# Hotchkis & Wiley
# High Yield Webinar Replay

October 2018

Hotchkis & Wiley

*Latest High Yield Perspectives*

***Listen in on a recent conference call featuring Portfolio Manager Mark Hudoff as he provides a perspective on the high yield market and outlook for the remainder of 2018 and into 2019.***

**Audio Replay** **Presentation**

***Hotchkis & Wiley High Yield Fund - Average Annual Returns as of September 30, 2018***

| | 3Q18 | 1 Year | 3 Year | 5 Year | 7 Year | Since 3/31/09 |
|---|---|---|---|---|---|---|
| I Shares (net of fees) | 2.05% | 3.02% | 7.43% | 5.16% | 7.77% | 10.46% |
| I Shares (gross of fees) | 2.22 | 3.74 | 8.19 | 5.90 | 8.53 | 11.24 |
| ICE BofAML BB-B US HY Constr. Index | 2.38 | 2.29 | 7.33 | 5.39 | 7.16 | 10.28 |
| ICE BofAML US High Yield Index | 2.44 | 2.94 | 8.19 | 5.54 | 7.58 | 11.59 |

**The Fund's total annual operating gross expense ratio as of the most current prospectus is 0.74% for I Shares; net expense ratio is 0.70%. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 29, 2019.** 30-Day SEC Yield with Expense Waiver: 6.04%; 30-Day SEC Yield w/o Expense Waiver: 6.01%. *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.*

**Transcript**

**Operator**: Greetings and welcome to the Hotchkis & Wiley third quarter 2018 High Yield call for Investment Professionals. At this time, all participants are in a listen only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press *0 on your telephone keypad. As a reminder, this conference is being recorded. I would like to turn the conference over to your host, Mary Papamarkou. Thank you, you may begin.

**Mary Papamarkou**: Thank you operator. Good afternoon and welcome to the Hotchkis & Wiley High Yield Strategy Webinar for Investment Professionals. My name is Mary Papamarkou, Managing Director, Mutual Fund Distribution, and I'm joined today by Mark Hudoff, Portfolio Manager on the Hotchkis & Wiley High Yield strategy. On behalf of everyone at Hotchkis & Wiley, thank you for joining us today. We're headed for the home stretch in 2018 and looking ahead to 2019.

Today, we will be conducting a review of the portfolio performance and positioning with a discussion on our year end high yield market outlook. All lines have been muted for today's call. Please feel free to submit questions to the chat function at any time and we'll do our best to answer as we go along. We will also take operator assisted questions at the end of our call.

Some key updates about our firm and the High Yield strategy. As of September 30, 2018, our firm assets totaled almost $33 billion in assets under management. The High Yield strategy represented approximately $4 billion in total assets, of which $2.7 billion are in the mutual fund and the remainder in institutional separate accounts. So, before we get started here, I'll do a quick background on our team. As you can recall, our Research Analyst at Hotchkis & Wiley are organized by industry and support both our equity and income strategies, our average tenure of an analyst at Hotchkis & Wiley is 15 years with the firm. We had no changes to the team in the third quarter and one personnel update of note, Sheldon Lieberman, whose primary responsibilities are client facing, will be retiring after 24 years with Hotchkis & Wiley at the end of the year. And with that, I'll turn our discussion over to Mark.

**Mark Hudoff**: So, hi there. Thanks for spending some time with us. I'm going to use the presentation as a guide and the way we're going to do this is I'll, or the way I'd like to do it is, we'll talk about performance, then I'll talk a little bit about positioning and then I'm going to talk, kind of spin through some charts on the overall high yield market. I think it's useful to get some context in that regard. So, as it relates to the presentation, let's go to Page 3, attribute, well no, pardon me, let's go to Page 2 and look at the overall performance.

In this slide, you'll find performance versus the high yield benchmark and you can see that those are net numbers versus those benchmarks. For the third quarter, a little disappointing in terms of results and I'll get into explaining those results when we get there. For the year, I feel pretty good versus the BB space which is our benchmark. And then, over the longer run, I think we're doing what we had hoped that we would be able to achieve in that hundred basis point area. The five-year number is where there's a little bit of pressure from the 2014 oil & gas period of time. And unfortunately, this quarter is going to reflect a little bit of E&P volatility and the numbers are, frankly, when you look at those negative third quarter numbers, it's essentially those, that sector again that's cropped up and introduced some volatility.

Okay, we turn the Page, we can see by rating, the attribution. It's a busy chart, basically, on the left-hand side under "High Yield Fund" the various columns weighting over the period, return, and then contribution; and then, over to the far right, it's basically the benchmark netted, well, our performance netted from the benchmark. You can see where the buckets, by quality, generated either pluses, minuses or no impact. I want to make a note on this because it's a little bit funny if you really do the math, there's a couple things going on. First of all, we use a 'higher of' rating methodology when we construct these things. There's no particular reason why we selected it, it's what we've always done. Ray and I have done that basically for 20 years and so creatures of habit, we produced that.

Well, the bottom line is, though, what happens there is it ends up bucketing on the highest rating. So, if it has a Moody's rating, say for instance, you'll see in the BB category there's an anomaly that crops up and it's just as it relates to this attribution model. We have a credit in there that has two CCC ratings and one BB rating. Well, because there isn't a higher of methodology, basically, that BB gets slapped into the, well that credit gets slapped into the BB basket. So, if I go down and trickle through the attribution, investment grade, we are underweight, according to this higher of methodology and we underperformed the small amount that is really in the overall index. There's nothing really going on there in terms of that I could point to. It ends up being seven basis points but, really, I've looked through every name in the portfolio and there's not really much more than P1 minus one here, basis point here minus one basis point there. Again, that's not really a driver of any particular value.

In the BB space, that was two things, it was this rating problem in the accumulation of the attribution model that relates exclusively to JC Penney. And, because JC Penney is 'the' name in the portfolio that has a BB by Fitch, but it's Caa2 by Moody's and at the second lien it's Caa1, it's actually single, it's B3 and then CCC+ by S&P at the secured level, at the second lien it's Caa1, CCC+, BB. So, anyway, sorry to confuse you, but that was in cumulate or the cumulated effect of that was about 10 of that 20 basis points drag on the portfolio. The positioning there in JC Penney is about, three quarters of the position weight is in the first lien. The first liens were down 4% in the third quarter and so, net, I think it's something around the order of five basis points drag. The other six basis points was with the second lien, the second lien is down about 17% in the third quarter. So, definitely underperformance on the second liens. Kind of part and parcel with the overall space, drama associated with Sears going into bankruptcy outside of the third quarter and just worry about the overall department store story.

Our investment thesis, though, remains intact and that is that, it was really driven by more of a real estate assessment of the properties. A lot of these properties are below market rents based on long term leases. And then whether or not JC Penney goes into bankruptcy, or not, and we don't think that there's any reason that they need to go in the next couple years; they're free cash flow neutral, there's reason to believe that that might actually improve a little bit. And so, there's no reason for them to go into bankruptcy but, if they do go into bankruptcy, we feel very comfortable that our claim on the properties underlying the first lien, in particular, well over collateralize the debt itself. And it's a good clean claim and we've got a lot of work in that space.

So, Mr. Market certainly wasn't very happy with the second liens in particular, and we definitely absorbed some volatility there. The second half of the 21 basis points was really a positioning issue in the BB space. You know, I think in previous discussions, we talked about being relatively short overall duration, the positioning of the portfolio, particularly in the BB space has been really centered on the five-year duration sell, not the ten-year duration sell. If you look at a chart of five years versus ten years U.S. Treasuries over the quarter, you'll see they probably traded in lockstep, a general widening over the quarter, a little bit of volatility there. But in the very last part of the quarter, fives really underperformed tens and that part of the curve, the five-year part of the curve, underperformed the ten-year part of the curve in BB space, and so, it was really a positioning problem. You can see it differently because the high yield market is ten non-call 5 call structure. Today, it's more like eight non-call 3, but anyway, it's a callable structure.

A lot of our BB bonds were trading yield to call at the very front end of their maturity profile or their call schedule and so, nothing really happened with them. Maybe it was a little bit of extension but, in a sense, they underperformed the back end of the market. That really comes down to a positioning with BBs, it's the biggest drag in the portfolio over the quarter; the combination of a bad credit or bad credit behavior, in the case of one name. And then single B, if I tic down to single Bs, net neutral. Actually, the real story there is that we carry, we have a lot of carry in the portfolio, the smaller capitalization space provides us with that. A lot of that got eaten up by a few names in the portfolio, three relatively small E&P names really got beat up in the third quarter and whether it's differentials or proximity to maturity, and all the conspiring factors in the market that are not really tolerating any kind of uncertainty, produced some underperformance in roughly, three names. Anyway, neutral, we'll call it neutral for single Bs.

If I go down to the rest of it, the CCC space, again that was more noise than anything else. We really don't have a very big position in CCC, just basically, more than anything, they're under rated, we believe. Really, the key factor was in the non-rated space, we have about, well under 3% in basically reorganized securities. Now these are - they either went through bankruptcy and we worked them out, or they went through a recapitalization and they've ended up being relatively illiquid or just, hopefully, on the mend balance sheets.

In the case of two names they were restructured equity that got marked up, and we have a very systematic way to mark things up. We go through public comps, we take the quarterly numbers, we feed them through a model with the public comps, we do that and then we adjust that daily guidance that is provided in the private financial discussions, and then we run it through this model on average multiples in the public comp space, discounted for a private company model, and it is very systematic. In fact, I have no influence over it. And American Zinc Recycling and New Day Aluminum both were marked up pretty strongly over the quarter. In the case of American Zinc Recycling, it was driven by an event where an outside investor bought a piece of the company and just basically marked the whole complex up. In the case of New Day, which used to be Noranda, back in the day Noranda bank debt, that was just good performance, the new management team's done a terrific job of shaping that thing up. And that was just better numbers flowing through the financials. So, that's basically at a rating level, what went on over the quarter.

If we turn the page to Page 4, you can see at a sector level, at the top of that, the same kind of attribution story. This is much more precise because it's at a sector level. So, at the Merrill Lynch level three, sector industrial code level, captures everything more properly than just rating category. In this case, in Basic Industry, the relatively strong U.S. economy helped. That did fall into the category of Metals & Mining, so American Zinc Recycling and the New Day, were strong performers in that, accounting for, frankly, the bulk of the Basic Industrial outperformance.

In the case of Healthcare, was Pharma and Hospitals. Pharma came back, or continued to come back, in the third quarter. Particularly strong, five basis points from Endo Pharmaceutical, Mallinckrodt another four basis points, for us nine basis points, there. Hospitals, Community and Lifepoint, notably, did better, netted out the balance of that 12 basis points of outperformance. The rest of the numbers pretty much benchmark like, until you get down to the last two rows, I guess you can call cash a row, cash was a drag in the portfolio. We've been running a lot of liquidity in the portfolio, anticipating late cycle volatility. That certainly has an implication to the portfolio, particularly, as yields have been moving up in the high yield market to the carry differential to zero is, well not quite zero, but pretty close to zero. It's pretty dramatic. It ends up being a carry negative.

Telecom, Telecom in that case, the underperformance is driven by what we don't own, basically, wireless and wireline. In this case the total drag is about nine basis points. Wireline was just really two basis points and the bigger underweight is in the wireless space where it cost us seven basis points. Effectively, we're in a spot where we think the Sprint, T-Mobile transaction probably will go through, and yet, the upside/downside of trying to cover our short there just doesn't make much sense because T-Mobile probably should widen if the thing closes. That's the sure bet, if there is such a thing. The Sprint thing, would be down just dramatically if that thing gets unwound, because, we continue to be very skeptical of the Sprint story. And I think, actually, if you read some of the street research, it's pretty clear that there's a lot more fixing that's going to need to go on as that, if that, merger gets approved and goes forward. I mean, just notably, the amount of towers that are planned to be cancelled on the Sprint side underline the network inefficiency there.

Energy, you know there's really four categories in Energy. We have an overweight in refining. It's not a huge piece of the overall energy weight, which in the Index is nearly 16%. You can see that we're about two, a little over 2% overweight, the overall sector. In the case of refining, it's a very modest couple percentage. We're just slightly overweight there, really no effect, benchmark like returns. The Gas and the Midstream is another sector there. We're pretty neutral there, well actually, if I think about it in positioning terms relative to duration, we're actually underweight. Yet, that is the sector that really didn't do anything either, there was a neutral effect. Where we got hurt was, a little bit of pain, on oilfield services. We're overweight that, heavy emphasis on drilling. That wasn't the source of drama for us.

Two credits, KCA Deutag, combination, they have onshore drilling, they have a service business, they also make some primary rig components, as well as rigs. They underperformed, that was a subtraction of about three basis points. PHII, helicopter business, really dumb behavior by management. They have a refinancing exercise in, you can see the whites in the eyes on that, and they've been balking at every opportunity to refinance their debt and they still have a maturity in five months. A big underperformance there. We feel pretty good about where we're at in the capital structure, basically, some senior debt in front of us. There's the unsecured claim that we have, and then there's the equity. Management team and the owner own nearly all the equity. If they Chapter this thing by not coming due in about five months, there's no argument that could be made that the secured is impaired, so it's going to be current through bankruptcy. That means that the bond holders will own the company. I don't think that the founder really wants to do that, so we're comfortable that something is going to happen. But, it ended up being a three basis point drag in the portfolio because these guys couldn't, they acted like knuckleheads, and didn't get the thing refinanced.

The last sector, overweight E&P. This is a space that, three credits essentially UPL, Sanchez and PetroQuest, tough sledding - as either maturities were coming up or basis differentials, or some combination of maturities and some poor drilling progress in the case of Sanchez, as well as some questions about some of the management decisions there produced some pretty strong underperformance.

That ended up, the overall effect there was nearly the majority, the nearly 40 basis points of the overall energy drag. We think that in the case of these three credits, these primary credits that were the drag. We think that they're going to come back, with Sanchez and PQ we feel very strongly about. UPL, the question there is time because it's really a basis problem that gets solved by externalities that put pipelines for access. In the meantime, it's a liquidity game against reserve bases that, without reinforcing it with additional drilling, can decline. And so, that's a little bit more of a concern. There's some corporate action going on, particularly, in the UPL space, where there's been some recapitalization going on. At the end of the day, we're taking a wait and see approach on that and thinking in the bigger scheme of things that much of this decline will come back. It's just going to be a matter of time. That said, they were a big drag.

**Mary**: So, Mark, why has the high yield market held up so much better than equities? Spreads have been pretty much range balance all year and not moving much in recent volatility.

**Mark**: Well, I think it's a couple things. First of all, I think that Technicals, which I'll talk to later, actually, if you want to, zip to Page 7, I can talk to that, specifically. The fundamentals are still strong. The fact that the Fed is tightening reflects that and the incipit concerns about inflation and, actually, some of the flow through that is materializing. But, that's all a function of the U.S. economy being in good shape. That's good for high yield bonds. It may not be as good for equity markets as the cost of capital goes up. So, that's one reason. So, strong fundamentals, low defaults, strong performance. In fact, I'll tic through the slides here in a second.

I think the bigger thing, aside from valuation, which is unambiguously nothing to scream about, is the Technicals. We call them stable but, I think this year they've actually been pretty strongly supportive of high yield. And if I just go through the math, really the high yield market is a lot like a material balance equation where you have supply and demand and when you have supply in excess of demand, spreads have to widen in order to get marginal deals done. When demand actually exceeds supply and then you get a supportive environment, this is a synthetic supply demand imbalance because gross issuance is 181 billion this year, it annualizes to something on the order 210, 220, which is a really tepid gross issuance pattern. I mean, the last four or three years, we've had, reached about 290. Now on a net basis, we're running minus 18. So, we're issuing bonds, certainly, but bonds are being retired, so, on a net basis, there's less bonds to go around.

And then, if you look at the mutual fund outflows, which have been pretty negative for the balance of the year, the net of supply, minus demand, is actually pretty strong. The last three years, in '17, you saw that number at a minus 14 billion, so that meant that demand exceeded supply on a net basis.

The year before, in '16, it was 90, and the year before that, it was 90 again. So, there was two years where it was more supply than demand. Last year, slightly more demand than supply. This year, running at year to date, 65 million, billion, of basically, net demand. And, that means that they're retiring more bonds that are in, there's less buyers in the market. It ends up meaning that it's a tight market for high yield bonds. I think that that has been, it's been, effectively, a supportive market for spreads in the market. I know it's a little counter intuitive, but if you do the math, that's the way it works out. Did that answer your question, Mary?

**Mary:** Yes, that does.

**Mark:** So, I think that, since I've already launched into this, I'll just hit a couple more pages. If we look at the next page, Page 8, you can see a trajectory of this fundamental, you can see leverage really has moderated over the past several years. That's one measure of leverage. If you look over on the right-hand side, you can look at coverage. Again, in the high yield market, it looks a lot better. Actually, if you look at this versus investment grade, it's quite the opposite story, investment grade leverage has been increasing, interest coverage has been going down. So, you have kind of a tale of two markets where high yield has actually improved. That's another reason why high yield should be okay relative to equity and otherwise defaults.

On the next Page, you can see very constructive picture there. We think '19 is going to be a sub 2% annualized default rate. You can also see loss rates on the right-hand side, very modest. And, that's usually pretty constructive, especially, as the recovery rates bump around in that upper 40%.

If you move to Page 10, you can see that there's one of the real preliminary things that you see that gets you worried about the high yield market is the ratings, 16% CCC, that's average, so there's nothing really startling going on there. It certainly has increased and we are starting to see more LBOs getting done and they do have a lot of leverage on them. But, it's not alarming in an aggregate level by any means and, frankly, the rating profiles, the Upgrade/Downgrade Ratio is very constructive. So, at least that wind is at the back of high yield.

If you go to Technicals you can see, Page 11, the cumulative flows numbers. It's been a tough market for mutual fund flows. And that said, at the cumulated basis, you can see that it's not that dramatic. The big surge that we saw coming out of the global financial crisis, this has not been really heating up, materially. You can see the size of the high yield market. I think we put in our last notes, that what is interesting and it is functionally, a reality, the market is, the defeasement of some of the supply end of the high yield market is going clearly into the bank debt market. That's been a very strong market for issuance.

If you go to Page 12, you can see a valuation metric that accounts for both default and liquidity and it's at the median, kind of fair, nothing to be too excited about. I think, to close out my remarks, high yield remains this kind of a carry trade. If you look at our portfolio position back in this book, you can see that we have quite a bit of carry in the portfolio versus the benchmark. I think we are short duration relative to the index, I think you would anticipate that that's not going to get any shorter. In fact, as we watch the market unfold, I would expect that, as we move into '19, that probably would move up a little bit. The closer we get to the end of what we think is probably the practical Fed tightening, would be a time when we would lengthen the duration of the portfolio, particularly in that BB space. I think that we're going to be adding some more BBs as we go over in time. That's another trade that'll be going on. Some of those reorganized equity, actively trying to liquidate some of those positions. It's not something where you call someone up and just sell them, it takes a little time. Frankly, in the fourth quarter, you'll find that there has been some movement in that front.

We think that we are still in this cycle of dynamics. We want to continue to position the portfolio out for the end of cycle. We don't see it, any imminent signs of that but we have been long and we are long in the tooth in this recovery. I think that, probably 2015, the Oil and Gas and Metals and Mining recession was just that. The fact that the banking system's in such good shape prevented contagion, it probably staved off a real broader recession. So, we've already taken a little bit of air out of the tire in that event and, as a result, this could continue to go. And I think that as a result, the low duration exposure to high yield, low correlation with rates, the improving carry over time, makes high yield a good spot to be in a holding pattern as we move on in time. With that, I'll stop.

**Mary:** So, let's just, really quickly, circle back, maybe, to where we're positioned.

**Mark:** Yeah, go through the top ten. I've already talked about American Zinc Recycling, private restructuring from old Horsehead, yes, we have a pretty full position there, and that is something, probably in 2019, there may be some kind of event. You know, I can't say for sure but I would think that that would be reasonable. Pinnacle Holdings, Agricultural Holdings, that was a partially recapped structure. We have a bond in there, it's a one and a half lien position, it's trading about 12.5%. This is a seed and fertilizer distribution company, particularly in the southeast. Recent financials has been a little weaker because of the hurricane that hit the Texas coast, primarily, but still for a little over four times levered, enterprise value in the space of comparables is eight times, so, it's a good footing underneath that business. We think it's still in pretty good shape. Boardriders, that is restructured Quicksilver equity led by Oak Tree. That is a, it's been recapped and they merged it with Billabong. We think that that's a much better story now than it was, pre-bankruptcy. A lot of the problems that plagued that company, professional management, at the SKU level inventory management, all of those things have been fixed and we think that the combined entity is actually a pretty robust brand. And given the leverage, about three and a half times, we think that that's another one that you would expect that some king of liquidity event will take place within the next 12 to 24 months, and we'll exit that position.

Staples, we know that's the Sycamore LBO, that's basically the distribution company for paper and printer supplies and things like that. It kind of fits in a niche space. This is not the bricks and mortar store, this is the business that operates behind the scenes, particularly with small and midsize companies. Yeah, it's a little leveraged, as I mentioned, this is the strategy of the LBO guys, is 5.9 times. Sycamore paid 12 points, I want to call it 12.6 times, they've got a lot of capital into this. It's actually a good space, Amazon doesn't like to deliver paper to offices, their trucks aren't set up for that, it's a bulky piece of mail and the guys at Staples have a great structure for that. They have a ton of companies on their, basically marketing list and it is actually a very stable business, surprisingly. Anyway, it's a pretty good credit.

Rayonier, it trades at about 10%, by the way. Rayonier Advanced Materials, this is a fiber straight down the fairway specialty chemical company, trades upper sixes, call it 6.8%, three times levered. It basically generates nice free cash flow, billion dollars of debt, 30% EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) margins, at times, it's basically three, it's not 30%, it's about 20, upper 20s. But, anyway, generates nice free cash flow. It's a stable credit with a reasonable yield.

Weekley Homes, private company, home builder, David Weekley family started that firm, really well run. Trades at about 7%, 4.8 times levered, after the first quarter it was more like, it was 4.1 times, so it's backed up about 0.7 in terms of leverage. That's really a function of the hurricane, hit Houston pretty bad, these guys have a lot of properties in Texas and Florida, it's just the vagaries of that business. We think that the book value of the inventory assets and the land is both relatively liquid and covers the debt by 140%, so on an LTV (Loan-to-Value) basis, we like that story. We think that they do a good job and we think there's even a good argument for enterprise value support, even though it's a private company. Their comps traded 10-12 times, EBITDA to EV (Earnings Before Interest, Taxes, Depreciation and Amortization to Enterprise Value).

Go to PetSmart, now PetSmart, that is bricks and mortar but it also has the Chewy brand, that's the BC Partners LBO. Some fishy stuff going on with trying to re-apportion part of the Chewy assets that got put on hold by a law suit and a stay in the courts. Primarily, our weighting there is in the first liens, they trade about 10%. The bonds behind those, the unsecureds, trade at about 16%, three quarters of our position's in the first lien. Yeah, it's five times levered. I think people were pissed off about the corporate action attempt to move about 30% of the Chewy EV back over into BC Partners' pocket. You know, they paid a massive multiple, nearly 12 times for that, so the five times leverage has got a lot of capital under it. And also, last quarter the Chewy numbers came out and they were showing what needed to be shown, and that is marginal, free cash flow generation, but really continued robust year on year growth in sales. And so, they have bricks and mortar but they also have a very compelling web presence.

Shelf Drilling, I said that we're overweight the Services, particularly drilling. This bond trades at about 7, 8%, very strong inventory of backlog, five times levered, it's free cash flow positive. It's a solid drilling company, offshore, and it's basically a good proxy for continued strength, driven by strength and demand for offshore activity, which really started at the beginning of the year but continues to flow through.

Fieldwood, another offshore play. This is semi-restructured capital, we're basically in the first lien, they trade about 7%. It's a pretty comprehensive full-service offshore E&P, both services as well as production; not a lot of "E", but definitely "P". It's a solid little credit, totally devoid of any of the issues on offtake, given that it's in the Gulf.

And then JC Penney, I've talked about that. I mean, at the end of the day, there's about 2 billion of secured debt, there's about 400 million of unsecured, there's another 1.6 billion behind that, about 4 or 5 hundred million of market value of equity underneath that. We think that the assets collateralizing the secured debt, well collateralize both the first liens and the second liens, and that's done based on a re-purposing model on comps around each one of the properties. So, we feel pretty good about that. Certainly, we don't feel good about the performance, particularly the second liens in the third quarter, but we think that any kind of market value loss that we've experienced will come back, eventually. I think we have lots of runway there.

So, that's the story, the overweights, underweights continue with a strong underweight in Telecom, Financial Services continues to tic up in the basis, Basic Industry being the overweight. Automotive is something that we are actively trying to harvest and move that down as well. Okay.

**Mary:** Great. We'll go ahead with that and open up with questions to the listening audience.

**Operator:** Great, thank you. At this time, we will be conducting a question and answer session. If you would like to ask a question, please press *1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press *2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please while we pull for questions. Once again, that's *1 if you'd like to ask a question. And, it appears there's no questions over the phone. Are we doing any questions over the web?

**Mary:** We're good. So, thank you, everyone, for your interest in the Hotchkis & Wiley High Yield Strategy and for participating on today's webinar. Have a great day.

**This material must be preceded or accompanied by a current prospectus.**

*Mutual fund investing involves risk. Principal loss is possible. 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. Investment in Asset Backed and Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund may invest in foreign as well as emerging markets which involve greater volatility and political, economic and currency risks and differences in accounting methods.*

The ICE BofAML US High Yield Index tracks the performance of below investment grade, but not in default, US dollar-denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. The ICE BofAML US Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. The indices do not reflect the payment of transaction costs, fees and expenses associated with an investment in the Fund. It is not possible to invest directly in an index. The Fund's returns may not correlate with the returns of the benchmark indices.

Credit Quality weights by rating were derived from the highest bond rating as determined by S&P, Moody's or Fitch. Bond ratings are grades given to bonds that indicate their credit quality as determined by private independent rating services such as Standard & Poor's, Moody's and Fitch. These firms evaluate a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. In limited situations when none of the three rating agencies have issued a formal rating, the Advisor will classify the security as nonrated. Top ten holdings as of September 30, 2018 as a % of the Fund's net assets: American Zinc Recycling 1.3%, Momentive Performance Materials 1.0%, Rayonier A.M. Products Inc. 1.0%, Weekley Homes LP 0.9%, Rain CII Carbon LLC 0.9%, CCO Holdings LLC 0.9%, Shelf Drilling Hldgs Ltd. 0.9%, Zachry Holdings Inc. 0.9%, Century Aluminum Co. 0.9%, and Telesat Canada/Telesat LLC 0.9%. Fund holdings are subject to change and are not recommendations to buy or sell any security. Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument; Investment grade indicates that a municipal or corporate bond has a relatively low risk of default. Duration is a measure of the price sensitivity of a bond to interest rate movements; Yield to call is the rate of interest earned on a bond when it is called; Leveraged buyout (LBO); Exploration & Production (E&P). Upgrade/Downgrade Ratio is the number of ratings upgrades divided by the number of ratings downgrades (by the major ratings agencies). Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is an approximate measure of a company's operating cash flow based on data from the company's income statement. Earnings Before Interest, Taxes, Depreciation and Amortization to Enterprise Value (EBITDA/EV) uses the cash flows of a business to evaluate the value of a company. The terms ten non-call 5 call structure and eight non-call 3 refers to bond issues and years between maturity and callable. As an example, bonds that were issued with a 10-year maturity were not callable for 5 years; today, it is more like 8-year maturity, not callable for 3 years. Loan-to-Value (LTV) is the ratio of a loan to the value of an asset purchased.

Investment grade bonds, high yield bonds, and other asset classes have different risk profiles which should be considered when investing. Any discussion or view on a particular asset class or investment type are not investment recommendations, should not be assumed to be profitable, and are subject to change.



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