CAPITAL INCOME FUND
Commentary
Third Quarter 2018

Hotchkis & Wiley

Manager Review and Economic Outlook

Investment Strategy
The Hotchkis & Wiley Capital Income Fund invests in both value equity securities and high yielding fixed income securities with an emphasis on income generation. The long-term allocation target between value equities and high yielding fixed income securities is 50/50. The portfolio has two benchmarks, the S&P 500 Index ("the equity benchmark") and the ICE BofAML US Corporate, Government & Mortgage Index ("the fixed income benchmark"). These benchmarks are averaged, using the portfolio's long-term allocation targets, to produce a "50/50 blended benchmark" to help assess performance.

Market Commentary
The S&P 500 Index returned +7.7% and the ICE BofAML US High Yield Index returned +2.4% in the third quarter of 2018. Failed Brexit negotiations and the threat of a global trade war have triggered short-lived bouts of volatility, but positive economic data and strong corporate earnings growth has overwhelmed those concerns. Despite Wall Street having revised estimates upward rather persistently, 84% of S&P 500 companies beat consensus earnings estimates in the most recent quarter. The median positive surprise was 6% above consensus estimates. In technology and healthcare, the two top-performing sectors in the quarter, more than 90% of companies reported an earnings beat.

Growth stocks outperformed value stocks in the quarter, extending its considerable lead in recent years. The Russell 1000 Growth Index has outperformed the Russell 1000 Value Index by more than 13 percentage points since the beginning of the year, after outperforming by nearly 17 percentage points in 2017. As a result, the valuation gap between growth stocks and value stocks has widened. Three years ago, the forward P/E for the Russell 1000 Growth was 18.6x compared to 15.3x for the Russell 1000 Value, for a difference of 3.3x ("growth premium"). Excluding the internet bubble, the average growth premium over that last 20 years has been 4.0x, so three years ago spreads were modestly narrower than average. Today, however, the forward P/E ratio for the Russell 1000 Growth has expanded to 22.9x while the Russell 1000 Value trades at 15.3x, the same multiple as three years ago. The current growth premium, therefore, is 7.6x (22.9x – 15.3x), or nearly double the long term average. Earnings growth between the two indices has been comparable, thus the primary cause of the outperformance has been the repricing of growth stocks, i.e. multiple expansion. We do not believe that this valuation gap can widen indefinitely, and consequently we are optimistic about the prospects of value relative to growth as we look forward.

The FOMC raised the Fed Funds Target Rate by another quarter point to 2.25%, its third such raise of the year. Consequently, government bonds declined while spread sectors outperformed. Investment grade corporates were slightly positive (about +1%) and high yield corporates were slightly more positive (+2.4%). Treasury yields with maturities between 2 and 30 years rose between 20 and 30 basis points, with an ever-so-slight flattening of the yield curve. The high yield market absorbed the rate hike and then some, experiencing a decline in the yield-to-worst of 0.24% during the quarter, which finished at 6.30%. Spreads tightened by 43 basis points, closing the quarter at 329 basis points over comparable duration treasuries. BB-rated and single B-rated credits performed similarly, while CCC-rated (and below) outperformed slightly—yields declined and spreads narrowed disproportionately for this lowest-rated cohort. Performance variation among sectors was modest: healthcare returned +3.4%, retail returned +1.1%, and all other sectors where somewhere in between.

A primary reason for high yield's outperformance relative to other fixed income asset classes has been the market's overall health. Only 2 high yield bonds defaulted in the quarter, following just 3 in the previous quarter—this represents the fewest defaults over a six month period in more than 7 years. The trailing 12 month default rate, including distressed exchanges, now stands at 2.0% which is well below long term averages. A meager 0.5% of the market trades at 50% of par or less, implying that the market believes the docile environment will persist. Recovery rates over the past 12 months averaged 46%, which is also slightly better than long term averages, though the sample size is small due to the low number of defaults. Rating agencies have agreed with the market's assessment of tranquility, and have upgraded 5 credits for every 4 they have downgraded.

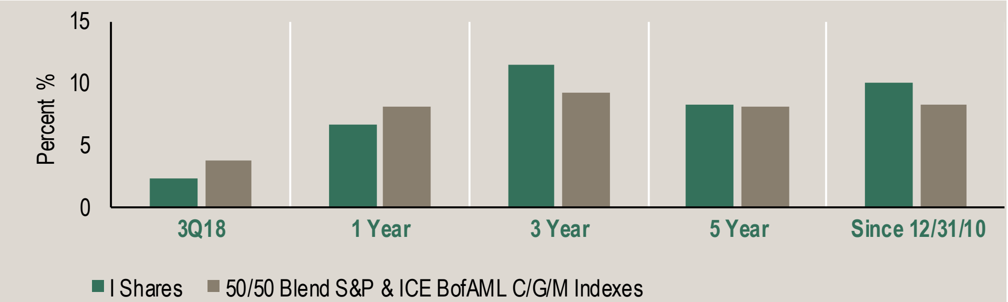
The strategy remains focused on the most compelling risk-adjusted valuation opportunities in companies of all sizes and in all parts of the capital structure. The portfolio's equities trade at a large discount to the broad equity market. The portfolio's bonds are focused in single-B rated credits across the cap spectrum with strong/quality asset coverage and a spread advantage relative to the high yield market.

Attribution and Management Discussion: 3Q 2018
The Hotchkis & Wiley Capital Income Fund underperformed the 50/50 blended benchmark in the third quarter of 2018. The average equity weight was 56% and the average high yield bond weight was 44% over the course of the quarter, similar to its average over the course of the year. The equity overweight helped as equities outperformed bonds, but it helped less than it should have because the portfolio's equities underperformed.

The equity portion of the portfolio underperformed the S&P 500 Index during the quarter. Growth outperformed value, which is a difficult environment for our value focused approach. The portfolio lacks exposure to some large benchmark constituents that performed well in the quarter (e.g. Apple, Amazon). The overweight and stock selection in energy also hurt, along with stock selection in industrials and consumer discretionary. Positive stock selection in communication services and technology helped relative performance. The largest individual detractors to relative performance were Sanchez Energy, Ophir Energy, General Motors, Vodafone, and AIG; the largest positive contributors were WestJet Airlines, Office Depot, Corning, Discovery, and Popular.

The high yield bond portion of the portfolio outperformed the ICE BofAML US Corporate, Government & Mortgage Index as high yield bonds outperformed investment grade bonds. The portfolio underperformed the ICE BofAML US High Yield Index. Positive credit selection in the basic industry and healthcare sectors was offset by negative credit selection in energy. The underweight exposure to telecommunications was a modest performance detractor.

Performance as of September 30, 2018



	3Q18	1 Year	3 Year	5 Year	Since 12/31/10
I Shares	2.25%	6.65%	11.45%	8.27%	9.99%
A Shares without sales charge	2.25	6.44	11.17	8.01	10.11
A Shares	-2.63	1.37	9.38	6.96	9.42
S&P 500 Index	7.71	17.91	17.31	13.95	13.81
ICE BofAML US Corp., Govt. & Mtg. Index	0.00	-1.22	1.32	2.23	2.72
50/50 Blend S&P & ICE BofAML C/G/M Indexes	3.81	8.06	9.17	8.08	8.31
ICE BofAML US High Yield Index	2.44	2.94	8.19	5.54	6.59

Yield	I Shares	A Shares	A Shares (Load)
30-Day SEC Yield with expense waiver	3.55%	3.30%	3.14%
30-Day SEC Yield without expense waiver	3.05%	2.80%	2.66%

The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 29, 2019 so the net expense ratio does not exceed 0.80% for I Shares and 1.05% for A Shares. Over the past 12 months, the Fund invested in business development companies, which produced acquired fund fees and expenses ("AFFE") of 0.08%. The reported net expense ratio is the expense ratio cap plus AFFE, or 0.88% for I Shares and 1.13% for A Shares. Net expense ratios were applicable to investors. The Fund's total annual operating gross expense ratio as of the most current prospectus is 1.34% for I Shares and 1.59% for A Shares.

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.

Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument. Spread is the percentage point difference between yields of various classes of bonds compared to treasury bonds. Investment grade indicates that a municipal or corporate bond has a relatively low risk of default. Yield-to-Worst is the lowest possible yield from owning a bond considering all potential call dates prior to maturity. Forward P/E (Price/Earnings) ratio is a stock's price over its predicted earnings per share. Earnings growth is the annual rate of growth of earnings from investments. Investment grade indicates that a municipal or corporate bond has a relatively low risk of default.

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.

Classes & Tickers

I Shares	HWIIX
A Shares	HWIAX

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 Russell 1000® Value Index measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 1000® Growth Index measures the performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The ICE BofAML US Corp., Govt. & Mtg. Index is a broad-based measure of the total rate of return performance of the US investment grade bond markets. The ICE BofAML US High Yield Index tracks the performance of below investment grade, but not in default, US dollar-denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. The 50/50 benchmark is an average, equal weighted blend of the S&P 500® Index and ICE BofAML US Corp., Govt. & Mtg. Index. 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.

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.

Specific securities identified are the largest contributors (or detractors) on a relative basis to the S&P 500 Index. Securities' absolute performance may reflect different results. The Fund may not continue to hold the securities mentioned and the Advisor has no obligation to disclose purchases or sales of these securities. Attribution is an analysis of the portfolio's return relative to a selected benchmark, is calculated using daily holding information and does not reflect the payment of transaction costs, fees and expenses of the Fund.

Top ten equity holdings as of 9/30/18 as a % of the Fund's net assets: Whiting Petroleum Corp. 3.2%, AIG 2.8%, WestJet Airlines 2.4%, Popular Inc. 2.2%, Wells Fargo & Co. 1.9%, ARRIS Int'l PLC 1.9%, Discovery Inc. 1.8%, Seritage Growth Properties 1.7%, Hewlett Packard Enterprise 1.7%, and GEO Group Inc. 1.5%. Fund holdings are subject to change and are not recommendations to buy or sell any security.

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MAY LOSE VALUE

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