MID-CAP VALUE FUND
Commentary
Calendar Year 2018

Hotchkis & Wiley

Manager Review and Economic Outlook

Market Commentary

The Russell Midcap Index was up more than +7% through the first nine months of the year before posting its worst calendar quarter in 7 years, falling -15.4% in Q4. The end result was a -9.1% return for calendar year 2018. Until the most recent quarter, robust corporate earnings growth had overcome political unrest across the globe. In the fourth quarter, however, ongoing trade tensions came to the forefront. Markets began pricing in slowing economic growth in several major economies that are important trading partners with the US. In contrast to this however, real GDP growth in the US was a healthy +3.4% in the most recent quarter and the unemployment rate remains below 4%. Both the Federal Reserve and the European Central Bank implemented and spoke of future restrictive monetary policy. This appears to have added to equity investor apprehension. The forward P/E ratio for the Russell Midcap Index declined from 20.3x at the beginning of the year to 15.4x at the end of the year. The index's median P/E since 1995 is 15.7x, so it went from well above average to slightly below average over the course of the year.

Fears that slowing economic growth would weaken demand weighed heavily on oil prices. West Texas Intermediate crude closed the year at $45/barrel, down 25% from the beginning of the year ($60) and more than 40% from its early October high ($76). Commodity securities were among the worst-performers of the year, with the mid cap energy (-26%) and materials sectors (-21%) leading the decline. The portfolio has a large overweight in energy but has zero exposure in materials; combined, the portfolio is overweight the commodity sectors by about 8%. Global demand for oil is significantly more stable than it is for industrial metals like steel or aluminum. Over the past 20 years, global demand for oil has averaged +1.4% with a standard deviation of +1.1%, so a one standard deviation event still represents growing demand, and a 2 standard deviation event (just a ~2.5% probability on the down side) would represent a decline of just -0.8%. Consequently, we view oil exposed businesses as less risky than steel or aluminum exposed businesses at the same valuation and capital structure. In today's market, however, these less risky businesses trade at substantially better valuations—hence, the large overweight to energy and large underweight to materials.

Mid cap industrials, financials, and consumer discretionary, also cyclical sectors, each declined double digits and lagged the market by a wide margin. Non-cyclical utilities performed best, returning +4% during the year. The performance dispersion and resulting valuation differentials among stocks that are economically sensitive compared to those that are not suggests the market has begun to price in a recession scenario. Economic metrics do not yet verify a meaningful change from positive economic growth. At present, while acknowledging the uncertain economic outlook, we view the valuation support of cyclical stocks as vastly superior to non-cyclicals. We believe this valuation discrepancy provides a "margin of safety" in the long run almost irrespective of near term economic growth.

To illustrate the stark contrast in valuation between sectors, consider banks relative to utilities. Five years ago, S&P 500 banks traded at 12.5x consensus earnings while S&P 500 utilities traded at 15.5x. Since then, bank earnings have grown 53% compared to 36% for utilities, but bank stocks have lagged utility stocks. Utilities' total return outpaced its earnings growth considerably, while banks' total return lagged its earnings growth substantially. As a result, bank P/Es compressed while utility P/Es expanded. Today, S&P 500 banks trade at just 9.9x consensus earnings while S&P 500 utilities trade at 17.1x. This translates into an earnings yield of more than 10% for banks and just 5.8% for utilities—a rich valuation for an industry with modest growth prospects.

The valuation disparities among sectors has led to the portfolio's largest sector deviations from the benchmark since the financial crisis. Accordingly, the portfolio trades at a substantial valuation discount to the index, which makes us optimistic about its prospects irrespective of market direction or temperament. The portfolio trades at 4.8x normal earnings compared to 13.5x for the Russell Midcap Value and 15.7x for the Russell Midcap. The portfolio's price-to-book ratio is 0.8x compared to 1.7x and 2.3x for the Russell Midcap Value and the Russell Midcap, respectively.

Attribution: 2018

The Hotchkis & Wiley Mid-Cap Value Fund underperformed the Russell Midcap Value Index in 2018. The portfolio's valuation multiples are lower than that of the index, which hurt relative performance over the course of the year as mid cap value lagged mid cap growth by more than 7 percentage points. Nearly 75% of the portfolio was invested in stocks with a price-to-book ratio of less than 2x compared to about 38% for the Russell Midcap Value—about twice the exposure. This overweight, and corresponding underweight to more richly-valued securities, detracted from performance in the year as this group of stocks lagged the overall index. The overweight position and stock selection in energy, the market's worst-performing sector, also hurt performance as crude prices fell 25%. The overweight position and positive stock selection in technology contributed to relative performance. Positive stock selection in financials and utilities also helped. The largest individual detractors to relative performance were Weatherford International, Superior Energy Services, C&J Energy, Adient, and Kosmos Energy; the largest positive contributors were Popular, ARRIS International, Ericsson, NRG Energy, and Hewlett Packard Enterprise.

Largest New Purchases: 2018

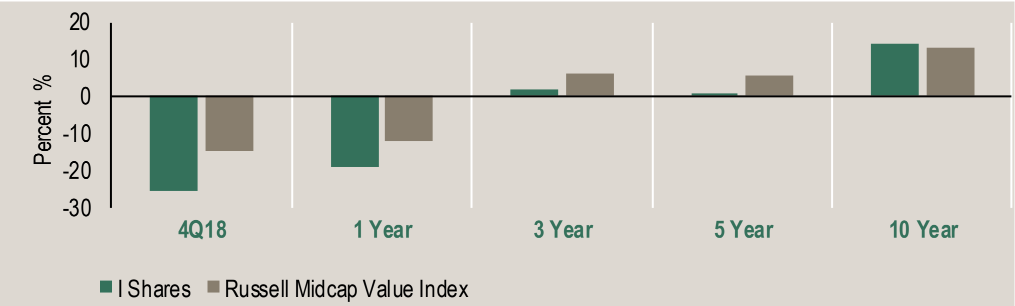
Amerco, through its primary subsidiary U-Haul, offers truck, trailer, and self-storage rentals across its 22,000 locations in the US and Canada. U-Haul is over 10x larger than its next largest competitor and has more locations than all US rental car companies combined. In addition, the company has significant optionality in its self-storage business and real estate assets. We believe these advantages, combined with Amerco's attractive valuation, make the stock compelling.

AXA Equitable Holdings is a large domestic life insurance company that underwrites and distributes annuities, retirement products, life insurance, and asset management services. It owns a 65% economic interest in AllianceBernstein, a full service, global asset manager that serves both retail and institutional clients. As one of the largest sellers of variable annuities in the US, annuities account for more than 50% of the company's earnings. AXA is well capitalized and is expected to return a significant amount of its earnings to shareholders. Further, the company trades at a very low level of normalized earnings, both on an absolute basis and relative to peers.

PPL Corporation is a utility holding company that, through its fully regulated subsidiaries, generates electricity from power plants in the Northeastern and Western portions of the United States and delivers electricity in Pennsylvania and the UK. Following the spinoff of its non-regulated generation assets in 2015, the company is now a fully regulated utility. Annual earnings growth of around 6% is expected over the next several years, driven by rate base investments in aging utility infrastructure in Pennsylvania and Kentucky. PPL exhibits an attractive dividend yield and has grown its dividend by ~2% over the last 5 years.

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. Certain information presented based on proprietary or third-party estimates are subject to change and cannot be guaranteed. Portfolio managers' opinions and data included in this commentary are as of 12/31/18 and are subject to change without notice. Any forecasts made cannot be guaranteed. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness. **Past performance is no guarantee of future results. Diversification does not assure a profit nor protect against loss in a declining market.**

Performance as of December 31, 2018



	4Q18	1 Year	3 Year	5 Year	10 Year	Since 1/2/97
I Shares	-25.79%	-19.29%	1.72%	0.65%	14.01%	10.63%
A Shares without sales charge	-25.82	-19.51	1.47	0.39	13.72	10.36
A Shares	-29.73	-23.74	-0.34	-0.68	13.10	10.09
C Shares without CDSC	-25.99	-20.12	0.71	-0.36	12.89	9.56
C Shares	-26.99	-21.12	0.71	-0.36	12.89	9.56
R Shares	-25.87	-19.69	1.22	0.15	13.45	10.15
Russell Midcap Value Index	-14.95	-12.29	6.06	5.44	13.03	9.60

The Fund's total annual operating expense ratio as of the most current prospectus is 0.99% for I Shares, 1.24% for A Shares, 1.99% for C Shares and 1.49% for R shares. Expense ratios shown are gross of any fee waivers or expense reimbursements.

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. 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, C and R 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: I Shares-1/2/97, A and C Shares-1/2/01, R Shares-8/28/03). Returns shown for A Shares and C Shares without sales charge do not reflect the maximum sales load of 5.25% or the Contingent Deferred Sales Charge (CDSC) of 1.00% for the first year; if reflected, performance would be lower than shown. Returns for A and C shares reflect the deduction of the current maximum initial sales charges of 5.25% and 1.00% CDSC. C Shares convert automatically to A Shares approximately eight years after purchase. A Shares are subject to lower annual expenses than C Shares. Class I shares sold to a limited group of investors. Periods over one year are average annual total return. Average annual total returns include reinvestment of dividends and capital gains. Expense limitations may have increased the Fund's total return.

The Russell Midcap® Index, an unmanaged index, measures the performance of the 800 smallest companies in the Russell 1000® Index. The Russell Midcap® Value Index measures the performance of those Russell Midcap® companies with lower price-to-book value ratios and lower forecasted growth values. 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. Margin of safety is a principle of investing in which an investor only purchases securities when the market price is significantly below its intrinsic value; when market price is significantly below your estimation of the intrinsic value, the difference is the margin of safety. Price-to-book value is the price of a stock divided by its book value. 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. Top ten holdings as of 12/31/18 as a % of the Fund's net assets: Whiting Petroleum Corp. 4.8%, Hewlett Packard Enterprise 4.5%, Citizens Fin'l Group Inc. 4.4%, CIT Group Inc. 3.6%, Popular Inc. 3.5%, Goodyear Tire & Rubber 3.0%, Discovery Inc. 3.0%, Kosmos Energy Ltd. 3.0%, Avnet Inc. 3.0% and Office Depot Inc. 2.8%. Fund holdings are subject to change and are not recommendations to buy or sell any security.

Mutual fund investing involves risk. Principal loss is possible. Investing in small and medium-sized companies involves greater risks than those associated with investing in large company stocks, such as business risk, significant stock price fluctuations and illiquidity. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

Contributors to Performance

Top Five	% of Total Portfolio[1]
Popular Inc.	3.5%
Ericsson	0.9
ARRIS International PLC	2.5
NRG Energy Inc.	0.5
Kohl's Corp.	0.0

Bottom Five	% of Total Portfolio[1]
Ophir Energy PLC	1.9%
Kosmos Energy Ltd.	3.0
C&J Energy Services	2.1
Superior Energy Services Inc.	1.2
Weatherford International PLC	0.0

Classes & Tickers

I Shares	HWMIX
A Shares	HWMAX
C Shares	HWMCX
R Shares	HWMRX

[1]% of total portfolio includes total investments, cash and cash equivalents, and accrued investment income on a trade date basis.

Investing in value stocks presents the risk that value stocks may fall out of favor with investors and underperform other asset types during a given period. Equities, bonds, and other asset classes have different risk profiles, which should be considered when investing. All investments contain risk and may lose value. Specific securities identified are the largest contributors (or detractors) on a relative basis to the Russell Midcap Value 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. The "Largest New Purchases" section includes the three largest new security positions during the year based on the security's year-end weight adjusted for its relative return contribution; does not include any security received as a result of a corporate action; if fewer than three new security positions during the year, all new security positions are included.

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