

MARKET COMMENTARY

The S&P 500 Index returned +20.5% in the second quarter of 2020, recovering most of its first quarter decline; the index is -3.1% since the beginning of the year. Most US states took steps to reopen during the quarter, and the Federal Reserve announced additional actions to further stimulate the economy: continue large scale asset purchases, hold interest rates near zero through 2022 if needed, and initiate purchases of individual corporate bonds. Employment and consumer spending improved more quickly than the market anticipated, helping fuel the equity market rebound. Volatility remained elevated, however, as an increase in COVID-19 cases accompanied the reopening efforts, and turbulent US/China trade negotiations resurfaced.

The Russell 1000 Growth Index outperformed the Russell 1000 Value Index by more than 13 percentage points in the quarter (+27.8% vs. +14.3%). This extended growth's year-to-date advantage to more than 26 percentage points (+9.8% vs. -16.3%) and its three-year edge to 63 percentage points (+68.5% vs. +5.5%). The wide valuation gap between growth and value now resembles levels only observed during the late 1990's tech/growth bubble.

Our estimate of a company's intrinsic value is based on its earnings power over the long term, i.e. over a period of many years. If a company's earnings in any one year are impaired, due to a pandemic or otherwise, it will reduce our estimate of intrinsic value. However, unless the company lacks the financial wherewithal to survive challenging times—something we work hard to avoid in the first place—it is unlikely to result in a 50% reduction to our intrinsic value estimate. Yet in many cases recent market prices have declined by this amount or more, often despite little to no solvency/survival risk. Meanwhile, companies that are largely insulated from COVID-19's reach, and those that benefit from it in the short term, have seen their stock prices rise by similar amounts. Many of these companies traded at elevated valuations even before this period. We recognize the seriousness of the pandemic, including its extensive impact on the economy and capital markets; however, we view the market's response as myopic. While COVID-19 has taken a painful toll, both human and economic, we will get through it. When we do, we are confident that more rational economics will prevail, and valuations will revert toward more normal relationships—our clients are well positioned to potentially benefit from such a scenario.

Recently, the Business Cycle Dating Committee of the National Bureau of Economic Research ("NBER") declared February 2020 as the official start of a recession. This ended the 128-month expansion, which was the longest, though not the strongest period of sustained economic growth in the history of US business cycles, dating back to at least 1854. Since the Great

Depression, the average recession has lasted less than a year. In the recovery following recessions, value has outperformed growth consistently and by a large margin. In the five-year period following a recession's end, value beat growth in *all* 14 recovery periods dating back to the Great Depression, with an average performance advantage of more than 50 percentage points.*

The irrational gap between growth and value indices represent an uncommon opportunity, but in our view, the true opportunity in today's market goes well beyond this simple incongruity. The opportunities within value are extraordinary. The portfolio trades at 6.7x normal earnings which is near record low levels compared to its history; the Russell 1000 Value trades at 13.5x normal earnings which is in line with history; and the Russell 1000 Growth trades at 29.7x which is near record high levels compared to its history. This discount has been achieved without assuming excessive risk, in our view, as evidenced by the portfolio's credit profile—96% investment grade-rated.

ATTRIBUTION – 2Q20

The Hotchkis & Wiley Diversified Value Fund outperformed the Russell 1000 Value Index in the second quarter of 2020. Positive stock selection trumped the portfolio's value-biased headwind in the quarter. Stock selection was positive in all but two sectors, with financials, energy, and communication services leading the way. The underweight exposure to utilities and consumer staples, along with the overweight exposure to energy and technology, also helped. Stock selection in industrials and materials were detractors, along with the underweight exposure to materials. The largest positive contributors to relative performance in the quarter were Apache, Hess, AIG, Microsoft, and Magna International; the largest detractors were General Electric, Wells Fargo, Royal Dutch Shell, Hewlett Packard Enterprise, and Biogen.

LARGEST NEW PURCHASES – 2Q20

Booking Holdings is one of the largest online travel agents ("OTA") in the world, operating leading brands worldwide: Booking.com, Priceline.com, Agoda, Kayak, Rentalcars.com, and Opentable. Booking is the global leader in the OTA market, which enjoys a secular growth rate that is 2-3x faster than the overall travel industry. The company has greater exposure to the more profitable European lodging market because it is more fragmented than the US. The impact of COVID-19 will have a material impact on near term earnings and cash flows, but the company has ample liquidity to weather an extended lockdown.

(continued)

Portfolio managers' opinions and data included in this commentary are as of June 30, 2020 and are subject to change without notice. Any forecasts made cannot be guaranteed. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness. Fund holdings and/or sector allocations are subject to change and are not buy/sell recommendations. Current and future portfolio holdings are subject to risk. Certain information presented based on proprietary or third-party estimates are subject to change and cannot be guaranteed. **Past performance is no guarantee of future results. Diversification does not assure a profit nor protect against loss in a declining market.**



DIVERSIFIED VALUE FUND

HWCI9
HWCAX
HWCCX

MANAGER REVIEW & ECONOMIC OUTLOOK

JUNE 30, 2020

Humana is the largest pure Medicare Advantage (MA) managed care organization (MCO). This stock is attractively valued due to lack of understanding of the impact of Covid and concerns about health care reform. The company has important competitive advantages due to scale and vertical integration relative to smaller competitors and is largely insulated from economic slowdown.

PNC Financial Services is one of the nation's largest banks with leading deposit share in many of the geographies in which it operates. This advantage enables the company to earn margins and returns on capital at above-peer levels. It recently sold a large and long-standing stake in Blackrock, which should have a minimal impact on normal earnings power but increases its excess capital, further strengthening an already defensive bank franchise.

PERFORMANCE (%) as of June 30, 2020

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 8/30/04
Diversified Value Fund – I Shares	19.89	-23.75	-17.51	-2.58	1.59	8.93	5.28
Russell 1000 Value	14.29	-16.26	-8.84	1.82	4.64	10.41	6.83

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 gross expense ratio as of the most current prospectus is 1.04% for I Shares; 0.80% net expense ratio. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 31, 2021. Expense ratios shown are gross of any fee waivers or expense reimbursements. 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.

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.

The Fund may invest in foreign securities. Please read the fund prospectus for a full list of fund risks. 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 1000 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. The "Largest New Purchases" section includes the three largest new security positions during the quarter/year based on the security's quarter/year-end weight adjusted for its relative return contribution; does not include any security received as a result of a corporate action; if fewer than three new security positions during the quarter/year, all new security positions are included.

Style Risk: A value-oriented investment approach involves the risk that value stocks may remain undervalued or may not appreciate in value as anticipated. Value stocks can perform differently from the market as a whole or from other types of stocks and may be out of favor with investors and underperform growth stocks for varying periods of time. Growth investing tends to work well during speculative, momentum-driven markets, while value investing tends to work well following recessionary periods. Value stocks following a recession may start from a lower market value than growth stocks which can contribute to their outperformance. Past recessions and recoveries cannot predict future performance due to different factors and circumstances.

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 Russell 1000® Value Index measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 1000® Growth Index measures the performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. 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 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. Price-to-Normal Earnings is the current market price per share divided by normalized earnings per share. Investment grade refers to the quality of a company's credit. Top ten holdings as of 6/30/20 as a % of the Fund's net assets: General Electric Co. 4.9%, American Int'l Group Inc. 4.4%, Microsoft Corp. 4.0%, Wells Fargo & Co. 3.9%, Citigroup Inc. 3.3%, Oracle Corp. 2.7%, General Motors Co. 2.6%, Cummins Inc. 2.6%, Goldman Sachs Group Inc. 2.5% and Anthem Inc. 2.2%.

*Source: BofA, Dartmouth/Ken French Data Library, NBER. Value defined as highest 3 deciles of book to market/Growth as lowest 3 deciles of book to market.

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