

Market Commentary

The Russell 2000 Index was up more than +11% through the first nine months of the year before posting its worst calendar quarter in 7 years, falling -20.2% in Q4. The end result was a -11.0% return for calendar year 2018. In the fourth quarter, robust corporate earnings and strong economic indicators were no longer enough to fuel equity returns. Suddenly, Fed tightening, a slight uptick in inflation, trade tensions, and a concern that tax stimulus had run its course all conspired to reverse equity gains in an abrupt risk off sell off. Small cap stocks bore the brunt of this correction due to their economic sensitivity and less defensive nature. Meanwhile, real GDP growth in the US was a healthy +3.4% in the most recent quarter and the unemployment rate remains below 4%. The forward P/E ratio for the Russell 2000 Index declined from 20.6x at the beginning of the year to 14.3x at the end of the year. The index's median P/E since 1995 is 16.7x, so it went from well above average to comfortably below average over the course of the year.

Based on historical pre-recession peak to trough returns, the typical Russell 2000 decline is about -32% with the Global Financial Crisis being the lone exception. By way of comparison, the peak to trough decline in the Russell 2000 during 2018 was -27%. Commodity securities were among the worst-performers of the year, with the small cap energy (-37%) and materials sectors (-26%) leading the decline. Non-cyclical utilities performed best, returning +4% during the year—the only sector in the Russell 2000 Value with a positive return. 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.

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 6.1x normal earnings compared to 12.5x for the Russell 2000 Value and 14.4x for the Russell 2000. The portfolio's price-to-book ratio is 1.0x compared to 1.2x and 1.8x for the Russell 2000 Value and the Russell 2000, respectively.

Attribution: 2018

The Hotchkis & Wiley Small Cap Value Fund underperformed the Russell 2000 Value Index in 2018. The portfolio's average energy weight was about double the benchmark's average weight (14% vs. 7%) which detracted from performance. Energy was the worst-performing sector in the Russell 2000 Value during the year by a large margin, as crude oil prices fell 25% in the year. The portfolio's energy stocks held up considerably better than the index's energy stocks, but not enough to compensate for the overweight allocation. Stock selection in communication services and consumer discretionary also detracted from performance. Positive stock selection in technology and healthcare, along with the underweight position in materials helped relative performance. The largest individual detractors to relative performance were C&J Energy Services, Masonite International, WestJet Airlines, MDC Partners, and CNO Financial; the largest positive contributors were ARRIS International, Popular, Hanger, Whiting Petroleum, and Matson.

Performance as of December 31, 2018



	4Q18	1 Year	3 Year	5 Year	10 Year	Since 9/20/85
I Shares	-21.23%	-14.90%	3.27%	2.25%	15.57%	10.79%
A Shares without sales charge	-21.28	-15.11	3.01	2.00	15.28	10.54
A Shares	-25.41	-19.57	1.18	0.91	14.67	10.36
C Shares without CDSC	-21.42	-15.73	2.24	1.24	14.44	9.74
C Shares	-22.42	-16.73	2.24	1.24	14.44	9.74
Russell 2000 Value Index	-18.67	-12.86	7.37	3.61	10.40	n/a

The Fund's total annual operating expense ratio as of the most current prospectus is 1.02% for I Shares, 1.27% for A Shares and 2.02% for C 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 and C 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-9/20/85, A Shares-10/6/00, C Shares-2/4/02). 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 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Russell 2000® Value Index measures the performance of those Russell 2000® companies with lower price-to-book 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. Earnings growth is the annual rate of growth of earnings from investments. Forward P/E (Price/Earnings) ratio is a stock's price over its predicted earnings per share. Top ten holdings as of 12/31/18 as a % of the Fund's net assets: First Hawaiian Inc. 5.4%, Enstar Group Ltd. 5.2%, Seritage Growth Properties 4.9%, Avnet Inc. 4.1%, WestJet Airlines 4.0%, Popular Inc. 3.8%, Hanger Inc. 3.5%, Matson Inc. 3.4%, Masonite Int'l Corp. 3.2% and First Horizon Nat'l Corp. 3.1%. 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 smaller and/or newer companies involves greater risks than those associated with investing in larger companies, such as business risk, significant stock price fluctuations and illiquidity. The Fund may invest in ETFs, which are subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an ETF's shares may trade at a discount to its net asset value ("NAV"), an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a Fund's ability to sell its shares. 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
ARRIS International PLC	0.8%
Popular Inc.	3.8
First BanCorp (Puerto Rico)	0.0
Hanger Inc.	3.5
Whiting Petroleum Corp.	1.5

Bottom Five	% of Total Portfolio ¹
MDC Partners Inc.	1.1%
CNO Financial Group Inc.	2.8
C&J Energy Services	1.3
Masonite International Corp.	3.2
WestJet Airlines Ltd.	4.0

Classes & Tickers

I Shares	HWSIX
A Shares	HWSAX
C Shares	HWSCX

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 2000 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.

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

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