DIVERSIFIED VALUE FUND

3Q23 MANAGER REVIEW & ECONOMIC OUTLOOK

HWCIX | HWCAX | HWCCX

Hotchkis & Wiley

PERFORMANCE (%) as of September 30, 2023

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 8/30/04
Diversified Value Fund – I Shares	-0.04	7.35	25.14	20.95	7.53	9.23	7.59
Russell 1000 Value	-3.16	1.79	14.44	11.05	6.23	8.45	7.70

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.

MARKET COMMENTARY

The S&P 500 Index declined -3.3% in the third quarter but is up +13.1% since the beginning of the year. The FOMC raised the Fed Funds target rate another 25 basis points in its July meeting to 5.5% (upper bound), its highest level in more than 20 years. Treasury yields rose accordingly, especially on the long end of the curve, which flattened the still-inverted yield curve. Historically, inverted yield curves have been efficacious harbingers for recessions, but the strong labor market is a conflicting signal. Should a recession transpire, we view a mild/modest slowdown as most likely considering fewer excesses in the system and conservative balance sheets for businesses and consumers alike. Nonetheless, we focus on companies with resilient businesses, financial strength, and prudent management because these factors function as effective defenses in recessionary periods. Our proprietary Fundamental Risk Ratings are designed to measure and manage these factors. We do not necessarily expect to benefit from this part of our investment process during times of market exuberance, but rather during times of market stress.

Relative to its own history, the broad equity market's valuation could be described as either expensive or inexpensive depending on the vantage point taken. The S&P 500 currently trades at 17.5x consensus earnings (FY2), compared to its 25+ year average of 16.0x. The index's 10 largest stocks, however, trade at more than 25x earnings. Excluding these 10 stocks, the S&P 500 trades at 14.0x earnings, which is more than a 10% discount to its historical average.

The performance difference between value and growth in 2023 has been puzzling. In calendar year 2022, interest rates rose and the equity market sold off, which is intuitive because higher rates are generally bad for equities as the cost of capital increases. Growth stocks sold off significantly more than value stocks, which is also logical for two primary reasons. First, growth stocks are longer duration securities and thus should be more sensitive changes in interest rates. Second, financials comprise much larger portions of value portfolios, and represent the one segment of the market that stands to benefit from higher interest rates. In calendar year 2023, interest rates have continued to rise in a meaningful way, yet the Russell 1000 Growth is up +25% compared to the Russell 1000 Value at +2%. At the beginning of the year, the price-to-earnings ratio[1] of the growth index was 6.6 multiple points higher than the value index. Today, it is 9.5 multiple points higher—this is two standard deviations higher than the 20-year median of 3.8 multiple points. Current valuation spreads are difficult to justify, and we believe they are unlikely to persist. A reversion toward more normal valuation relationships would benefit value relative to growth and be highly conductive to our value-focused approach.

Financials and energy, prototypical value sectors, represent two of the portfolio's largest exposures. Our investment thesis in both remains largely unchanged. Financials, particularly banks, trade at a larger-than-normal discount to the market—near record levels, in fact. Since pre-COVID, bank earnings have increased, albeit slightly, but the price multiples have cratered by more than 30%. Notwithstanding economic and regulatory risks, at high single-digit multiples of earnings and discounts to book value, we view the upside potential as attractive. Energy stocks also trade at a larger-than-normal discount to the market, despite highly compelling free cash flow yields and secular commodity market tailwinds.

(continued)

[1]Source: Bloomberg - all numbers reflect price-to-FY2 consensus earnings

Technology and healthcare are also meaningful weights in the portfolio. Entering the year, we had been about 9 percentage points overweight technology and 7 percentage points underweight healthcare. This worked in our favor as technology has outperformed and healthcare has underperformed, both by wide margins. As a result of significant changes in relative valuation, we shifted considerable capital away from tech and into healthcare. Our positions in both sectors trade at meaningful discounts to intrinsic value considering the quality businesses, attractive growth prospects, and solid balance sheets.

ATTRIBUTION ANALYSIS

The Hotchkis & Wiley Diversified Value Fund outperformed the Russell 1000 Value Index in the third quarter of 2023. Energy was the index's only positive sector in the quarter (the portfolio had 3 positive sectors), outperforming all other sectors by a wide margin. The portfolio was overweight energy by nearly 5 percentage points, which helped relative performance. Stock selection in energy was also meaningfully positive, making the sector the largest positive contributor to outperformance. Positive stock selection in communication services also helped, as did the underweight in real estate. Stock selection in financials and technology detracted in the quarter. The overweight positions in consumer discretionary and communication services were also modestly negative.

LARGEST INDIVIDUAL CONTRIBUTORS

APA Corp. (APA) is an independent E&P operating in the North Sea, onshore in Egypt, and in the Midland and Delaware basins in the Permian, as well as in Suriname through a JV with Total offshore. Recent exploration success in Suriname and Egypt has allowed APA to de-emphasize spending on lower returning US unconventional acreage, and APA's conventional Egypt and North Sea assets are less sensitive to oil prices, which should enable the company to fund development in Suriname to first oil production while maintaining its dividend even at $50 WTI. Furthermore, management is targeting shareholder return and debt paydown with FCF generation, Total's funding of the majority of initial development capex in Suriname leads to high incremental returns for APA, and APA has a potentially lucrative LNG contract with Cheniere beginning in July 2023. APA shares performed well during the quarter after beating consensus estimates in Q2 on strong cost control and better than expected natural gas realizations.

NOV, Inc. (NOV) headquartered in Houston, is a leading diversified provider of oilfield capital equipment, consumables and services, providing rig kits for onshore and offshore rigs, downhole tools, tubulars and tubular inspection, and manufacturing of both onshore and offshore production and completions equipment. NOV maintains a top two or three market position in most of its business lines and should earn attractive returns in a more normalized oil price environment. The downturn in energy prices reduced oilfield activity below sustainable levels, but as activity rebounds, the majority of NOV's product lines should experience significant increases in volumes and pricing, while longer-term the earnings power of Rig Aftermarket business should also improve given a very large installed base. NOV's shares outperformed during the quarter as earnings exceeded cyclically depressed expectations and the price of oil rallied.

F5 (FFIV) sells application networking and security software and data center appliances; F5 has 50%+ market share in traditional ADCs (application delivery controllers), and cross-sells adjacent application security products (web-access firewall, anti-DDoS, anti-fraud) and various multicloud networking products. F5's products are critical to the functioning of applications, and difficult to remove once installed, which leads to highly sticky customer relationships and annual gross churn in the mid-to-low single digits. We think the company is misunderstood and gets incorrectly classified and valued as a legacy IT hardware vendor even though demand for F5's products grow faster than GDP and F5 has a structurally higher margin profile. F5's shares performed well during the quarter after beating consensus estimates in Q2 on better-than-expected cost outs and providing guidance for stabilization in customer demand, an improvement following three consecutive quarters of demand deterioration.

LARGEST INDIVIDUAL DETRACTORS

General Motors Company (GM), based in Detroit Michigan, is one of the world's largest manufacturers of passenger vehicles. We believe GM is well equipped for the transition in transportation markets, and its traditional business plus adjacencies far exceed the share price today. In addition, GM has a good balance sheet, strong FCF profile, and a management team committed to returning capital to shareholders. Q3 stock performance was negatively impacted by the labor contract negotiations with the United Auto Workers (UAW). Negative sentiment around the possibility of a strike impacted the stock throughout the quarter, and the UAW ultimately decided to strike on September 15.

Citi's (C) stock underperformed during the quarter due to concerns about the Fed's Basel III Endgame proposal, which if enacted as proposed would lead to a large increase in Citi's capital requirements, as well as due to ongoing weakness in capital markets activity and concerns about consumer credit quality.

(continued)

HCA Healthcare (HCA) is the largest for-profit operator of hospitals in the US with #1 or #2 market share in some of the fastest-growing cities. This scale advantage allows HCA to generate better margins, maintain a strong balance sheet, while also growing their competitive advantage compared to not-for-profit hospitals. Q2 results were slightly above consensus and management raised their guidance conservatively. Shares reached a 52-week high in June and have since returned some gains. We believe shares are attractively valued for this quality company.