

MID-CAP VALUE FUND

Commentary

Third Quarter 2018



Manager Review and Economic Outlook

Market Commentary

The Russell Midcap Index returned +5.0% in the third quarter and is now up +7.5% since the beginning of the year. Failed Brexit negotiations and the threat of a global trade war have triggered short-lived bouts of equity market volatility, but positive economic data and strong corporate earnings growth has overwhelmed those concerns. Despite Wall Street having revised estimates upward rather persistently, nearly 75% of Russell Midcap companies beat consensus earnings estimates in the most recent quarter. The median positive surprise was 7% above consensus estimates. In technology and healthcare, the two top-performing sectors in the quarter, more than 80% of companies reported an earnings beat.

Mid cap growth outperformed mid cap value in the quarter, extending its considerable lead in recent years. Some of the disparity was due to differences in sector exposures: the growth index has more exposure to technology which outperformed, and less exposure to REITs and financials which underperformed. Sector weights aside, however, stocks with high valuations outperformed stocks with low valuations. The Russell Midcap Growth Index has outperformed the Russell Midcap Value Index by more than 10 percentage points since the beginning of the year, after outperforming by nearly 12 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 Midcap Growth was 20.5x compared to 17.5x for the Russell Midcap Value, for a difference of 3.0x ("growth premium"). Since the year 2000, the median growth premium has been 3.3x, so three years ago spreads were modestly narrower than average. Today, however, the forward P/E ratio for the Russell Midcap Growth has expanded to 24.4x while the Russell Midcap Value has declined to 16.5x. The current growth premium, therefore, is 7.9x (24.4x – 16.5x), or more than 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.

We remain overweight technology and energy compared to the Russell Midcap Value, though we have taken capital out of technology since the beginning of the year. The sector overall, and our portfolio holdings in particular, have outperformed and so we have shifted capital to more compelling valuation opportunities. Portfolio changes have been modest in 2018, however, with year-to-date turnover about 25% by weight and 14% by name.

The portfolio's valuation discount relative to the market has moved from wide to wider, which gets us excited about the portfolio going forward. The portfolio trades at 6.9x normal earnings compared to 16.0x for the Russell Midcap Value and 18.4x for the Russell Midcap. The portfolio's price-to-book ratio is 1.2x compared to 2.0x and 2.7x for the Russell Midcap Value and the Russell Midcap, respectively.

Attribution: 3Q 2018

The Hotchkis & Wiley Mid-Cap Value Fund underperformed the Russell Midcap Value Index in the third quarter of 2018. Positive stock selection in healthcare, utilities, and financials helped relative performance. The overweight allocation to technology and underweight allocation to materials and real estate also helped returns. This was offset by stock selection in industrials, real estate, and consumer discretionary. The overweight exposure to energy and underweight exposure to healthcare were also modest detractors. The largest positive contributors to relative performance were Mallinckrodt, Office Depot, Popular, Hewlett Packard Enterprise, and NRG Energy; the largest detractors were TRI Pointe Group, Ophir Energy, Bed Bath & Beyond, Weatherford International, and Cairn Energy.

Largest New Purchases: 3Q 2018

Interpublic Group of Companies is the world's fourth largest advertising agency holding company with revenues of ~\$8B and close to 15% of the worldwide ad-agency market. Interpublic is an above-average business selling at a discount to the market due to misunderstood risks as the advertising industry changes.

MID-CAP VALUE FUND

Performance as of September 30, 2018



	3Q18	1 Year	3 Year	5 Year	10 Year	Since 1/2/97
I Shares	3.00%	13.74%	12.40%	8.19%	14.22%	12.29%
A Shares without sales charge	2.92	13.44	12.12	7.91	13.93	12.02
A Shares	-2.48	7.47	10.12	6.75	13.32	11.74
C Shares without CDSC	2.74	12.60	11.28	7.11	13.15	11.21
C Shares	1.74	11.60	11.28	7.11	13.15	11.21
R Shares	2.87	13.17	11.84	7.64	13.65	11.81
Russell Midcap Value Index	3.30	8.81	13.09	10.72	11.29	10.53

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 Russell Midcap® Growth Index measures the performance of those Russell Midcap® Index companies with higher price-to-book ratios and higher 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. 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 9/30/18 as a % of the Fund's net assets: Whiting Petroleum Corp. 5.4%, Popular Inc. 5.0%, Hewlett Packard Enterprise 4.6%, ARRIS International PLC 4.2%, Kosmos Energy Ltd. 3.7%, Discovery Inc. 3.1%, Cairn Energy PLC 3.1%, CIT Group Inc. 3.0%, Citizens Financial Group Inc. 2.9%, and Ericsson 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
Mallinckrodt PLC	1.6%
Popular Inc.	5.0
Office Depot Inc.	2.4
Hewlett Packard Enterprise	4.6
Corning Inc.	1.5

Bottom Five	% of Total Portfolio ¹
Embraer SA	1.6%
Weatherford International PLC	2.4
Bed Bath & Beyond Inc.	1.3
Ophir Energy PLC	1.5
TRI Pointe Group Inc.	2.2

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 quarter based on the security's quarter-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 at quarter-end, all new security positions are included.

**NOT FDIC INSURED
NO BANK GUARANTEE
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