**SMALL CAP VALUE FUND** *(Limited Availability)*
**Commentary**
Second Quarter 2019

Hotchkis & Wiley

## Manager Review and Economic Outlook

### Market Commentary

The Russell 2000 Index returned +2.1% in the second quarter and is now up +17.0% since the beginning of the year. An increasingly dovish tone from the US Federal Reserve contributed to positive equity markets, as Chairman Jay Powell indicated a readiness to lower interest rates for the first time in more than a decade. The Federal Funds futures market is pricing in a high likelihood of a rate cut during the Fed's next meeting. In addition, geopolitical tensions subsided, as the US reached a deal with Mexico to halt proposed tariffs, and US-China trade talks resumed. Small cap performance varied greatly by sector, with industrials leading the way at +8% and energy lagging at -9%. Growth again outpaced value, further widening the valuation gap. Over the past five years, the Russell 2000 Growth Index has outperformed the Russell 2000 Value Index by a large margin, returning +51% compared to +30%, cumulatively.

We continue to view the overall small cap equity market as about fairly valued, perhaps slightly overvalued. However, this is far from a normal market. On the one hand, the market's valuation suggests that investors have a reasonably healthy risk appetite. On the other hand, certain attributes imply that investors are exceptionally risk averse. A glaring example outside of US equity markets is the negative yield on some country's government debt (e.g. German bunds), where investors are guaranteed to lose money if held to maturity. A preference for a small, yet certain loss over a wider range of outcomes exemplifies extreme risk aversion. This risk aversion is borne out in the US small equity market through a comparison of different sectors. Sectors with low economic sensitivity and stable earnings streams have been flooded with capital while cyclical sectors have been shunned, irrespective of valuation. Regulated utilities, for example, are largely insulated from economic slowdowns and exhibit more stable earnings than most other businesses. This has appealed to risk averse equity investors, which have flooded the sector with capital. As a result, small cap utilities' P/E multiples are now more than 30x, an increase of 40% over the past five years. We view this as a rich price to pay for a sector with modest prospects for growth, and do not view this as a safe investment. While it does not represent a certain loss, we believe the long-term upside potential at these valuations are paltry at best. Most REITs, consumer staples, and healthcare companies exhibit a similarly unappealing long-term risk-reward tradeoff.

In many cases, banks and other financials trade at less than half the valuation of the non-cyclical markets segments. Select small cap companies within industrials, technology, and energy also trade at substantial discounts to their intrinsic values. These sectors have a higher correlation with economic cycles than non-cyclicals, but valuations render the long-term prospects more appealing irrespective of near-term economic growth. Also, we have a deep-rooted preference for strong balance sheets, which we believe can provide a form of protection should the macro environment take a turn for the worse. In our view, this combination represents a considerably less risky investment—and one with considerably more upside potential.

The wide dichotomy between undervalued and overvalued pockets of the market has facilitated a portfolio that trades at a large valuation discount to the market, in our view, without assuming undue risk. The portfolio trades at 6.8x normal earnings compared to 13.5x for the Russell 2000 Value Index and 20.2x for the Russell 2000 Growth Index. It trades at less than 1.1x book value compared to 1.4x and 3.8x for the small value and mid growth indices, respectively. This valuation discount combined with healthy balance sheets and good underlying businesses has us confident about the portfolio's prospects as we look forward.

### Attribution: 2Q 2019

The Hotchkis & Wiley Small Cap Value Fund underperformed the Russell 2000 Value Index in the second quarter of 2019. Small cap value lagged small cap growth, which serves as a headwind for our value-focused investment process. More than 25% of the portfolio trades at a discount to book value, compared to just 12% for the Russell 2000 Value—this was a performance detractor in the quarter. The overweight position and stock selection in energy hurt relative performance, as energy was the market's worst-performing sector. Positive stock selection in communication services, consumer discretionary, and healthcare helped relative performance. The overweight position in industrials and underweight position in consumer staples also helped returns. The largest individual detractors to relative performance in the quarter were Office Depot, Whiting Petroleum, Tutor Perini, CommScope, and Frank's International; the largest positive contributors were WestJet Airlines, Sonic Automotive, KBR, Matson, and Stifel Financial.

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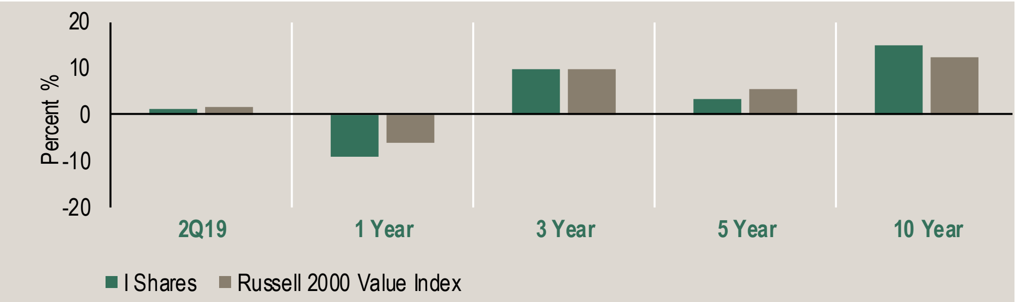
### Performance as of June 30, 2019




| | 2Q19 | 1 Year | 3 Year | 5 Year | 10 Year | Since 9/20/85 |
|---|---|---|---|---|---|---|
| I Shares | 1.27% | -8.97% | 9.75% | 3.14% | 15.04% | 11.03% |
| A Shares without sales charge | 1.20 | -9.20 | 9.48 | 2.89 | 14.76 | 10.78 |
| A Shares | -4.11 | -13.97 | 7.53 | 1.78 | 14.14 | 10.60 |
| C Shares without CDSC | 1.04 | -9.86 | 8.66 | 2.12 | 13.90 | 9.98 |
| C Shares | 0.04 | -10.86 | 8.66 | 2.12 | 13.90 | 9.98 |
| Russell 2000 Value Index | 1.38 | -6.24 | 9.81 | 5.39 | 12.40 | 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 Russell 2000® Growth Index measures the performance of those Russell 2000® Index companies 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/Normal Earnings is the current market price per share divided by normalized earnings per share. Price-to-Earnings (P/E) is calculated by dividing the current price of a stock by the company's trailing 12 months' earnings per share. Book value is the net asset value of a company, calculated by subtracting total liabilities from total assets. Top ten holdings as of 6/30/19 as a % of the Fund's net assets: Seritage Growth Properties 5.8%, First Hawaiian Inc. 5.5%, Enstar Group Ltd. 5.3%, Popular Inc. 3.9%, Matson Inc. 3.6%, Masonite Int'l Corp. 3.4%, First Horizon Nat'l Corp. 3.2%, Hanger Inc. 3.1%, Bank of NT Butterfield & Son 3.1% and Sonic Automotive Inc. 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] |
|---|---|
| WestJet Airlines Ltd. | 0.0% |
| Sonic Automotive Inc. | 3.1 |
| KBR Inc. | 2.1 |
| Matson Inc. | 3.6 |
| Stifel Financial Corp. | 1.8 |

| Bottom Five | % of Total Portfolio[1] |
|---|---|
| CommScope Holding Co. Inc. | 0.9% |
| Frank's International | 3.0 |
| Tutor Perini Corp. | 2.2 |
| Whiting Petroleum Corp. | 1.3 |
| Office Depot Inc. | 2.2 |

### 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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