DIVERSIFIED VALUE FUND

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MANAGER REVIEW & ECONOMIC OUTLOOK

JUNE 30, 2023

MARKET COMMENTARY

The S&P 500 Index returned +8.7% in the second quarter of 2023 and is now up +16.9% since the beginning of the year. The catalyst of the market's performance this year appears to be the decrease in rates of inflation. The US Consumer Price Index has fallen from its 9.1% peak in mid-2022 to 4.0% and is expected to decline further. Lower inflation and lower interest rates are generally good for equities. This seems to have trumped concerns about an economic slowdown. Bloomberg publishes a *United States Recession Probability Forecast*, which surveys a group of economists on what they think the chances of a recession are in the next 12 months. The index currently stands at 65%. However, equity markets fell in 2022 more than they have risen in 2023, i.e., the S&P 500 is still down over the past year and a half suggesting a slowdown might be priced in already. Also, not all recessions/slowdowns are created equally. Balance sheets of consumers and companies are generally healthy, unlike 2007/2008. Fewer excesses in the financial system are likely to limit the severity of a recession if one occurs.

Performance deviations between value and growth have been stark in recent periods. The Russell 1000 Growth Index ("growth") outperformed the Russell 1000 Value Index ("value") in the quarter by 8.7% (+12.8% vs. +4.1%), extending its year-to-date edge to +23.9% (+29.0% vs. +5.1%). Over the past year and a half, however, large value remains ahead of large growth due to its substantial outperformance last year. At the beginning of calendar year 2022, growth traded at a near-record premium to value[1]. Value's outperformance in 2022 brought this premium down by year end, but it remained about 1 standard deviation above average. With growth's dramatic outperformance thus far in 2023, its valuation premium has again spiked, and now sits more than 2 standard deviations wider than normal. We do not view this gap as sustainable, and a reversion toward more normal valuation relationships would be significantly favorable to value relative to growth going forward. We view the overall equity market as rather richly valued, though this is driven by growth stocks, not value.

As it stands today, the growth index trades at a large premium to its own history using any common valuation metric and the value index trades reasonably in line with its own history. The portfolio, however, trades at a considerable discount to its past. This is attainable because the portfolio is significantly different than the value index. Importantly, however, we do not blindly invest in companies/industries with the lowest price multiples. We invest in those that trade at the largest discounts to intrinsic value, and that intrinsic value is highly dependent on a company's risk profile—lower risk companies have higher intrinsic values all else equal and should command higher fair value multiples. The portfolio's second and third largest sector exposures are technology and healthcare respectively, and our holdings in those sectors epitomize this construct.

Technology comprises about 15% of the portfolio[2], slightly less than at the beginning of the year. We own companies with attractive growth rates, stable customer bases, and healthy returns of capital to shareholders. These should also trade at premium valuations, and after strong performance year-to-date, several do. We trimmed accordingly but maintain meaningful exposure to these excellent businesses.

Healthcare positions comprise just over 13% of the portfolio, which is 3 percentage points higher than at the beginning of the year. The largest increase within the sector has been healthcare providers & services, with Elevance Health the largest individual increase. Elevance, formerly Anthem, is the second largest health insurer in the US. The company trades at less the 14x normal earnings—a discount to the S&P 500 (21x) and the Russell 1000 Value (15x)—despite having a sticky customer base, faster-than-average growth, and prudent capital allocation. We believe this is the sort of business that should trade at a premium to the market, yet trades at a discount—an attractive opportunity.

Financials remain the largest sector weight. The portfolio is well-diversified across banks, capital markets, insurance, and other financial services (e.g., payment processors). Banks remain the largest exposure, and our thesis remains largely unchanged. We are invested in companies with meaningful franchise value and scale/deposit share advantages. This should enable our positions to earn above cost-of-capital returns, yet the stocks prices reflect otherwise. The industry will always face regulatory, interest rate, and behavioral risks, but the industry has managed through various regulatory and interest rate environments with more effectiveness and flexibility than generally understood. While select banks may be at risk during times of financial stress, we view obsolescence risk as exceptionally remote for the industry overall and for our positions specifically.

ATTRIBUTION – 2Q23

The Hotchkis & Wiley Diversified Value Fund underperformed the Russell 1000 Value Index in the second quarter of 2023, though it remains ahead of the benchmark since the beginning of the year. In the quarter, stock selection in communication services detracted from performance. While a couple of media positions declined, the biggest detractor relative to the index was not owning Meta Platforms/Facebook (+36%). As of the June reconstitution, Meta is no longer a part of the Russell 1000 Value, so we would not benefit from a performance reversal. Stock selection in consumer discretionary also detracted in the quarter. Stock selection in technology contributed positively to relative performance. Stock selection in healthcare was also positive, along with the underweight consumer staples and utilities. The largest individual detractors to relative performance, excluding benchmark-only names, were Warner Bros. Discovery, Citizens Financial Group, NOV Inc., APA Corp., and Paramount Global; the largest positive contributors were Microsoft, AIG, Wells Fargo, Oracle, and First Citizens Bancshares.

(continued)

[1] Based on consensus forward PE (FY2)
[2] This would be about 17.5% including Alphabet (communication services)

Hotchkis & Wiley

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LARGEST NEW PURCHASES – 2Q23

BorgWarner is a Tier 1 global automotive and commercial vehicle components supplier, focused on engine systems, transmissions systems, and EV technologies. Company sales are roughly evenly split across North America, Europe, and China. A series of recent acquisitions appear to have put BorgWarner in a position to be over-indexed to electric vehicles technology. While additional expenses related to research and development and higher new-tech launch costs are expected to be elevated, we project that BorgWarner's sales, profit, and cash flow will steadily rise, over time, as business activity outpaces growth in expenses. We believe BorgWarner's balance sheet is adequate, while its valuation is attractive.

Timken Co., based in Canton, OH, has been in the bearings business since 1899. The company now designs and manufactures both engineered bearings (69% of sales) and industrial motion products (31% of sales) that are used by OEMs and parts distributors operating in a broad array of end markets. The company has exited low return businesses in recent years, initiated Lean manufacturing practices, transitioned to low-cost countries, implemented advanced IT pricing analytics, and through a series of bolt-on acquisitions, broadly diversified both their end markets and their product lines. The resulting sales mix continues to shift to higher-return, faster growing businesses.

PERFORMANCE (%) as of June 30, 2023

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 8/30/04
Diversified Value Fund – I Shares	3.79	7.39	16.88	21.46	8.58	9.82	7.70
Russell 1000 Value	4.07	5.12	11.54	14.30	8.11	9.22	7.99

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 29, 2024. Expense ratio shown is 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.

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.

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The "Largest New Purchases" section includes the three largest new security positions during the quarter based on the security's quarter-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, all 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.

Market Disruption: The global coronavirus pandemic has caused disruption in the global economy and extreme fluctuations in global capital and financial markets. H&W is unable to predict the impact caused by coronavirus pandemic, which has the potential to negatively impact the firm's investment strategies and 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 **US Consumer Price Index** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. 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. **Top ten holdings** as of 6/30/23 as a % of the Fund's net assets: Wells Fargo & Co. 4.0%, American Int'l Group Inc. 3.7%, Citigroup Inc. 3.5%, Microsoft Corp. 3.0%, Elevance Health Inc. 3.0%, General Motors Co. 2.8%, F5 Inc. 2.7%, APA Corp. 2.7%, Workday Inc. 2.6%, and Alphabet Inc. 2.6%. **Standard deviation** is a measure of the amount of variation or dispersion of a set of values. **Cost-of-capital** is the minimum rate of return or profit a company must earn before generating value.

Mutual fund investing involves risk. Principal loss is possible.
NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE
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