CAPITAL INCOME FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

HWIIX
HWIAX
MARCH 31, 2020

INVESTMENT STRATEGY

The Hotchkis & Wiley Capital Income Fund invests in both value equity securities and high yielding fixed income securities with an emphasis on income generation. The long-term allocation target between value equities and high yielding fixed income securities is 50/50. The portfolio has two benchmarks, the S&P 500 Index ("the equity benchmark") and the ICE BofAML US Corporate, Government & Mortgage Index ("the fixed income benchmark"). These benchmarks are averaged, using the portfolio's long-term allocation targets, to produce a "50/50 blended benchmark" to help assess performance.

MARKET COMMENTARY

The S&P 500 Index declined -20% and the ICE BofAML US High Yield Index declined -13% in the first quarter of 2020 as investors contemplated the economic impact of the COVID-19 pandemic. Shelter-in-place orders, travel bans, layoffs, etc. will have material and widespread effects on global economic activity. In an attempt to combat these effects, governments have taken swift and unprecedented action. Monetary policy responses included the Federal Reserve cutting its Fed Funds rate to near zero and injecting massive amounts of liquidity into an array of government, corporate, and money market credit facilities. Fiscal policy responses included a $2.2 trillion package intended to stimulate the economy, and to provide relief for companies and individuals most affected by the economic consequences of the pandemic. As equities sold off, treasuries rallied—the yield on the 10-year Treasury note declined from 1.9% at the beginning of the year to less than 0.7% at the end of the quarter, reaching an all-time low of 0.5% in early March.

All S&P 500 sectors declined by double digits. Technology, healthcare, consumer staples, and utilities declined the least while energy, financials, and industrials declined the most. Energy was the largest laggard, with the sector falling -50% in the three month period. Government-imposed efforts to mitigate the COVID-19 pandemic, particularly travel/transportation bans, have decreased the global demand for oil. Meanwhile, negotiations between Saudi Arabia and Russia designed to limit oil production reached an impasse. Increased supply of oil, which coupled with the aforementioned decreased demand, sent West Texas Intermediate (WTI) oil prices plummeting -66%, closing the quarter at close to $20/barrel. Financials was the second worst-performing sector, declining -32%. Banks declined disproportionately, falling more than -40% as interest rates collapsed and investors became concerned with the potential for increased credit defaults.

Treasury yields fell across all maturities, but more so on the short end so the yield curve steepened somewhat. Higher rated credits held up better than lower rated credits, which is typical in a broad selloff. Large cap credits held up better than small and mid cap credits, outperforming by more than 500 basis points. Energy was the largest high yield credit laggard, with the sector falling more than double any other sector in the three-month period (-40%). The yield-to-worst on the high yield market increased from 5.41% at the beginning of the quarter to 9.21% at the end of the quarter, an increase of +3.80%. Spreads widened by even more as interest rates fell. The market's spread over treasuries widened from 360 basis points to 877 basis points, a widening of 517 basis points. Underperforming market segments experienced an even larger spread widening: small/mid cap credits +651, CCC-rated credits +786, and energy credits +1328.

A stable investment team is an irreplaceable luxury during challenging periods. We have not encountered a global pandemic the likes of which we face today, but we have certainly encountered challenging environments before. While we do not discount the human toll the virus has taken, our clients have charged our team with managing their assets through various investment environments. We take that responsibility in earnest. We speak to experts daily and read research constantly to try and understand COVID-19's potential ramifications on the economy, capital markets, and most importantly, the portfolio. Despite the unusually opaque nature of today's environment, we are confident that the current portfolio can exceed client expectations in the long-term notwithstanding economic activity or market direction in the near-term.

ATTRIBUTION AND MANAGEMENT DISCUSSION – 1Q20

The Hotchkis & Wiley Capital Income Fund underperformed the 50/50 blended benchmark in the first quarter of 2020. The average equity weight was 54% and the average high yield bond weight was 46% over the course of the quarter. The equity overweight hurt relative performance as equities underperformed bonds.

The equity portion of the portfolio underperformed the S&P 500 Index during the quarter. Value underperformed growth substantially, which hurt our value focused approach relative to the core benchmark. Smaller cap stocks underperformed larger cap stocks significantly, which was another stylistic headwind. About 42% of the portfolio was invested in stocks with a market cap below $20 billion compared to 10% for the index—this group lagged the overall market significantly. From a sector perspective, financials, energy, and industrials were the largest detractors. The largest individual detractors to relative performance in the quarter were Seritage Growth Properties, AIG, Kosmos Energy, Wells Fargo, and Royal Mail; the largest positive contributors were Fifth Street Asset Management, Motors Liquidation Trust, Oracle, Ericsson, and Adient.

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The high yield bond portion of the portfolio underperformed the ICE BofAML US Corporate, Government & Mortgage Index and the ICE BofAML US High Yield Index. Relative to the high yield index, the overweight position in small and mid cap credits hurt performance as larger cap credits outperformed considerably. The overweight and credit selection in energy hurt, along with credit selection in basic industry and retail. This was partially offset by positive credit selection in automotive.

PERFORMANCE (%) as of March 31, 2020

	QTR	YTD	1 Yr	3 Yr	5 Yr	Since 12/31/10
Capital Income Fund – Class I	-31.82	-31.82	-27.70	-9.12	-2.99	3.74
S&P 500	-19.60	-19.60	-6.98	5.10	6.73	10.38
ICE BofAML US Corp/Gov't/Mtg	3.31	3.31	9.27	4.97	3.44	3.78
ICE BofAML U.S. High Yield	-13.12	-13.12	-7.45	0.55	2.67	4.88
50/50 Blend S&P & ICE BofAML C/G/M	-8.55	-8.55	1.38	5.38	5.34	7.27

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 Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 29, 2020 so the net expense ratio does not exceed 0.80% for I Shares. Over the past 12 months, the Fund invested in business development companies, which produced acquired fund fees and expenses ("AFFE") of 0.01%. The reported net expense ratio is the expense ratio cap plus AFFE, or 0.81% for I Shares. Net expense ratios were applicable to investors. The Fund's total annual operating gross expense ratio as of the most current prospectus is 1.34% for I Shares.

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.

Investments in debt securities involve credit risk and typically decrease in value when interest rates rise. Investments in lower rated and nonrated securities involve greater risk. The fund may invest in derivatives, asset backed and mortgage backed securities, and foreign securities. Please read the fund prospectus for a full list of fund risks. Investing in high yield securities is subject to certain risks, including market, credit, liquidity, issuer, interest-rate, inflation, and derivatives risks Lower-rated and non-rated securities involve greater risk than higher-rated securities. 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 S&P 500 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.

Market Disruption: The recent global coronavirus pandemic has caused and continues to cause disruption in the global economy, unprecedented business and travel disruption and extreme fluctuations in global capital and financial markets. H&W is unable to predict the consequences of the upheaval caused by coronavirus pandemic, which, depending on the severity and the length of the outbreak, has the potential to negatively impact the firm's investment strategies and reduce available investment opportunities.

The S&P 500® Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The ICE BofAML US Corporate, Government & Mortgage Index is a broad-based measure of the total rate of return performance of the US investment grade bond markets. The Index is a capitalization weighted aggregation of outstanding US treasury, agency and supranational, mortgage pass-through, and investment grade corporate bonds meeting specified selection criteria. 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 50/50 benchmark is an average, equal weighted blend of the S&P 500® Index and ICE BofAML US Corporate, Government & Mortgage Index. 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.

Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument. Yield-to-Worst is the lowest possible yield from owning a bond considering all potential call dates prior to maturity. Top ten equity holdings as of 3/31/20 as a % of the Fund's net assets: General Electric Co. 2.8%, Motors Liquid. Co. GUC Tr 2.5%, Wells Fargo & Co. 2.5%, Microsoft Corp. 2.2%, American Int'l Group Inc. 1.9%, Goldman Sachs Group Inc. 1.9%, Oracle Corp. 1.8%, BAE Systems PLC 1.6%, Office Depot Inc. 1.5% and Royal Mail PLC 1.5%.