

CAPITAL INCOME FUND

Commentary

Calendar Year 2011



Manager Review and Economic Outlook

Market Commentary

The S&P 500 Index started and ended 2011 at the identical price level (1,258); its +2.11% return can be attributed to dividends paid. The average high yield bond price in the BofA Merrill Lynch U.S. High Yield Master II Index declined over the course of the year; its +4.38% return can be attributed to coupons paid. Despite the insipid returns, the year was anything but uneventful as investors endured several bouts of extreme volatility. Concerns related to the sovereign debt crisis in Europe, the combative political landscape in the US, and the potential economic slowdown in China rattled investors. These concerns have been exacerbated by the lack of confidence in policymakers, world political leaders, and central bankers. Poor (or no) decisions by policymakers could have lasting consequences (particularly in Europe) and undermine the resounding progress made by businesses over the past three years. Since the financial crisis, we have witnessed unprecedented corporate deleveraging which has been accomplished by improved productivity and restricted spending. This has facilitated strong free cash flows and enabled companies to reduce debt levels, thereby lowering financial risk. Earnings have also been impressive despite the absence of robust economic growth.

At Hotchkis & Wiley, we share the market's apprehension regarding the geopolitical landscape, but we believe current macroeconomic anxiety is overly discounting equity and high yield bond prices. Our experience has been that compelling valuations and strong fundamentals are likely to prevail in the long run. Admittedly, we were not sad to see 2011 come to an end as it was a frustrating year for fundamental stock and

bond pickers—particularly those of us focused on valuation.

Efforts aimed at reducing volatility have triggered outflows from equities in favor of bonds and cash (high yield experienced very modest inflows in 2011). As of year-end, the nominal "risk free" yield on 10-year Treasury bonds was less than 2%, which is considerably lower than both the historical and current run rate of inflation (3.7% and 3.4%, respectively). Assuming inflation continues on its current path, or increases, treasury investors appear willing to lock in a negative real return. Countless studies have demonstrated that herd-like behavior is counterproductive more often than not. We are innately skeptical that the migration away from stocks to treasuries and cash will ultimately benefit investors that have chosen this path. While elevated volatility and market downturns go hand in hand, so do elevated volatility and market rallies. For disciplined long-term investors, volatility can create opportunity, particularly if those investors are supported with diligent research.

Attribution: 2011

Asset Allocation: The Hotchkis & Wiley Capital Income Fund returned +6.01% for the one year period ended December 31, 2011 versus the S&P 500 Index return of +2.11% and the BofA Merrill Lynch U.S. Corporate, Government & Mortgage Index return of +7.88%. Disproportionately attractive equity valuations led us to overweight equities throughout the year. While the long-term target is 50/50 equities/high yield, the average allocation to equities throughout the year was 58%. This overweight should have hurt performance as equities lagged high yield bonds, but positive security selection in the

equity portion of the strategy overcompensated for the allocation effect.

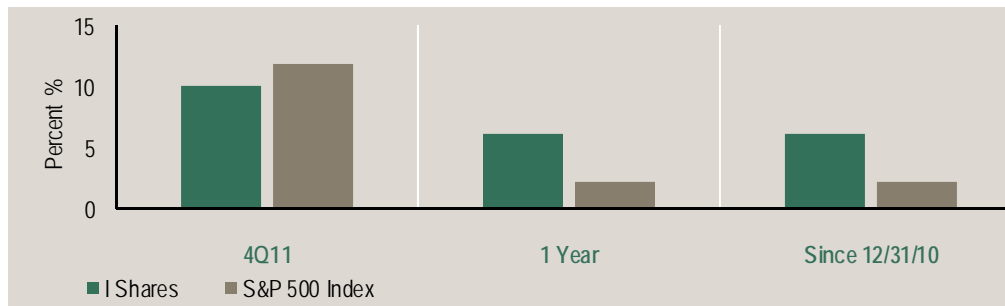
Equities: Growth stocks outperformed value stocks for the year. Despite the value bias, the equity portion of the Fund outperformed the S&P 500; it has now outperformed in all four quarters since the Fund's inception. Positive stock selection in 8 of the 10 S&P GICS (Global Industry Classification Standard) sectors was the primary contributor to the outperformance. An overweight to the high dividend-yielding utilities sector and stock selection in the industrial sector were the most significant performance contributors. An underweight in the consumer discretionary sector and stock selection in technology were performance detractors during the year.

Fixed Income: The high yield portion of the Fund underperformed the broad benchmark (BofA Merrill Lynch U.S. Corporate, Government & Mortgage Index) and the high yield benchmark (BofA Merrill Lynch U.S. High Yield Master II Index) for the year. Investment grade bonds outperformed high yield bonds by a considerable margin. Three broad themes detracted from performance relative to the high yield benchmark for the year. First, the Fund is overweight B-rated credits and underweight BB-rated credits; BBs outperformed considerably during the year. Second, the Fund was underweight energy, which was the best-performing (and largest) sector in the index. Finally, credit selection in autos detracted from performance. On the positive side, credit selection in financial services, capital goods, and healthcare contributed to performance for the year.

Fund holdings and/or sector allocations are subject to change and are not buy/sell recommendations. Current and future portfolio holdings are subject to risk. Value stocks may underperform other asset types during a given period.

The opinions expressed are those of the portfolio managers as of 12/31/11 and may not be accurate reflections of their opinions after that date. There is no guarantee that any forecasts made will come to pass. The Fund may not continue to hold the securities mentioned and the Advisor has no obligation to disclose purchases or sales of these securities. Free cash flow is earnings before depreciation, amortization, and non-cash charges minus maintenance capital expenditures. U.S. Treasuries are generally considered "risk free" securities. Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales. **Past performance is no guarantee of future results.**

Performance as of December 31, 2011



	4Q11	1 Year	Since 12/31/10
I Shares	10.01%	6.01%	6.01%
A Shares without sales charge	10.80	6.58	6.58
A Shares	5.49	1.50	1.50
S&P 500 Index	11.82	2.11	2.11
BofA Merrill Lynch US Corp. Govt. & Mtg. Index	1.07	7.88	7.88

Yield	I Shares	A Shares	A Shares (Load)
30-Day SEC Yield with expense waiver	5.05%	4.80%	4.57%
30-Day SEC Yield without expense waiver	3.05%	2.80%	2.67%

The Fund's total annual operating gross expense ratio as of the most current prospectus is 3.75% for I Shares, and 4.12% for A shares. The net expense ratio is 0.80% for I Shares, and 1.05% for A Shares. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through October 31, 2012 to ensure that net annual fund operating expenses do not exceed certain limits.

The performance shown represents past performance. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Short-term performance, in particular, is not a good indication of the fund's future performance, and an investment should not be made based solely on returns. Investment results and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. To obtain performance data current to the most recent month-end, access our website at www.hwcm.com.

You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. This and other important information is contained in the Fund's summary prospectus and prospectus, which can be obtained by calling 1-800-796-5606 or visiting our website at www.hwcm.com. Read carefully before you invest.

Returns shown for A shares for the periods prior to their inception are derived from the historical performance of I Shares of the Fund during such periods and have been adjusted to reflect the higher total annual operating expenses of each specific Share class (Inception date: Class I-12/31/10, Class A-2/28/11). Returns shown for A returns without sales charge does not reflect the maximum sales load of 4.75%; if reflected, performance would be lower than shown. All other returns reflect the deduction of the current maximum initial sales charges of 4.75%. Class I shares sold to a limited group of investors. Total returns include reinvestment of dividends and capital gains. Expense limitations may have increased the Fund's total return.

The **S&P 500® Index** is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The **BofA Merrill Lynch U.S. High Yield Master II Index** tracks the performance of below investment grade, but not in default, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. The **BofA Merrill Lynch U.S. Corporate, Government & Mortgage Index** is a broad-based measure of the total rate of return performance of the U.S. investment grade bond markets. The indices do not reflect the payment of transaction costs, fees and expenses associated with an investment in the Fund. The Fund's value disciplines may prevent or restrict investment in major stocks in the benchmark indices. It is not possible to invest directly in an index. The Fund's returns may not correlate with the returns of their benchmark indices. The **30-day SEC Yield** represents net investment income earned by a fund over a 30-day period, expressed as an annual percentage rate based on the Fund's share price at the end of the 30-day period. The SEC Yield should be regarded as an estimate of the Fund's rate of investment income, and it may not equal the Fund's actual income distribution rate, the income paid to a shareholder's account, or the income reported in the Fund's financial statements.

Classes & Tickers

I Shares	HWIX
A Shares	HWIAX

Credit Quality weights by rating were derived from the highest bond rating as determined by S&P, Moody's or Fitch. Bond ratings are grades given to bonds that indicate their credit quality as determined by private independent rating services such as Standard & Poor's, Moody's and Fitch. These firms evaluate a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. In limited situations when none of the three rating agencies have issued a formal rating, the Advisor will classify the security as nonrated.

Sources: Bloomberg, FactSet

Mutual fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment by the fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. The Fund may invest in derivative securities, which derive their performance from the performance of an underlying asset, index, interest rate or currency exchange rate. Derivatives can be volatile and involve various types and degrees of risks. Depending on the characteristics of the particular derivative, it could become illiquid. Investment in Asset Backed and Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund may invest in foreign as well as emerging markets which involve greater volatility and political, economic and currency risks and differences in accounting methods.

**NOT FDIC INSURED
NO BANK GUARANTEE
MAY LOSE VALUE**

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