, causing them to seek redress.

Our business involves risks of being engaged in litigation and liability that could increase our expenses and reduce our results of operations.

Many aspects of our business involve substantial risks of liability. We could be named as defendants or co-defendants in lawsuits or could be involved in disputes that involve the threat of lawsuits seeking substantial damages. As an SEC-registered investment adviser, mutual fund adviser, trustee to certain Trust clients and publicly-traded entity, we are subject to governmental and self-regulatory organization examinations, investigations and proceedings. Similarly, the investment strategies that we manage could be subject to actual or threatened lawsuits and governmental and self-regulatory organization investigations and proceedings, any of which could harm the investment returns or reputation of the applicable fund or result in our being liable for any resulting damages. There has been an increased incidence of litigation and regulatory investigations in the asset management industry in recent years, including customer claims, as well as class action suits seeking substantial damages. While customers do not have legal recourse against us solely on the basis of poor investment results, if our investment strategies perform poorly or we provide poor financial advice, we are more likely to become subject to litigation brought by dissatisfied clients. In addition, to the extent customers are successful in claiming that their losses resulted from fraud, negligence, willful misconduct, breach of contract or other similar misconduct, these clients may have remedies against us, the mutual funds and other funds we advise or our investment professionals under the federal securities laws or state law. See the discussion of legal proceedings in Item 3. “Legal Proceedings”.

Failure to properly identify and address conflicts of interest could harm our reputation or cause clients to withdraw funds, which could adversely affect our business and results of operations.

The SEC and other regulators have increased their scrutiny of potential conflicts of interest, and we have implemented procedures and controls that we believe are reasonably designed to address these issues. However, appropriately dealing with conflicts of interest is complex, and if we fail, or appear to fail, to deal appropriately with conflicts of interest, we could face reputational damage, litigation or regulatory proceedings, any of which may adversely affect our results of operations.

As we expand the scope of our business and our client base, we must also continue to monitor and address any potential new conflicts between the interests of our stockholders and those of our clients. Our clients may withdraw funds if they perceive conflicts of interest between the investment decisions we make for strategies in which they have invested and our obligations to our stockholders. For example, we may limit the growth of assets in or close strategies or otherwise take action to slow the flow of assets when we believe it is in the best interest of our clients, even though our assets under management and investment management fees may be negatively impacted. Similarly, we may establish or add new investment teams or expand operations into other geographic areas or jurisdictions if we believe such actions are in the best interest of our clients, even though our results of operations may be adversely affected in the short term. Although we believe such actions enable us to retain client assets and maintain our profit margins, if clients perceive a change in our investment or operational decisions favors a strategy to maximize short term results, they may withdraw funds, which could adversely affect our revenues and results of operations.

Insurance coverage may be inadequate to cover legal and regulatory proceedings.

We maintain insurance coverage in amounts and on terms we believe appropriate to cover legal and regulatory matters and potential cyber security attacks; however, we can make no assurance that there will be adequate coverage or that a specific claim will be covered by our insurance policies. Additionally, insurance premiums may rise for substantially the same coverage amounts and terms, which will increase our expenses and reduce net income.

Various factors may hinder the declaration and payment of dividends.

We have historically paid a quarterly dividend; however, payment of future dividends is subject to the discretion of our Board of Directors, and various factors may prevent us from paying dividends. Such factors include our financial position, capital requirements and liquidity, tax regulations, stock repurchase plans, state corporate and banking law restrictions, results of operations and other factors that our Board of Directors may consider relevant. As a holding company, our ability to pay dividends is dependent on the dividends and income we receive from our subsidiaries. Currently, our primary source of cash consists of dividends from Westwood Management or Westwood Trust. The payment of dividends by Westwood Trust is subject to the discretion of its Board of Directors and compliance with applicable laws, including the provisions of the Finance Code applicable to Westwood Trust. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

We may not be able to fund future capital requirements on favorable terms, if at all.

We cannot be certain that financing to fund our working capital or other cash requirements, if needed, will be available on favorable terms, if at all. Our capital requirements may vary greatly from quarter to quarter depending on, among other things, capital expenditures, technological investments and fluctuations in our operating results and financing activities. If financing becomes necessary, we may or may not be able to obtain financing on favorable terms, if at all. Further, any future equity financings could dilute the relative percentage ownership of then existing common stockholders, and any future debt financings could involve restrictive covenants that limit our ability to take certain actions.

Failure to maintain effective internal controls could have a material adverse effect on our business and stock price.

Effective internal controls are necessary to provide reliable financial reports. If we cannot provide reliable financial reports, our brand and operating results could be harmed. All internal control systems, no matter how well designed, contain inherent limitations, and systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We cannot be certain that the measures we take to evaluate and improve our internal controls will ensure that we implement and maintain adequate controls over our financial processes and reporting. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended, we may not be able to ensure that we can conclude that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Failure to achieve and maintain an effective internal control environment could cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price.

Our stock is thinly traded and may be subject to volatility.

Although our common stock is traded on the New York Stock Exchange, it may remain relatively illiquid, or “thinly traded,” which can increase share price volatility and make it difficult for larger investors to buy or sell shares in the public market without affecting the share price. Investors may be unable to buy or sell a certain quantity of our shares in the public market within one or more trading days. If limited trading in our stock continues, it may be difficult for holders to sell their shares in the public market at any given time at prevailing prices.

The prevailing market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control, including actual or anticipated fluctuations in operating results; changes in market valuations of other similar companies; additions or departures of key personnel; future sales of common stock; deviations in net revenues or in losses from levels expected by the investment community; and trading volume fluctuations.

Our organizational documents contain provisions that may prevent or deter another group from paying a premium over the market price to our stockholders to acquire our stock.

Our organizational documents currently contain provisions that require a two-third vote of the shares of stock entitled to vote to remove directors with or without cause, establish that stockholders cannot act by written consent, and that authorize our Board of Directors to issue, without shareholder approval, blank check preferred stock. Our Board of Directors has approved amendments to our organizational documents that would require a majority vote of the shares of stock entitle to vote to remove directors with or without cause, which we anticipate will be submitted for stockholder approval at our 2019 Annual Meeting of Stockholders. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law relating to business combinations. These provisions could delay, deter or prevent a merger, consolidation, tender offer or other business combination or change of control involving us that could include a premium over the market price of our common stock that some or a majority of our stockholders might consider to be in their best interests.

We are a holding company dependent on the operations and funds of our subsidiaries.

We are a holding company, with no revenue-generating operations or assets other than our ownership interests in Westwood Management, Westwood Trust and Westwood International Advisors. Accordingly, we are dependent on the cash flow generated by these operating subsidiaries and rely on dividends or other intercompany transfers from our operating subsidiaries to generate the funds necessary to meet our obligations.

Risks Related to our Clients

Competitive fee pressures could reduce revenues and profit margins.

To the extent we have to compete on the basis of price, we may not be able to maintain a profitable fee structure. Although our investment management fees vary from product to product, we have competed primarily on the performance of our products and client service rather than on the level of our investment management fees relative to our competitors. In recent years, there has been a trend toward lower fees in the investment management industry driven in large part by low-cost, passive strategies. In order to maintain a profitable fee structure in a competitive environment, we must be able to continue to provide clients with investment returns and service levels that make investors willing to pay our fees. We cannot be assured that we will succeed in providing investment returns and service levels that will allow us to maintain a profitable fee structure. Continued fee reductions on existing or future new business could have an adverse effect on our profit margins and results of operations.

In addition, we have performance fee agreements with a few clients, who pay us a fee if we outperform a specified index over predetermined periods of time. We may not be able to outperform such indexes, and failure to do so would cause us to earn none or only part of those potential revenues, which could have a material adverse effect on our revenues and results of operations. Our revenues from performance-based fees could fluctuate significantly between measurement periods, depending on how we perform relative to the indexes specified in these agreements. For example, we earned performance fees of $3.0 million in 2018, $1.4 million in 2017 and $0.6 million in 2016.

Our business is dependent on investment advisory, subadvisory, and trust agreements that are subject to termination or non-renewal. As a result, we could lose clients on very short notice.

Substantially all of our revenues are derived pursuant to investment advisory, subadvisory and trust agreements with our clients that are subject to termination without advance notice. Investors in funds that we advise or subadvise may redeem their investments at any time without prior notice, thereby reducing our assets under management. These investors may redeem for any reason, including general financial market conditions, our absolute or relative investment performance or their own financial condition and requirements. In a declining stock market, the pace of redemptions could accelerate. For example, we experienced a $7.6 billion decrease in assets under management during 2018 primarily due to $6.2 billion in net outflows. As a result, our revenues derived from advisory-based fees decreased in 2018 as compared to 2017. Substantial additional redemptions or a termination or failure to renew a material number of these agreements would adversely affect our revenues and have a material adverse effect on our earnings and financial condition.

A small number of clients account for a substantial portion of our business, and a reduction or loss of business with any of these clients could have a material adverse effect on our business, financial condition and results of operations. Our ten largest clients accounted for approximately 20% of our fee revenue for each of the years ended December 31, 2018, 2017 and 2016. We are dependent to a significant degree on our ability to maintain our relationships with these clients. There can be no assurance that we will be successful in maintaining existing client relationships, securing additional clients or achieving the superior investment performance necessary to earn performance-based advisory fees. Our failure to retain one or more of these large clients or to establish profitable relationships with additional clients could have a material adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Westwood, Westwood Management and Westwood Trust conduct their principal operations using approximately 45,000 square feet of leased office space in Dallas, Texas pursuant to a lease with an initial term that expires in March 2026. In addition, we lease approximately 8,000 square feet of office space in Houston, Texas pursuant to a lease that expires in June 2024 and approximately 2,600 square feet of office space in Southborough, Massachusetts pursuant to a lease that expires in August 2023. Westwood International Advisors conducts its principal operations using approximately 6,000 square feet of office space in Toronto, Ontario pursuant to a lease that expires in October 2021. We continue to assess these facilities to ensure their adequacy to serve our anticipated business needs.

Item 3. Legal Proceedings.

We are subject from time to time to certain claims and legal proceedings arising in the ordinary course of our business.

On August 3, 2012, AGF Management Limited and AGF Investments Inc. (together "AGF") filed a lawsuit in the Ontario Superior Court of Justice against Westwood, certain Westwood employees and Warren International, LLC ("Warren"), an executive recruiting firm. The action related to the hiring of certain members of Westwood's emerging markets investment team previously employed by AGF. On November 5, 2012, Westwood issued a response to AGF's lawsuit with a counterclaim against AGF for defamation, and on November 6, 2012, AGF filed a second lawsuit against Westwood. Westwood sought $1 million CDN in general damages, $10 million CDN in special damages, $1 million CDN in punitive damages, and costs. On November 6, 2012, AGF filed a second lawsuit against Westwood, Westwood Management and an employee of a Westwood subsidiary, alleging that the employee made defamatory statements about AGF. In this second lawsuit, AGF sought $5 million CDN in general damages, $1 million CDN per defendant in punitive damages, unspecified special damages, interest and costs.

On October 13, 2017, we reached a settlement with AGF that provides for the dismissal of all claims, with prejudice and without any admission of liability. We agreed to pay AGF a one-time payment of $10 million CDN, half of which was covered by our insurance. During 2017, we recorded a net $4.0 million ($5 million CDN) charge related to the settlement and associated insurance coverage, with a $4.0 million ($5 million CDN) receivable from our insurance provider included in "Other current assets" on our Consolidated Balance Sheets at December 31, 2017. We received the insurance proceeds of $4.0 million during the year ended December 31, 2018 and had no receivable related to the settlement at December 31, 2018.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock trades on the New York Stock Exchange (the "NYSE") under the symbol "WHG." At December 31, 2018, there were approximately 235 record holders of our common stock, although we believe that the number of beneficial owners of our common stock is substantially greater.

Dividends

We have declared a cash dividend on our common stock for each quarter since our common stock was first publicly traded. On February 6, 2019, we declared a quarterly cash dividend of $0.72 per share on our common stock payable on April 1, 2019 to stockholders of record on March 8, 2019. We intend to continue paying cash dividends in such amounts as our Board of Directors may determine to be appropriate. Any future payments of cash dividends will be at the discretion of the Board of Directors and subject to limitations under the Delaware General Corporation Law. Westwood Holdings Group is the sole stockholder of Westwood Management, Westwood Trust and Westwood International Advisors. Westwood Trust is limited under applicable Texas law in the payment of dividends to the amount of undivided profits, which is defined as that part of equity capital equal to the balance of net profits, income, gains and losses since its formation minus subsequent distributions to stockholders and transfers to surplus or capital under share dividends or appropriate Board of Directors' resolutions.

Issuer Purchases of Equity Securities

On July 20, 2012, our Board of Directors authorized management to repurchase up to $10 million of our outstanding common stock on the open market or in privately negotiated transactions. The share repurchase program has no expiration date and may be discontinued at any time by the Board of Directors. In July 2016, Westwood's Board of Directors authorized an additional $5.0 million of repurchases under the share repurchase program. As of December 31, 2018, approximately $5.4 million remained available under the share repurchase program.

Between January 1, 2018 and December 31, 2018, under the share repurchase program the Company repurchased 108,289 shares of our common stock at an average price of $36.94 per share, including commissions, for an aggregate purchase price of $4.0 million.

The following table displays information with respect to the treasury shares we purchased during the three months ended December 31, 2018:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs		Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs (1)
Repurchase program[(1)]					$ 5,366,000
November 1-30, 2018	16,990	$ 38.98	16,990		
December 1-31, 2018	91,299	$ 36.56	91,299		
Canadian Plan[(2)]	—	—	—	CDN	$ 3,478,136
Employee transactions[(3)]					
October 1-31, 2018	1,520	$ 44.49	—		—

(1) These purchases relate to the share repurchase program and were authorized in July 2012 and 2016.

(2) On April 18, 2013, our stockholders approved the Share Award Plan of Westwood Holdings Group, Inc. for Service Provided in Canada to its Subsidiaries (the “Canadian Plan”), which contemplates a trustee purchasing up to $10 million CDN of our outstanding common stock on the open market for the purpose of making share awards to our Canadian employees. The Canadian Plan has no expiration date and may be discontinued at any time by the Board of Directors.
(3) Consists of shares of common stock tendered by an employee at the market close price on the date of vesting in order to satisfy the employee’s minimum tax withholding obligations from vested restricted shares. We anticipate having additional shares tendered in subsequent periods for the same purpose.

Performance Graph

The following graph compares total stockholder returns of Westwood since December 31, 2013 with the total return of the Russell 2000 Index and the SNL Asset Manager Index, a composite of 41 publicly-traded asset management companies.

Index	Period ended December 31,						Cumulative Five-Year Total Return
	2013	2014	2015	2016	2017	2018	
Westwood Holdings Group, Inc.	$100.00	$103.00	$90.12	$108.12	$124.61	$67.59	(32.41)%
Russell 2000 Index	100.00	104.89	100.26	121.63	139.44	124.09	24.09%
SNL Asset Manager Index	100.00	105.50	89.97	95.18	126.39	95.35	(4.65)%

The total return for our stock and for each index assumes $100 invested on December 31, 2013 in our common stock, the Russell 2000 Index, and the SNL Asset Manager Index, including reinvestment of dividends. Our common stock is traded on the NYSE under the ticker symbol “WHG.”

The closing price of our common stock on the last trading day of the year ended December 31, 2018 was $34.00 per share. Historical stock price performance is not necessarily indicative of future price performance.

Item 6. Selected Financial Data.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data, together with assets under management data presented below, should be read in conjunction with "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Report. Historical results are not necessarily indicative of future results.

	Year ended December 31, (in thousands, except per share and % amounts)				
	2018[(1)]	2017[(2)]	2016[(3)]	2015[(4)]	2014[(5)]
Consolidated Statements of Income Data:					
Total revenues	$122,300	$133,785	$123,021	$130,936	$113,241
Employee compensation and benefits	$59,959	$64,955	$61,509	$63,562	$52,847
Employee compensation and benefits as a % of Total revenues	49.0 %	48.6 %	50.0 %	48.5 %	46.7 %
Income before income taxes	$36,462	$33,893	$34,010	$42,220	$42,036
Income before income taxes as a % of Total revenues	29.8 %	25.3 %	27.6 %	32.2 %	37.1 %
Net income	$26,751	$19,989	$22,647	$27,105	$27,249
Earnings per share – basic	$3.20	$2.45	$2.84	$3.49	$3.63
Earnings per share – diluted	$3.13	$2.38	$2.77	$3.33	$3.45
Cash dividends declared per common share	$2.76	$2.54	$2.33	$2.07	$1.82
Economic Earnings[(6)]	$43,943	$38,917	$41,108	$46,496	$41,445
Economic Earnings per common share	$5.14	$4.63	$5.03	$5.71	$5.24

(1) Our 2018 financial results were impacted by a $2.8 million foreign currency transaction gain, which positively impacted both diluted earnings per share and basic earnings per share by $0.26 per share.

(2) Our 2017 financial results were impacted by a $1.6 million foreign currency transaction loss, a $2.5 million legal settlement charge, net of insurance recovery and tax and a $3.4 million incremental income tax expense related to tax reform. These items negatively impacted diluted earnings per share by $0.12 per share, $0.30 per share and $0.40 per share, respectively.

(3) Our 2016 financial results were impacted by $1.3 million of one-time costs, net of tax, associated with implementation of new information technology platforms, which negatively impacted diluted earnings per share by $0.16 per share.

(4) The financial results related to the acquisition of our Westwood Trust office in Houston are included in our 2015 results from the acquisition date of April 1, 2015. Our 2015 results also include a pre-tax $1.0 million non-cash charge related to acceleration of stock-based compensation expense for a particular grant and an $807,000 tax expense for uncertain tax positions related to prior years. These items negatively impacted diluted earnings per share by $0.08 per share and $0.10 per share, respectively.

(5) Our 2014 Income before income taxes as a percentage of Total revenues improved as increases in Total revenues outpaced increases in expenses.

(6) Economic Earnings is a non–U.S. generally accepted accounting principles ("non-GAAP") performance measure that is provided as supplemental information. See the definition of Economic Earnings and the reconciliation from Net income in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Supplemental Financial Information."

	As of December 31,				
	2018	2017	2016	2015	2014
Consolidated Balance Sheets Data (in thousands):					
Cash and investments	$118,230	$105,573	$90,164	$95,060	$97,751

Total assets	190,485	192,659	179,678	181,336	139,874
Stockholders' equity	161,149	156,396	146,069	133,967	110,007
Assets Under Management (in millions)	$16,606	$24,229	$21,241	$20,762	$20,168

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis in conjunction with "Selected Financial Data" included in this Report, as well as our Consolidated Financial Statements and related notes thereto appearing elsewhere in this Report.

Forward-Looking Statements

Statements in this Report and the Annual Report to Stockholders that are not purely historical facts, including, without limitation, statements about our expected future financial position, results of operations or cash flows, as well as other statements including, without limitation, words such as "anticipate," "forecast", "explore," "believe," "plan," "estimate," "expe "intend," "should," "could," "goal," "may," "target," "designed," "on track," "comfortable with," "optimistic" and other simila constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Actual results, our financial condition, and the timing of some events could differ materially from those projected in or contemplated by the forward-looking statements. Therefore you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others:

- the composition and market value of our assets under management;
- regulations adversely affecting the financial services industry;
- competition in the investment management industry;
- our assets under management include investments in foreign companies;
- our ability to develop and market new investment strategies successfully;
- our reputation and our relationships with current and potential customers;
- our ability to attract and retain qualified personnel;
- our ability to maintain effective cyber security;
- our ability to perform operational tasks;
- our ability to identify and execute on our strategic initiatives;
- our ability to maintain effective information systems;
- our ability to select and oversee third-party vendors;
- litigation risks;
- our ability to properly address conflicts of interest;
- our ability to maintain adequate insurance coverage;
- our ability to maintain an effective system of internal controls;
- our ability to maintain our fee structure in light of competitive fee pressures;
- our relationships with investment consulting firms; and
- the significant concentration of our revenues in a small number of customers.

Additional factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements are discussed under the section entitled "Item 1A. Risk Factors" and elsewhere in this Report. The forward-looking statements are based only on currently available information and speak only as of the date of this Report. We are not obligated and do not undertake an obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this Report or to reflect the occurrence of unanticipated events or otherwise.

Overview

We manage investment assets and provide services for our clients through our subsidiaries, Westwood Management, Westwood Trust and Westwood International Advisors. Westwood Management and Westwood International Advisors provide investment advisory services to institutional clients, the Westwood Funds®, other mutual funds, an Irish investment company authorized pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulation 2011 (as amended) (the "UCITS Fund"), individuals and clients of Westwood Trust. Westwood Trust provides trust and custodial services and participation in common trust funds to institutions and high net worth individuals. Our revenues are generally derived from fees based on a percentage of assets under management, and at December 31, 2018, Westwood Management, Westwood International Advisors and Westwood Trust collectively managed assets valued at approximately $16.6 billion. We have established a track record of delivering competitive, risk-adjusted returns for our clients.

With respect to most of our client assets under management, we utilize a "value" investment style focused on achieving superior long-term, risk-adjusted returns by investing in companies with high levels of free cash flow, improving returns on equity and strengthening balance sheets that are well positioned for growth but whose value is not fully recognized in the marketplace. This investment approach is designed to preserve capital during unfavorable periods and provide superior real returns over the long term. Our investment teams have significant industry experience. Our investment team members have average investment experience of seventeen years.

We have focused on building a foundation in terms of personnel and infrastructure to support a potentially much larger business. We have also developed investment strategies that we believe will be desirable within our target institutional, wealth management and mutual fund markets. The cost of developing new products and growing the organization as a whole has resulted in our incurring expenses that, in some cases, do not currently have significant offsetting revenues. While we continue to evolve our products, we believe that the appropriate foundation and products are in place such that investors will recognize the value in these products, thereby generating new revenue streams for Westwood.

2018 Highlights

The following items are highlights for the year ended December 31, 2018:

- Assets under management as of December 31, 2018 were $16.6 billion, a 31% decrease compared to December 31, 2017. Quarterly average assets under management decreased 8% to $21.4 billion for 2018 compared to 2017, which contributed to the 9% decrease in total revenue from 2017.
- Our LargeCap Value, Emerging Markets Plus, SMidCap, SMidCap Plus, Emerging Markets, and Emerging Markets SMidCap strategies exhibited strong performance.
- Our SmallCap strategy was selected as a subadvisor to the Morningstar U.S. Equity Fund.
- The effective tax rate decreased to 26.6% for 2018 compared to 41.0% for 2017 related to the Tax Reform Act enacted in December 2017.
- In October 2018, our Board approved a 6% increase in our quarterly dividend to $0.72 per share for an annual rate of $2.88 per share, which results in a dividend yield of 8.5% using the year-end stock price of $34.00 per share.
- We repurchased 108,289 shares of our common stock for an aggregate purchase price of $4.0 million.
- Our financial position remains strong with liquid cash and short-term investments of $118.2 million and no debt as of December 31, 2018.
- We closed the sale of our Omaha-based Wealth Management operations, received net proceeds of $10.0 million and recognized a $0.5 million gain on sale.

Revenues

We derive our revenues from investment advisory fees, trust fees and other revenues. Our advisory fees are generated by Westwood Management and Westwood International Advisors, which manage client accounts under investment advisory and subadvisory agreements. Advisory fees are calculated based on a percentage of assets under management and are paid in accordance with the terms of the agreements. Advisory fees are paid quarterly in advance based on assets under management on the last day of the preceding quarter, quarterly in arrears based on assets under management on the last day of the quarter just ended, or are based on a daily or monthly analysis of assets under management for the stated period. We recognize advisory fee revenues as services are rendered. A limited number of our clients have a contractual performance-based fee component in their contracts, which generates additional revenues if we outperform a specified index over a specific period of time. We record revenue for performance-based fees at the end of the measurement period. Since our advance paying clients' billing periods coincide with the calendar quarter to which such payments relate, revenue is recognized within the quarter, and our Consolidated Financial Statements contain no deferred advisory fee revenues.

Our trust fees are generated by Westwood Trust pursuant to trust or custodial agreements. Trust fees are separately negotiated with each client and are generally based on a percentage of assets under management. Westwood Trust also provides trust services to a small number of clients on a fixed fee basis. Trust fees are primarily either paid quarterly in arrears based on a daily average of assets under management for the quarter, or monthly based on the month-end assets under management. Since billing periods for most of Westwood Trust's clients coincide with the calendar quarter, revenue is fully recognized within the quarter and our Consolidated Financial Statements do not contain a significant amount of deferred revenue.

Our other revenues generally consist of interest and investment income. Although we generally invest most of our cash in U.S. Treasury securities, we also invest in equity and fixed income instruments and money market funds, including seed money for new investment strategies.

Employee Compensation and Benefits

Employee compensation and benefits costs generally consist of salaries, incentive compensation, equity-based compensation expense and benefits.

Sales and Marketing

Sales and marketing costs relate to our marketing efforts, including travel and entertainment, direct marketing and advertising costs.

Westwood Mutual Funds

Westwood Mutual Funds expenses relate to our marketing, distribution and administration of the Westwood Funds®.

Information Technology

Information technology expenses are generally costs associated with proprietary investment research tools, maintenance and support, computing hardware, software licenses, telecommunications and other related costs.

Professional Services

Professional services expenses generally consist of costs associated with subadvisory fees, audit, legal and other professional services.

Legal Settlement

Legal settlement expenses consist of settlements related to litigation claims, net of any amounts covered by our insurance policies.

General and Administrative

General and administrative expenses generally consist of costs associated with the lease of office space, amortization, depreciation, insurance, custody expense, Board of Directors fees, investor relations, licenses and fees, office supplies and other miscellaneous expenses.

Gain (loss) on foreign currency transactions

Gain (loss) on foreign currency transactions consist of foreign currency transactions primarily related to Westwood International Advisors.

Gain on Sale of Operations

Gain on sale of operations includes the gain on the sale of our Omaha-based component of our Wealth Management business.

Assets Under Management

Assets under management decreased $7.6 billion, or 31%, to $16.6 billion at December 31, 2018 compared to $24.2 billion at December 31, 2017. Quarterly average assets under management decreased $1.8 billion, down 8%, to $21.4 billion for 2018 compared with $23.1 billion for 2017. The decrease in average assets under management is due principally to net outflows, including $1.1 billion of outflows related to the sale of the Omaha-based component of our Wealth Management business, and asset depreciation over the last twelve months.

Assets under management increased $3.0 billion, or 14%, to $24.2 billion at December 31, 2017 compared to $21.2 billion at December 31, 2016. Quarterly average assets under management increased $2.0 billion, up 9%, to $23.1 billion for 2017 compared with $21.2 billion for 2016. The increase in average assets under management is due principally to market appreciation over the preceding twelve months and $713 million in a long-only convertibles fund that transitioned from assets under advisement ("AUA") to AUM during the third quarter of 2017.

The following table presents our assets under management as of December 31, 2018, 2017 and 2016:

	As of December 31, (in millions)			% Change	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Institutional	$9,327	$14,421	$11,911	(35)%	21 %
Wealth Management	4,043	5,566	5,520	(27)%	1 %
Mutual Funds	3,236	4,242	3,810	(24)%	11 %
Total Assets Under Management[(1)]	$16,606	$24,229	$21,241	(31)%	14 %

(1) AUM for 2018, 2017 and 2016 excludes approximately $228 million, $382 million and $1.0 billion of AUA, respectively, related to our model portfolios, for which we provide consulting advice but do not have direct discretionary investment authority. During the third quarter of 2017, approximately $713 million related to a long-only convertibles fund transitioned from AUA to AUM.

Our assets under management disclosure reflects management's view of our three types of accounts: institutional, wealth management and mutual funds.

- Institutional includes separate accounts of corporate pension and profit sharing plans, public employee retirement funds, Taft-Hartley plans, endowments, foundations and individuals; subadvisory relationships where Westwood provides investment management services for funds offered by other financial institutions; pooled investment vehicles, including the UCITS Fund and collective investment trusts; and managed account relationships with brokerage firms and other registered investment advisors that offer Westwood products to their customers.
- Wealth Management includes assets for which Westwood Trust provides trust and custodial services and participation in common trust funds that it sponsors to institutions and high net worth individuals pursuant to trust or agency agreements and assets for which Westwood Advisors, L.L.C. provided advisory services to high net worth individuals. Prior to 2018, it also included assets for which Westwood Advisors, L.L.C. provided advisory services in ten limited liability companies to high net worth individuals. Investment subadvisory services are provided for the common trust funds by Westwood Management, Westwood International Advisors and external unaffiliated subadvisors. For certain assets in this category Westwood Trust currently provides limited custody services for a minimal or no fee, viewing these assets as potentially converting to fee-generating managed assets in the future. As an example, some assets in this category consist of low-basis stock currently held in custody for clients where we believe such assets may convert to fee-generating managed assets following an inter-generational transfer of wealth.

- Mutual Funds include the Westwood Funds®, a family of mutual funds for which Westwood Management serves as advisor. These funds are available to individual investors, as well as offered as part of our investment strategies for institutional and wealth management accounts.

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Roll-Forward of Assets Under Management

Assets Under Management (in millions)	Year Ended December 31, 2018			
	Institutional	Wealth Management	Mutual Funds	Total
Beginning of period assets	$14,421	$ 5,566	$4,242	$24,229
Client flows:				
Inflows/new accounts	1,353	378	879	2,610
Outflows/closed accounts[(1)]	(5,536)	(1,639)	(1,672)	(8,847)
Net outflows	(4,183)	(1,261)	(793)	(6,237)
Market depreciation	(911)	(262)	(213)	(1,386)
Net change	(5,094)	(1,523)	(1,006)	(7,623)
End of period assets	$9,327	$ 4,043	$3,236	$16,606

(1) Wealth Management outflows include approximately $1.1 billion of assets related to the sale of our Omaha-based component of our Wealth Management business.

The decrease in assets under management for the year ended December 31, 2018 was due to net outflows of $6.2 billion, which included approximately $1.1 billion of outflows related to the divestiture of our Omaha operations, and market depreciation of $1.4 billion. Flows were primarily related to net outflows in our SMidCap strategies, Emerging Markets strategies, LargeCap Value strategy and Income Opportunity strategy.

Assets Under Management (in millions)	Year Ended December 31, 2017			
	Institutional	Wealth Management	Mutual Funds	Total
Beginning of period assets	$11,911	$ 5,520	$3,810	$21,241
Client flows:				
Inflows/new accounts[(1)]	2,966	786	986	4,738
Outflows/closed accounts[(2)]	(2,714)	(1,357)	(1,065)	(5,136)
Net inflows (outflows)	252	(571)	(79)	(398)
Market appreciation	2,258	617	511	3,386
Net change	2,510	46	432	2,988
End of period assets	$14,421	$ 5,566	$4,242	$24,229

(1) Institutional inflows include approximately $713 million of assets related to a long-only convertibles fund, which transitioned from AUA to AUM during the third quarter of 2017.

(2) Wealth Management outflows include approximately $397 million of assets related to the sale of our Omaha-based component of our Wealth Management business.

The increase in assets under management for the year ended December 31, 2017 was due to market appreciation of $3.4 billion, partially offset by net outflows of $398 million, which included approximately $713 million of inflows in our Strategic Global Convertibles strategy that transitioned from AUA to AUM in the third quarter of 2017. Flows were primarily driven by net outflows in our SMidCap strategies and LargeCap Value strategy, partially offset by net inflows in our SmallCap Value and Market Neutral Income strategies.

	Year Ended December 31, 2016			
Assets Under Management (in millions)	Institutional	Wealth Management	Mutual Funds	Total
Beginning of period assets	$11,752	$ 5,393	$3,617	$20,762
Client flows:				
Inflows/new accounts[(1)]	1,694	623	939	3,256
Outflows/closed accounts[(1)]	(2,877)	(826)	(1,088)	(4,791)
Net outflows	(1,183)	(203)	(149)	(1,535)
Market appreciation	1,342	330	342	2,014
Net change	159	127	193	479
End of period assets	$11,911	$ 5,520	$3,810	$21,241

(1) Institutional outflows include approximately $30 million in an account that transitioned to our model portfolio for which we no longer have direct discretionary investment authority. This account is included in AUA aggregating $1.0 billion as of December 31, 2016.

The increase in assets under management for the year ended December 31, 2016 was due to market appreciation of $2.0 billion, partially offset by net outflows of $1.5 billion. Flows were primarily related to net outflows in our SMidCap, Income Opportunity, LargeCap Value, AllCap Value and Market Neutral Income strategies, partially offset by net inflows in our Emerging Markets Plus and SmallCap Value strategies.

Results of Operations

The following table and discussion of our results of operations is based upon data derived from our Consolidated Statements of Comprehensive Income contained in our Consolidated Financial Statements and should be read in conjunction with these statements included elsewhere in this Report.

	Years ended December 31, (in thousands)			% Change	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Revenues:					
Advisory fees:					
Asset-based	$89,367	$99,201	$91,492	(10)%	8 %
Performance-based	2,984	1,411	635	111	122
Trust fees	28,953	31,621	30,313	(8)	4
Other revenues, net	996	1,552	581	(36)	167
Total revenues	122,300	133,785	123,021	(9)	9
Expenses:					
Employee compensation and benefits	59,959	64,955	61,509	(8)	6
Sales and marketing	1,936	2,042	1,919	(5)	6
Westwood mutual funds	3,808	3,938	3,155	(3)	25
Information technology	9,103	7,785	7,735	17	1
Professional services	4,783	5,916	5,622	(19)	5
Legal settlement	—	4,009	—	NM	NM
General and administrative	9,564	9,652	9,433	(1)	2
(Gain) loss on foreign currency transactions	(2,791)	1,595	(362)	NM	NM
Total expenses	86,362	99,892	89,011	(14)	12
Net operating income	35,938	33,893	34,010	6	—
Gain on sale of operations	524	—	—	NM	NM
Income before income taxes	36,462	33,893	34,010	8	—
Provision for income taxes	9,711	13,904	11,363	(30)	22
Net income	$26,751	$19,989	$22,647	34 %	(12)%

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Total Revenues. Total revenues decreased $11.5 million, or 9%, to $122.3 million compared with $133.8 million for 2017. The decrease was attributable to a $9.8 million decrease in asset-based advisory fees and a $2.7 million decrease in Trust fees, partially offset by a $1.6 million increase in performance-based fees. Advisory-based fees decreased as a result of lower average assets under management compared to 2017. Trust fees decreased primarily due to the sale of the Omaha-based component of our Wealth Management business.

Employee Compensation and Benefits. Employee compensation and benefit costs decreased $5.0 million, or 8%, to $60.0 million compared with $65.0 million in 2017 primarily due to the elimination of compensation following the sale of the Omaha-based component of our Wealth Management business and decreases in short- and long-term incentive compensation as a result of lower assets-based fees compared to the prior year.

Information Technology. Information technology costs increased $1.3 million, or 17%, to $9.1 million compared with $7.8 million in 2017 primarily due to implementation costs as we continue to invest in our technology infrastructure and increased research expenses.

Professional Services. Professional services costs decreased $1.1 million, or 19%, to $4.8 million compared to $5.9 million in 2017 primarily due to reduced legal fees as the AGF litigation was settled in 2017 and the sale of our Omaha-based component was finalized in the first quarter of 2018.

Legal Settlement. We recorded a net $4.0 million charge related to the AGF legal settlement, net of associated insurance coverage, during the third quarter of 2017. See further discussion of the settlement in Note 14 “Commitments and Contingencies” to our Consolidated Financial Statements included in Part II. Item 8. “Financial Statements and Supplementary Data.”

(Gain) loss on foreign currency transactions. We recorded $2.8 million foreign currency transaction gains in 2018 due to an 8% increase in the Canadian dollar exchange rate.

Provision for Income Taxes. The effective tax rate decreased to 26.6% for 2018 compared to 41.0% for 2017 primarily related to the Tax Reform Act enacted in December 2017.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Total Revenues. Total revenues increased $10.8 million, or 9%, to $133.8 million compared with $123.0 million for 2016. The increase was attributable to a $7.7 million increase in asset-based advisory fees, a $1.3 million increase in Trust fees, and a $0.8 million increase in performance-based fees. Advisory-based and Trust fees increased as a result of higher average assets under management compared to 2016.

Employee Compensation and Benefits. Employee compensation and benefit costs increased $3.4 million, or 6%, to $65.0 million compared with $61.5 million in 2016. This increase was primarily due to higher incentive compensation and performance-based restricted stock expense as a result of higher pre-tax income (excluding legal settlement costs), as well as increased average headcount and merit increases. We had 181 full-time employees as of December 31, 2017 compared to 174 at December 31, 2016.

Westwood Mutual Funds. Westwood mutual funds expenses increased 25% to $3.9 million compared to $3.2 million for 2016 primarily due to increased overall shareholder servicing costs on higher mutual funds average assets under management and increased commission fees related to the addition of a third-party seller at the end of 2016.

Legal Settlement. We recorded a net $4.0 million charge related to a legal settlement, net of associated insurance coverage, during the third quarter of 2017. See further discussion of the settlement in Note 14 “Commitments and Contingencies” to our Consolidated Financial Statements included in Part II, Item 8, “Financial Statements and Supplementary Data”.

(Gain) loss on foreign currency transactions. We recorded $1.6 million foreign currency transaction losses in 2017 as a result of a 7% decrease in the Canadian dollar exchange rate.

Provision for Income Taxes. The effective tax rate increased to 41.0% for 2017 compared to 33.4% for 2016. The increase is primarily related to the Tax Reform Act signed into law in December 2017. We recorded $3.4 million incremental income tax expense related to the mandatory deemed repatriation of earnings in our Canadian subsidiary and the revaluation of our deferred tax assets as a result of the decrease in the federal tax rate.

Supplemental Financial Information

As supplemental information, we provide a non-U.S. generally accepted accounting principles (“non-GAAP”) performance measure that we refer to as Economic Earnings. We provide this measure in addition to, but not as a substitute for, net income reported on a U.S. generally accepted accounting principles (“GAAP”) basis. Our management and Board of Directors review Economic Earnings to evaluate our ongoing performance, allocate resources and review our dividend policy. We believe that this non-GAAP performance measure, while not a substitute for GAAP net income, is useful for management and investors when evaluating our underlying operating and financial performance and our available resources. We do not advocate that investors consider this non-GAAP measure without considering financial information prepared in accordance with GAAP.

In calculating Economic Earnings, we add back to net income the non-cash expense associated with equity-based compensation awards of restricted stock, amortization of intangible assets, and deferred taxes related to the tax-basis amortization of goodwill. Although depreciation on property and equipment is a non-cash expense, we do not add it back when calculating Economic Earnings because depreciation charges represent a decline in the value of the related assets that will ultimately require replacement.

For the year ended December 31, 2018, our Economic Earnings increased by 13% to $43.9 million compared with $38.9 million for the year ended December 31, 2017. The current year benefited from foreign currency transaction gains of $2.8 million, a lower effective tax rate related to the Tax Reform Act signed into law in December 2017 and lower employee compensation costs, offset by lower total revenue due to a decrease in average assets under management and non-recurrence of a $4.0 million legal settlement expense recorded in the prior year.

The following table provides a reconciliation of net income to Economic Earnings for the years presented:

	For the years ended December 31, (in thousands, except share data)					% Change			
	2018	2017	2016	2015	2014	2018 vs. 2017	2017 vs. 2016	2016 vs. 2015	2015 vs. 2014
Net Income	$26,751	$19,989	$22,647	$27,105	$27,249	34 %	(12)%	(16)%	(1)%
Add: Restricted stock expense	15,283	16,430	15,954	17,574	13,685	(7)	3	(9)	28
Add: Intangible amortization	1,672	1,872	1,960	1,546	359	(11)	(4)	27	331
Add: Tax benefit from goodwill amortization	237	626	547	271	152	(62)	14	102	78
Economic Earnings	$43,943	$38,917	$41,108	$46,496	$41,445	13 %	(5)%	(12)%	12 %
Economic Earnings per Share	$5.14	$4.63	$5.03	$5.71	$5.24	11 %	(8)%	(12)%	9 %

Liquidity and Capital Resources

	As of December 31,	
Balance Sheet Data (in thousands)	2018	2017
Cash and cash equivalents	$52,449	$54,249
Accounts receivable	18,429	21,660
Total liquid assets	$70,878	$75,909
Investments, at fair value	$65,781	$51,324

We had cash and short-term investments of $118.2 million and $105.6 million as of December 31, 2018 and 2017, respectively. Cash and cash equivalents includes approximately $33 million of undistributed income from Westwood International Advisors for both periods ending December 31, 2018 and 2017. In accordance with the one-time mandatory deemed repatriation required under tax legislation signed into law in December 2017, we paid $1.8 million in income taxes related to this undistributed income. If these funds were needed for our U.S. operations, we would be required to accrue and pay incremental Canadian withholding taxes to repatriate a portion of these funds. Our current intent is to permanently reinvest the funds subject to withholding taxes outside of the U.S., and our current forecasts do not demonstrate a need to repatriate them to fund our U.S. operations.

At December 31, 2018 and 2017, working capital aggregated $114.0 million and $106.6 million, respectively. As required by the Finance Code, Westwood Trust is subject to a minimum capital requirement of $4.0 million. At December 31, 2018, Westwood Trust had approximately $18.6 million in excess of its minimum capital requirement. We had no debt at December 31, 2018 or December 31, 2017.

	For the years ended December 31,		
Cash Flow Data (in thousands)	2018	2017	2016
Operating cash flows	$31,484	$48,009	$47,392
Investing cash flows	3,597	(1,167)	(1,810)
Financing cash flows	(34,115)	(28,577)	(34,944)

Historically we have funded our operations and cash requirements with cash generated from operating activities. We may also use cash from operations to pay dividends to our stockholders. As of December 31, 2018 and 2017, we had no debt. The changes in net cash provided by operating activities generally reflect the changes in earnings plus the effects of non-cash items and changes in working capital. Changes in working capital, especially accounts receivable and accounts payable, generally result from timing differences between collection of fees billed and payment of operating expenses.

During 2018, cash flow provided by operating activities aggregated $31.5 million compared to cash provided by operations of $48.0 million during 2017 and $47.4 million during 2016. The decrease of $16.5 million from 2017 to 2018 was primarily due to cash transferred to our investment accounts offset by changes in operating assets and liabilities and net income. The increase of $0.6 million from 2016 to 2017 was primarily due to changes in operating assets and liabilities and net income, partially offset by cash transferred from our investment accounts.

Cash flow provided by investing activities during 2018 of $3.6 million was primarily related to the proceeds from the sale of our Omaha-based component of our Wealth Management business, partially offset by a $5.4 million private equity investment. Cash flow used in investing activities during 2017 and 2016 of $1.2 million and $1.8 million primarily related to the purchase of property and equipment.

Cash used in financing activities of $34.1 million during 2018 compared to $28.6 million and $34.9 million during 2017 and 2016, respectively. The increase in 2018 primarily related to repurchases of common stock under our share repurchase plan. The decrease from 2016 to 2017 related to a 2016 payment of contingent consideration related to the acquisition of our Westwood Trust Houston office and 2016 repurchases of common stock under our share repurchase plan.

Our future liquidity and capital requirements will depend upon numerous factors, including results of operations, the timing and magnitude of capital expenditures or strategic initiatives, our dividend policy and other business and risk factors described under “Item 1A. Risk Factors” in this Report. We believe that current cash and short-term investment balances and cash generated from operations will be sufficient to meet both the operating and capital requirements of our ordinary business operations through at least the next twelve months; however, there can be no assurance that we will not require additional financing within this time frame. The failure to raise needed capital on attractive terms, if at all, could have a material adverse effect on our business, financial condition and results of operations.

Cash Dividends

The following table summarizes dividends declared during 2018 and 2017:

2018 Dividends

Declaration Date	Record Date	Paid Date	Dividend Per Share
February 7, 2018	March 9, 2018	April 2, 2018	$0.68
April 25, 2018	June 8, 2018	July 2, 2018	$0.68
July 25, 2018	September 7, 2018	October 1, 2018	$0.68
October 24, 2018	December 7, 2018	January 2, 2019	$0.72
			$2.76

2017 Dividends

Declaration Date	Record Date	Paid Date	Dividend Per Share
February 8, 2017	March 10, 2017	April 3, 2017	$0.62
April 27, 2017	June 9, 2017	July 3, 2017	$0.62
July 28, 2017	September 8, 2017	October 2, 2017	$0.62
October 24, 2017	December 8, 2017	January 2, 2018	$0.68
			$2.54

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2018 (in thousands).

	Payments due in:				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Purchase obligations[1]	$11,669	$3,926	$4,580	$1,759	$1,404
Operating lease obligations	$13,181	$2,110	$4,225	$3,443	$3,403

(1) A “purchase obligation” is defined as an agreement to purchase goods or services that is enforceable and legally binding and that specifies all significant terms, including (a) fixed or minimum quantities to be purchased; (b) fixed, minimum or variable price provisions; and (c) the approximate timing of the transaction. Our purchase obligations relate to obligations associated with implementing and operating new information technology platforms and outsourcing services. The above purchase obligations exclude agreements that are cancelable without significant penalty.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of our Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent losses and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. In applying accounting principles, we often must make individual estimates and assumptions regarding expected outcomes or uncertainties. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. We believe the following are areas where the degree of judgment and complexity in determining amounts recorded in our Consolidated Financial Statements make accounting policies critical.

Consolidation

We assess each legal entity that we manage to determine whether consolidation is appropriate at the onset of the

relationship. We first determine whether the entity is a variable interest entity ("VIE"), or a voting interest entity ("VOE"), under U.S. generally accepted accounting principles ("GAAP") and whether we have a controlling financial interest in the entity.

A VIE is an entity in which (i) the total equity investment at risk is not sufficient to enable the entity to finance its activities without subordinated financial support, (ii) the at-risk equity holders, as a group, lack the characteristics of a controlling financial interest or (iii) the entity is structured with disproportionate voting rights, and substantially all of the activities are conducted on behalf of an investor with disproportionately few voting rights. That is, the at-risk equity holders do not have the obligation to absorb losses, the right to receive residual returns and the right to direct the activities of the entity that most significantly impact the entity's economic performance. An enterprise must consolidate all VIEs of which it is the primary beneficiary. We determine if a sponsored investment meets the definition of a VIE by considering whether the fund's equity investment at risk is sufficient to finance its activities without additional subordinated financial support and whether the fund's at-risk equity holders absorb any losses, have the right to receive residual returns and have the right to direct the activities of the entity most responsible for the entity's economic performance. The primary beneficiary of a VIE is defined as the party who, considering the involvement of related parties and de facto agents, has (i) the power to direct the activities of the VIE that most significantly affect its economic performance and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. This evaluation is updated on a continuing basis.

A VOE is an entity that is outside the scope of the guidance for VIEs. Consolidation of a VOE is required when a reporting entity owns a controlling financial interest in a VOE. Ownership of a majority of the voting interests is the usual condition for a controlling financial interest. Assessing whether or not an entity is a VIE or VOE involves judgment and analysis. Factors included in this assessment include the legal organization of the entity, our contractual involvement with the entity and any related party or de facto agent implications of the Company's involvement with the entity. Determining if the Company is the primary beneficiary of a VIE also requires significant judgment. There is judgment involved to assess if the Company has the power to direct the activities that most significantly impact the entity's economic results and to assess if the Company has an obligation to absorb the majority of expected losses or a right to receive the majority of residual returns. We reconsider whether entities are a VIE or VOE whenever contractual arrangements change, the entity receives additional equity or returns equity to its investors or changes in facts and circumstances occur that change an investor's ability to direct the activities of the entity.

We have evaluated (i) our advisory relationships with Westwood Investment Funds PLC (the "UCITS Fund") and the Westwood Funds®, (ii) our relationship as sponsor of the Common Trust Funds ("CTFs") and managing member of the private equity funds Westwood Hospitality Fund I, LLC and Westwood Technology Fund LP (collectively the "Private Equity Funds") and (iii) the private company discussed in Note 3 "Investments" to our Consolidated Financial Statements included in Part II. Item 8 "Financial Statements and Supplementary Data" ("Private Equity") to determine whether each of these entities is a variable interest entity ("VIE") or voting ownership entity ("VOE"). Based on our analysis, we determined that the CTFs and Private Equity Funds were VIEs, as the at-risk equity holders do not have the ability to direct the activities that most significantly impact the entity's economic performance, and the Company and its representatives have a majority control of the entities' respective boards of directors and can influence the respective entities' management and affairs. Prior to the sale of our Omaha-based operations, we also considered our advisory relationship with ten limited liability companies ("LLCs") as VIEs, but as of December 31, 2018, we no longer serve as the managing member of the funds and do not control the activities that most significantly impact the entities' economic performance. Therefore these LLCs are no longer considered VIEs. Although we have related parties on the UCITS Fund board of directors, the shareholders have rights to remove the current directors by a simple majority vote and so we determined that the UCITS Fund is not a VIE. As the Company and its representatives do not have representation on the Westwood Funds® or the Private Equity independent boards of directors, which direct the activities that most significantly impact the entities' economic performance, we determined that the Westwood Funds® and the Private Equity were not VIEs. Therefore, the UCITS Fund, Westwood Funds® and Private Equity should be analyzed under the VOE consolidation method.

Based on our analysis of our investments in these entities for the periods ending December 31, 2018 and 2017, we have not consolidated the CTFs, Private Equity Funds or LLCs under the VIE method or the UCITS Fund, Westwood Funds® or Private Equity under the VOE method, and therefore the financial results of these entities are not included in the Company's consolidated financial results. We have included the disclosures related to VIEs and VOEs in Note 12 "Variable Interest Entities" to our Consolidated Financial Statements included in Part II. Item 8 "Financial Statements and Supplementary Data."

Business Combinations

In allocating the purchase price of a business combination, the Company records all assets acquired and liabilities assumed at fair value with the excess of the purchase price over the aggregate fair values recorded as goodwill. ASC 820, Fair

Value Measurements and Disclosures, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The purchase price of an acquisition is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values as of the date of acquisition. To the extent the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired and liabilities assumed such excess is allocated to goodwill. The Company determines the estimated fair values after review and consideration of relevant information, including discounted cash flows, quoted market prices and estimates made by management. The fair value assigned to identifiable intangible assets acquired is based on estimates and assumptions made by management at the time of the acquisition. The Company adjusts the preliminary purchase price allocation, as necessary, during the measurement period of up to one year after the acquisition closing date as it obtains more information as to the facts and circumstances existing as of the acquisition date. Acquisition-related costs are recognized separately from the acquisition purchase price and are expensed as incurred.

Goodwill

Goodwill is not amortized but is tested for impairment, at least annually. We assess the recoverability of the carrying amount of goodwill either qualitatively or quantitatively as of July 1 of each fiscal year or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. When assessing the recoverability of goodwill, we may first assess qualitative factors. If an initial qualitative assessment indicates that it is more likely than not that the carrying amount exceeds fair value, a quantitative analysis may be required. We may also elect to skip the qualitative assessment and proceed directly to the quantitative analysis.

Recoverability of the carrying value of goodwill is measured at the reporting unit level. We have identified two reporting units, which are consistent with our reporting segments. In performing a quantitative analysis, we measure the recoverability of goodwill for our reporting units using a combination of the income approach and the market multiple approach. The income approach is based on the long-term projected future cash flows of the reporting units. We discount the estimated cash flows to present value using a weighted average cost of capital that considers factors such as market assumptions, the timing of cash flows and the risks inherent in such cash flows. The key assumptions used in the market multiple valuation require significant management judgment, including the determination of our peer group and the valuation multiples of such peer group. If the carrying value exceeds the fair value, an impairment loss is measured by reducing the goodwill to the fair market value.

We completed our annual impairment assessments during 2018, 2017 and 2016 and concluded that no impairment losses were required.

Intangible Assets

Our definite-lived intangible assets represent the acquisition date fair value of the intangible assets acquired, net of amortization. The values of these assets are comprised mostly of client relationships but also include valuations of trade names and non-compete agreements. In valuing these assets, we made significant estimates regarding the useful life, growth rates and potential attrition of the assets acquired. We periodically review our intangible assets for events or circumstances that would indicate impairment. If we determine the carrying value exceeds fair value, we would record an impairment to remove the amount that exceeded fair value.

We completed our annual impairment assessments during 2018, 2017 and 2016 and concluded that no impairment losses were required.

Stock-Based Compensation

We have granted restricted stock to employees and non-employee directors. We calculate compensation cost for restricted stock grants by using the fair market value of our common stock at the date of grant, the number of shares issued and an adjustment for restrictions on dividends. We amortize compensation cost on a straight-line basis over the applicable service period. We adjust our compensation cost for forfeitures as they occur.

We grant performance-based share awards to certain employees, the vesting of which is subject to the employee’s continuing employment and the Company's achievement of certain performance goals. We assess actual performance versus the predetermined performance goals and record compensation costs once we conclude that it is probable that we will meet the performance goals required to vest the applicable performance-based awards. The estimated number of awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised.

Accounting for Income Taxes

We operate in several states and countries and are required to allocate our income, expenses and earnings under the various laws and regulations of these tax jurisdictions. Accordingly, our provision for income taxes reflects the statutory tax obligations of the jurisdictions in which we operate. Significant judgment and complex calculations are used when determining our tax liability and in evaluating our tax positions, and we are subject to audits by taxing authorities in each of the jurisdictions in which we operate. We adjust our income tax provision in the period in which we determine that actual outcomes will likely be different from our estimates. Changes in tax laws may result in changes to our tax position and effective tax rates. We include penalties and interest on income-based taxes in the "General and administrative" line on our Consolidated Statements of Comprehensive Income. On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Reform Act") was signed into law. Further information on the tax impacts of the Tax Reform Act is included in Note 7 "Income Taxes" to our Consolidated Financial Statements included in Part II. Item 8 "Financial Statements and Supplementary Data."

We have not recognized a deferred tax liability on the undistributed earnings of our foreign subsidiary, Westwood International Advisors. If these funds were needed for our U.S. operations, we would be required to accrue and pay incremental foreign withholding taxes to repatriate a portion of these funds. Our current intent is to permanently reinvest the funds subject to withholding taxes outside of the U.S.

We are required to assess whether a valuation allowance should be established against our deferred tax assets based on consideration of all available evidence, using a more-likely-than-not standard. As of December 31, 2018 and 2017, we have not recorded a valuation allowance on any deferred tax assets. In the event that sufficient taxable income does not result in future years, a valuation allowance may be required.

We account for uncertain tax positions by recognizing the impact of a tax position in our Consolidated Financial Statements when we believe it is more likely than not that the tax position would not be sustained upon examination by the appropriate tax authority based on the merits of the position. We periodically review our tax positions and adjust the balances as new information becomes available. In making these assessments, we often must analyze complex tax laws of multiple domestic and international jurisdictions. The actual outcome of our tax positions, if significantly different from our estimates, could materially impact the financial statements. Further information on uncertain tax positions is included in Note 7 "Income Taxes" to our Consolidated Financial Statements included in Part II. Item 8 "Financial Statements and Supplementary Data."

Accounting Developments

See Note 2 "Summary of Significant Accounting Policies" to our Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data" for a description of new accounting standards and their anticipated effects on our Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Our revenues are primarily generated from fees derived as a percentage of our AUM, which is subject to market risks. Additionally, we invest corporate capital in various financial instruments, including United States treasury bills and equity funds, all of which present inherent market risks. We do not currently participate in any hedging activities, nor do we utilize any derivative financial instruments. The following information describes the key aspects of certain financial instruments that involve market risks.

Securities Markets and Interest Rates

The value of assets under management is affected by fluctuations in securities markets and changes in interest rates. Since we derive a substantial portion of our revenues from investment advisory and trust fees based on the value of assets under management, our revenues may be adversely affected by a decline in the prices of securities or changing interest rates. A hypothetical 10% decrease in our average assets under management during the year ended December 31, 2018 would have reduced our reported consolidated total revenue by approximately $12 million.

Our cash equivalents and other investment instruments are exposed to financial market risk due to fluctuations in interest rates, which may affect interest income. We do not expect interest income to be significantly affected by sudden changes in market interest rates.

Foreign Currency Risk

Westwood International Advisors operates in Toronto, Canada and accordingly we are exposed to foreign currency fluctuation risk associated with changes in the value of the Canadian dollar relative to the United States dollar. For the year ended December 31, 2018, Westwood International Advisors represented 42% of our consolidated income before income taxes. Changes in the currency exchange rate result in cumulative translation adjustments included in “Accumulated other comprehensive loss” on our Consolidated Balance Sheets and potentially result in transaction gains or losses, which are included in our earnings. The low and high currency exchange rates for a Canadian dollar into a United States dollar for the year ended December 31, 2018 were 0.7271 and 0.8157, respectively. A hypothetical 10% devaluation in the average quoted United States dollar-equivalent of the Canadian dollar exchange rate during the year ended December 31, 2018 would have reduced our reported consolidated income before income taxes by approximately $1.5 million.

Item 8. Financial Statements and Supplementary Data

The independent registered public accounting firm's report and our Consolidated Financial Statements listed in the accompanying index are included in Item 15 of this Report. See “Index to Financial Statements” on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

The Company had no disagreements with its current independent registered public accounting firms.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2018 to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act was (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Changes in Internal Control over Financial Reporting

During the quarterly period ended December 31, 2018, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF WESTWOOD HOLDINGS GROUP, INC.'S MANAGEMENT ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Stockholders of
Westwood Holdings Group, Inc.:

The management of Westwood Holdings Group, Inc. ("Westwood") is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Westwood's internal control system was designed to provide reasonable assurance to the company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, contain inherent limitations. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management of Westwood assessed the effectiveness of Westwood's internal control over financial reporting as of December 31, 2018. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 Internal Control — Integrated Framework. Based on our assessment, we believe that, as of December 31, 2018, Westwood's internal control over financial reporting is effective based on those criteria.

Westwood's independent registered public accounting firm has issued an audit report on our assessment of Westwood's internal control over financial reporting. This report appears on page 41.

By: /s/ Brian O. Casey
Brian O. Casey, President & Chief Executive Officer

/s/ Murray Forbes III
Murray Forbes III, Chief Financial Officer & Treasurer

February 21, 2019
Dallas, Texas

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Westwood Holdings Group, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Westwood Holdings Group, Inc. and subsidiaries (the “Company”) as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated February 21, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Westwood Holdings Group, Inc.’s Management Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP
Dallas, Texas
February 21, 2019

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is, or will be, set forth in the definitive proxy statement relating to the 2019 Annual Meeting of Stockholders of Westwood Holdings Group, Inc., which is to be filed with the SEC pursuant to Regulation 14A under the Exchange Act (the "Proxy Statement"). The Proxy Statement relates to a meeting of stockholders involving the election of directors, and the portions therefrom required to be set forth in this Report by this item are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

Item 11. Executive Compensation.

The information required by this item is, or will be, set forth in the Proxy Statement. The Proxy Statement relates to a meeting of stockholders involving the election of directors, and the portions therefrom required to be set forth in this Report by this item are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plan Information

The following table gives information as of December 31, 2018 about shares of our common stock that may be issued upon the exercise of options, warrants and rights under our Fifth Amended and Restated Westwood Holdings Group, Inc. Stock Incentive Plan and the Share Award Plan of Westwood Holdings Group, Inc. for Service Provided in Canada to its Subsidiaries, which are our only equity compensation plans in effect at that time. The material terms of these plans were approved by our stockholders and are discussed in Note 10 "Employee Benefits" to our Consolidated Financial Statements included in Part II. Item 8 "Financial Statements and Supplementary Data."

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	—	$ —	527,000 (1)
Equity compensation plans not approved by security holders	—	—	—
Total	—	$ —	527,000

(1) Includes 452,000 shares available under our Fifth Amended and Restated Westwood Holdings Group, Inc. Stock Incentive Plan and approximately 75,000 shares available under the Share Award Plan of Westwood Holdings Group, Inc. for Service Provided in Canada to its Subsidiaries.

The other information required by this item is, or will be, set forth in the Proxy Statement. The Proxy Statement relates to a meeting of stockholders involving the election of directors, and the portions therefrom required to be set forth in this Report by this item are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is, or will be, set forth in the Proxy Statement. The Proxy Statement relates to a meeting of stockholders involving the election of directors, and the portions therefrom required to be set forth in this Report by this item are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

Item 14. Principal Accounting Fees and Services.

The information required by this item is, or will be, set forth in the Proxy Statement. The Proxy Statement relates to a meeting of stockholders involving the election of directors, and the portions therefrom required to be set forth in this Report by this item are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

Financial Statement Schedules

The financial statements included in this Report are listed in the Index to Financial Statements on page F-1 of this Report. Schedules for which provision is made in the applicable accounting regulations of the SEC are either not required under the related instructions or are not applicable.

Exhibits

The exhibits required to be furnished pursuant to Item 15 are listed in the Index to Exhibits filed herewith, which Index to Exhibits is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WESTWOOD HOLDINGS GROUP, INC.

By: /s/ Brian O. Casey
Brian O. Casey
President, Chief Executive Officer and Director

Dated: February 21, 2019

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each of Westwood Holdings Group, Inc., a Delaware corporation, and the undersigned directors and officers of Westwood Holdings Group, Inc. hereby constitutes and appoints Brian O. Casey its, his or her true and lawful attorney-in-fact and agent, for it, him or her and in its, his or her name, place and stead, in any and all capacities, with full power to act alone, to sign any and all amendments to this Report, and to file each such amendment to the Report, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises as fully to all intents and purposes as it, he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title
/s/ Brian O. Casey Brian O. Casey	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Murray Forbes III Murray Forbes III	Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)
/s/ Richard M. Frank Richard M. Frank	Chairman of the Board of Directors
/s/ Susan M. Byrne Susan M. Byrne	Vice Chairman of the Board of Directors
/s/ Ellen H. Masterson Ellen H. Masterson	Director
/s/ Robert D. McTeer Robert D. McTeer	Director
/s/ Geoffrey R. Norman Geoffrey R. Norman	Director
/s/ Martin J. Weiland Martin J. Weiland	Director
/s/ Raymond E. Wooldridge Raymond E. Wooldridge	Director

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INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and Board of Directors of Westwood Holdings Group, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Westwood Holdings Group, Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Dallas, Texas

February 21, 2019

We have served as the Company's auditor since 2015.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2018 and 2017
(in thousands, except par values and share amounts)

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$52,449	$54,249
Accounts receivable	18,429	21,660
Investments, at fair value	65,781	51,324
Prepaid income taxes	349	4,269
Other current assets	2,731	6,612
Total current assets	139,739	138,114
Investments	5,425	—
Goodwill	19,804	27,144
Deferred income taxes	5,102	3,407
Intangible assets, net	15,961	19,804
Property and equipment, net of accumulated depreciation of $6,462 and $5,673	4,454	4,190
Total assets	$190,485	$192,659
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$2,518	$3,501
Dividends payable	7,710	7,357
Compensation and benefits payable	15,102	19,075
Income taxes payable	365	1,598
Total current liabilities	25,695	31,531
Accrued dividends	1,576	1,717
Noncurrent income taxes payable	—	1,017
Deferred rent	2,065	1,998
Total long-term liabilities	3,641	4,732
Total liabilities	29,336	36,263
Commitments and contingencies (Note 14)		
Stockholders' Equity:		
Common stock, $0.01 par value, authorized 25,000,000 shares, issued 10,182,583 and outstanding 8,904,902 shares at December 31, 2018; issued 9,980,827 and outstanding 8,899,587 shares at December 31, 2017	102	100
Additional paid-in capital	194,116	179,241
Treasury stock, at cost – 1,277,681 shares at December 31, 2018; 1,081,240 shares at December 31, 2017	(58,711)	(49,788)
Accumulated other comprehensive loss	(4,883)	(1,764)
Retained earnings	30,525	28,607
Total stockholders' equity	161,149	156,396
Total liabilities and stockholders' equity	$190,485	$192,659

See Notes to Consolidated Financial Statements.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018, 2017 and 2016
(in thousands, except shares and per share data)

	2018	2017	2016
Revenues:			
Advisory fees:			
Asset-based	$89,367	$99,201	$91,492
Performance-based	2,984	1,411	635
Trust fees	28,953	31,621	30,313
Other revenues, net	996	1,552	581
Total revenues	122,300	133,785	123,021
Expenses:			
Employee compensation and benefits	59,959	64,955	61,509
Sales and marketing	1,936	2,042	1,919
Westwood mutual funds	3,808	3,938	3,155
Information technology	9,103	7,785	7,735
Professional services	4,783	5,916	5,622
Legal settlement	—	4,009	—
General and administrative	9,564	9,652	9,433
(Gain) loss on foreign currency transactions	(2,791)	1,595	(362)
Total expenses	86,362	99,892	89,011
Net operating income	35,938	33,893	34,010
Gain on sale of operations	524	—	—
Income before income taxes	36,462	33,893	34,010
Provision for income taxes	9,711	13,904	11,363
Net income	$26,751	$19,989	$22,647
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(3,119)	2,523	401
Other comprehensive income (loss)	(3,119)	2,523	401
Total comprehensive income	$23,632	$22,512	$23,048
Earnings per share:			
Basic	$3.20	$2.45	$2.84
Diluted	$3.13	$2.38	$2.77
Weighted average shares outstanding:			
Basic	8,365,360	8,147,742	7,961,891
Diluted	8,547,370	8,400,022	8,165,475

See Notes to Consolidated Financial Statements.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2018, 2017 and 2016
(in thousands, except share and per share data)

	Westwood Holdings Group, Inc. Common Stock, Par		Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount					
BALANCE, January 1, 2016	8,630,687	$ 94	$ 143,797	$ (34,910)	$ (4,688)	$ 29,674	$ 133,967
Net income						22,647	22,647
Other comprehensive income					401		401
Issuance of common stock for acquisition	80,253	1	3,733				