

Hotchkis & Wiley Value Opps Instl HWAIX

A new category, but this fund will never fit neatly into any group.

Morningstar's Take HWAIX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Bronze

Morningstar Pillars

Process	+	Positive
Performance	+	Positive
People	+	Positive
Parent	+	Positive
Price	○	Neutral

Role In Portfolio

Supporting

Fund Performance HWAIX

Year	Total Return (%)	+/- Category
YTD	13.42	1.29
2018	-10.97	-1.70
2017	13.85	-4.55
2016	19.42	10.97
2015	-3.33	-1.59

Data through 3-31-19

3-06-19 | by Kevin McDevitt

Hotchkis & Wiley Value Opportunities has moved to an allocation category, but its risks remain decidedly that of an equity fund. It retains its Morningstar Analyst Rating of Bronze.

In 2018, this fund moved to the allocation--85%+ equity Morningstar Category, which better reflects its eclectic opportunity set. It had been in the large-value category from 2015 through 2017 and mid-value prior to that, reflecting the fact that this is an all-cap portfolio, although for the past five years it has landed squarely in large-cap territory. Beyond equities, the fund will also own small positions in corporate bonds, private equity stakes, and options. In 2018, lead manager David Green bought puts on Tesla Motors TSLA, in part as a hedge on the fund's stake in General Motors GM common shares.

Nevertheless, the fund remains much more volatile than even most equity funds. Its 15-year standard

deviation was 18.9 through February 2019 versus the 14.5 large-value average. So while the fund's opportunity set is broader than that of most equity funds, its risk profile makes the all-cap Russell 3000 Value Index the most-appropriate benchmark.

Much of the fund's recent volatility stems from its deep-value portfolio. Green moved the fund into more deep-value names in recent years as the valuation gap between value and growth stocks grew. He particularly favored financials and industrials stocks, with the two sectors claiming nearly 46% of the January 2019 portfolio. Green showed his aggressiveness when he bought embattled General Electric GE a year ago and added to it during the 2018 fourth-quarter correction. He believes the company will be able to pay down a lot of debt when its healthcare division goes public later this year. Including the fund's common and preferred shares, GE is now its largest position.

This fund will always be eclectic and volatile, but those qualities arguably add to its appeal as a satellite holding in a diversified portfolio. Lower fees would add to its value proposition; while they are average relative to category peers, they are high in an absolute sense.

Process Pillar + Positive | Kevin McDevitt
03/06/2019

Hotchkis & Wiley uses the same deep-value philosophy across its equity strategies, but this fund has the firm's most-flexible mandate. It invests across the market-cap spectrum, although small- and mid-cap stocks must clear higher hurdles than large caps. It invests across the capital structure, buying both high-yield and convertible bonds when prices become attractive enough. It will invest in special situations such as risk arbitrage and will buy stakes in private companies. It often has sizable foreign equity positions, and currency exposure is hedged opportunistically.

With equities, David Green tries to capitalize on short-term market mispricings of companies with better long-term earnings potential, using normalized earnings and adjusting for risk. Valuation screens are run by each sector team. Balance-sheet strength, return on capital, industry and company dynamics, company management, and risk factors are also assessed.

The fund, usually close to fully invested, typically holds 40-50 stocks with as much as 50% of assets in the top 10 holdings. Turnover has been high, averaging 108% in the past decade. Sector weightings are a reflection of where the team is finding value rather than closely tracking a benchmark. The contrarian process comes with volatility but has worked in the long term, and the team has stuck with it even in down periods, supporting its Positive Process rating.

This fund is opportunistic, investing across the market-cap spectrum and capital structure depending on where David Green finds value. In 2018, this fund moved to the allocation--85%+ equity category, which better reflects its eclectic opportunity set. It had been in the large-value category from 2015 through 2017 and the mid-value category prior to that, reflecting the fact that this is an all-cap portfolio, although for the past five years it has landed squarely in large-cap territory.

The fund consistently lands in value territory, too, although Green dove deeper into value in 2017, partly in response to a historically wide spread with growth stocks. The portfolio's average price multiples are below those of the Russell 3000 Value Index. He did so partly by building a 19% industrials position. He bought embattled General Electric GE a year ago and added to it during the 2018 fourth-quarter correction. He believes GE will be able to pay down a lot of debt when its healthcare division goes public later this year. Including the fund's common and preferred shares, GE is now its largest position.

Financials remain the biggest bet at 26.8% of assets. This stake is well-diversified across banks, insurance companies, and asset management firms. Green added Morgan Stanley MS in October 2018 as it was trading just over tangible book value, despite having a strong wealth-management franchise.

Performance Pillar + Positive | Kevin McDevitt
03/06/2019

This fund is volatile and not a great downside performer, but it has made up for this in up markets. Its strong long-term record results in a Positive Performance rating. From its 2003 inception through February 2019, the fund gained 12.3% annualized, crushing the Russell 3000 Value Index's 9.0%. (Although the fund moved to the allocation--85%+ equity category in 2018 from large-value, its prospectus Russell 3000 Value Index benchmark remains the best fit.) It has beaten the benchmark in nearly two thirds of the rolling three-year periods since inception.

However, owing to its bold contrarian approach, the fund tends to be highly volatile. Its standard deviation since inception is 19.0 versus the index's 14.3. Not surprisingly, it has struggled during down markets. During the 2007-09 credit crisis, the fund fell 63.7% (June 2007-February 2009) versus the index's 55.6% drop. During 2018's fourth-quarter correction, the fund fell 18.6% versus the index's 12.2% decline.

Over the long haul, the fund's volatility has led to a smaller edge over peers and the benchmark in risk-adjusted terms, but its 0.58 Sharpe ratio still eclipses the index's 0.54. Nevertheless, investors should maintain a patient, long-term mindset.

People Pillar + Positive | Kevin McDevitt
03/06/2019

Hotchkis & Wiley's investment team is experienced, has had low turnover, and shows high levels of manager investment, earning a Positive People rating. The firm has 22 investment professionals focused on equities and high-yield bonds. The team averages 23 years of industry experience and 15 years at Hotchkis & Wiley. On the equity side, there are six sector teams (capital goods, consumer, energy/commodities, financials, healthcare, and technology) with five to seven members each;

analysts are part of more than one team to provide greater perspective and to challenge each other's ideas. Typically, two or three analysts take the lead on a sector, with the others serving as peer reviewers, a system that was put in place around 2009 to strengthen the research process following dismal performance during the financial crisis. Nearly all team members besides a couple of junior analysts have equity ownership in the firm. This practice has helped retain talent through the years and is a benefit, as the team has worked together through various market cycles.

CEO George Davis and lead manager David Green have run the fund since its 2002 inception. Davis' tenure at the firm dates back to 1988 and Green's to 1997. Davis is part of the financials and capital goods sector teams; Green focuses on technology and healthcare. Davis and Green each have more than \$1 million invested in the fund.

Parent Pillar + Positive | Kevin McDevitt
03/06/2019

Hotchkis & Wiley is a value-oriented, institutional-focused boutique that boasts high manager retention, a team-oriented culture, and a stable of 10 funds that have not ventured beyond the firm's core competencies. Key-person risk is low given the team approach, and analyst turnover has been close to zero for the past decade. Most of the investment team members (who average 15 years at Hotchkis & Wiley) are owners of the firm, and manager ownership of fund shares is solid. Plus, the firm has shown a willingness to close strategies that reach capacity limits, as it closed all of its strategies in 2006. Today, Hotchkis & Wiley Small Cap Value is closed.

Fees are less of a drawback than they used to be, but they're still too high overall. More than a third of assets are in share classes priced above-average or high relative to peers, despite the fact that the firm has close to \$30 billion in assets under management. Plus, the equity funds' aggressive, often deep-value nature means performance can be boom-or-bust, which can affect risk-adjusted performance, investor returns, and asset flows. But patient investors who understand what they are buying can benefit. The firm offers true active management and sticks with its discipline through thick and thin. Hotchkis &

Wiley's culture is investor-friendly in most respects, earning a Positive Parent rating.

Price Pillar ● Neutral | Kevin McDevitt
03/06/2019

This fund's Institutional share class houses 75% of its assets. The Institutional shares' fee-level rank improved dramatically over the past 12 months--this wasn't because of falling expenses, but rather its move to the allocation--85%+ equity category from large-value.

Its new fee peer group is aggressive allocation institutional, which has a median expense ratio of 0.93%. This is 20 basis points greater than the large-cap institutional median, the fund's prior boggy. Nevertheless, the institutional shares' 0.95% prospectus expense ratio is still 2 basis points greater than the median. Overall, the fund's asset-weighted fee level falls to the 50th percentile. As a result, its Price rating is upgraded to Neutral.

Morningstar's Take as of April 18, 2019
Hotchkis & Wiley Value Opportunities Fund

Average Annual Returns as of March 31, 2019

	1 Year	3 Year	5 Year	10 Year	Since 12/31/02
Class I	3.11%	12.03%	7.21%	19.26%	12.04%
Class A (w/o sales charge)	2.85	11.75	6.94	18.97	11.81
Class A	-2.56	9.75	5.79	18.34	11.44
Class C (w/o CDSC)	2.09	10.92	6.14	18.09	10.96
Class C	1.09	10.92	6.14	18.09	10.96
Russell 3000 Value Index	5.30	10.50	7.56	14.50	9.01
Morningstar Allocation--85%+ Equity Category Avg	2.64	9.60	5.99	12.56	n/a

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.

The Fund's total annual operating expense ratio as of the most current prospectus is 0.97% for I Shares, 1.22% for A Shares and 1.97% for C Shares. Expense ratios shown are gross of any fee waivers or expense reimbursements.

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 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 and A Share-12/31/02, C Share-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.

Mutual fund investing involves risk. Principal loss is possible. Investing in non-diversified funds and/or smaller and/or medium-sized companies involves greater risks than those associated with investing in diversified funds and/or large company stocks, such as business risk, significant stock price fluctuations, sector concentration and illiquidity. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. 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. 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.

The Russell 3000® Value Index includes stocks from the Russell 3000® Index with lower price-to-book ratios and lower expected growth rates. The index does 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 index. It is not possible to invest directly in an index. The Fund's returns may not correlate with the returns of their benchmark index.

Return on capital measures how effectively a company uses the money (borrowed or owned) invested in its operations; Standard deviation measures the degree to which a fund's quarterly return varies from the fund's mean return over a specified time period; Sharpe ratio is a measure that indicates the average return minus the risk-free return divided by the standard deviation of return on an investment; and Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument.

Top 10 holdings as of 3/31/19 as a % of the Fund's net assets: General Electric Co. 5.9%, Microsoft Corp. 5.6%, Seritage Growth Properties 5.3%, Wells Fargo & Co. 4.8%, General Electric Co. (5% Preferred) 4.6%, American Int'l Group Inc. 4.2%, Amerco 4.0%, Nat'l Oilwell Varco Inc. 3.7%, Goldman Sachs Group Inc. 3.6% and Bank of America Corp. 3.4%. Portfolio weightings, sector allocations, and/or fund holdings are subject to change and should not be considered a recommendation to buy or sell any security. Opinions expressed are those of the author and are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

The Hotchkis and Wiley Value Opportunities Value Fund (HWAIX) received a 4-Star Overall Morningstar Rating among 165 Allocation--85%+ Equity Funds for the period ending 3/31/19 (derived from a weighted average of the Fund's three-, five- and ten-year risk adjusted return measure, if applicable). The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating™ for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating™ metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. HWAIX received 5 stars for the three-, 3 stars for the five- and 5 stars for the ten-year time periods ended 3/31/19 among 165, 144 and 106 Allocation--85%+ Equity Funds, respectively. Ratings for other share classes may vary.

Morningstar Rankings represent a fund's total-return percentile rank relative to all funds that have the same Morningstar Category. The highest percentile rank is 1 and the lowest is 100. It is based on Morningstar total return, which includes both income and capital gains or losses and is not adjusted for sales charges or redemption fees. Morningstar ranked the Hotchkis and Wiley Value Opportunities Fund Class I in the top 37%, 17% and 1% out of

186, 144 and 106 Allocation--85%+ Equity Funds for the one-, five- and ten-year periods ending March 31, 2019, respectively. Ranking is for the share class indicated only. Other share classes will have different rankings. ©2019 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance is no guarantee of future results.**

Each Morningstar Category Average represents a universe of funds with similar investment objectives. The Morningstar Analyst Rating™ for funds is the summary expression of Morningstar's forward-looking analysis of a fund. Morningstar analysts assign the ratings on a five-tier scale with three positive ratings of Gold, Silver, and Bronze, a Neutral rating, and a Negative rating. Morningstar evaluates funds based on five key pillars—Process, Performance, People, Parent, and Price—which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis. Morningstar Analyst Rating is not a credit or risk rating. It is a subjective evaluation performed by the mutual fund analysts of Morningstar, Inc. Morningstar evaluates funds based on five key pillars, which are process, performance, people, parent, and price. Morningstar's analysts use this five pillar evaluation to identify funds they believe are more likely to outperform over the long term on a risk-adjusted basis. Analysts consider quantitative and qualitative factors in their research, and the weighting of each pillar may vary. The Analyst Rating ultimately reflects the analyst's overall assessment and is overseen by Morningstar's Analyst Rating Committee. The approach serves not as a formula but as a framework to ensure consistency across Morningstar's global coverage universe.

The Analyst Rating scale ranges from Gold to Negative, with Gold being the highest rating and Negative being the lowest rating. A fund with a "Gold" rating distinguishes itself across the five pillars and has garnered the analysts' highest level of conviction. A fund with a "Silver" rating has notable advantages across several, but perhaps not all, of the five pillars—strengths that give the analysts a high level of conviction. A "Bronze"- rated fund has advantages that outweigh the disadvantages across the five pillars, with sufficient level of analyst conviction to warrant a positive rating. A fund with a "Neutral" rating isn't seriously flawed across the five pillars, nor does it distinguish itself very positively. A "Negative" rated fund is flawed in at least one if not more pillars and is considered an inferior offering to its peers. Analyst Ratings are reevaluated at least every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to <http://corporate.morningstar.com/us/documents/MethodologyDocuments/AnalystRatingforFundsethology.pdf>.

The Morningstar Analyst Rating should not be used as the sole basis in evaluating a mutual fund. Morningstar Analyst Ratings are based on Morningstar's current expectations about future events; therefore, in no way does Morningstar represent ratings as a guarantee nor should they be viewed by an investor as such. Morningstar Analyst Ratings involve unknown risks and uncertainties which may cause Morningstar's expectations not to occur or to differ significantly from what we expected.

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