HIGH YIELD FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

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MARCH 31, 2020

MARKET COMMENTARY

The ICE BofAML US High Yield Index declined -13.1% 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 and the Fed cut rates, 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. 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 laggard, with the sector falling more than double any other sector in the three-month period (-40%). 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.

The yield-to-worst on the high yield market increased from 5.41% at the beginning of the quarter to 9.23% at the end of the quarter, an increase of +3.82%. Spreads widened by even more as interest rates fell. The market's spread over treasuries widened from 360 basis points to 875 basis points, a widening of 515 basis points. Underperforming market segments experienced an even larger spread widening: small/mid cap credits +651, CCC-rated credits +786, and energy credits +1328.

There was about $24 billion worth of high yield bonds that defaulted in the quarter, including the $15 billion default of Frontier Communications—the sixth largest high yield default on record. The trailing 12-month default rate, including distressed exchanges, climbed to 3.54% at quarter end. The energy sector's default rate is nearly 10%, so excluding energy the market's default rate would be just 2.4%, well below the 20 year average of 3.1%. More than 40% of the energy sector trades at distressed levels, or less than 50% of par value. Valuations suggest that defaults are expected to rise substantially, perhaps to more than 10%. The economic slowdown resulted in widespread downgrades. During the quarter, there were 219 downgrades and only 33 upgrades, which represent a quarterly upgrade/downgrade ratio of 0.15. Investment grade credits were also downgraded. The high yield market experienced its largest quarterly influx of fallen angels ever recorded—Ford ($52 billion), Occidental Petroleum ($32 billion), and Kraft-Heinz ($23 billion) were among credits downgraded from investment grade to high yield.

The economic consequences of COVID-19 have triggered a rapid deterioration in high yield fundamentals. Valuations, however, are enticing. Not only is the overall market's spread interesting but the distribution of spreads across the market is wide. This creates an environment considerably more conducive to active credit picking compared to an environment with a narrow distribution of spreads.

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 – 1Q20

The Hotchkis & Wiley High Yield Fund underperformed the ICE BofAML US High Yield Index and the ICE BofAML BB-B US High Yield Constrained Index. The portfolio's outsized exposure to small and mid cap credits was a meaningful detractor in the quarter as small and mid cap credits underperformed large cap credits by more than 500 basis points in the quarter. The portfolio's average energy exposure was in line with the index during the quarter, but credit selection in exploration & production credits weight on relative performance. Credit selection in retail and basic industry also detracted from performance, partially offset by positive credit selection in automotive and capital goods.

(continued)

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OUTLOOK (SCORING SCALE: 1=VERY NEGATIVE...5=VERY POSITIVE)

Fundamentals (1)
We lowered the score from 2 to 1. The COVID-19 pandemic has slowed economic activity dramatically. The oil price war exacerbated the supply/demand imbalance within the energy sector. Valuations suggest a default rate of more than 10%.

Technicals (2)
We lowered the score from 3 to 2. Volatility across the market is elevated, while liquidity is challenging. The fallen angel universe is expanding.

Valuation (4)
We increased the score from 3 to 4. Spreads widened to 877 basis points and the yield-to-worst increased to 9.2% by the end of the first quarter. The dispersion of spreads is also wide, which presents an opportunity for active managers.

PERFORMANCE (%) as of March 31, 2020

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 3/31/09
High Yield Fund – I Shares	-17.19	-17.19	-14.41	-2.78	0.49	4.60	7.48
ICE BofAML BB-B US HY Constrained	-11.93	-11.93	-5.56	1.27	2.90	5.61	8.56
ICE BofAML U.S. High Yield	-13.12	-13.12	-7.45	0.55	2.67	5.50	9.39

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 0.74% for I Shares; 0.70% net expense ratio. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 29, 2020. 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.

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. High yield bonds and other asset classes have different risk-return profiles, which should be considered when investing. All investments contain risk and may lose value. Attribution is an analysis of the portfolio's return relative to a selected benchmark, is calculated using trade information and does not reflect the payment of transaction costs, fees and expenses of the Fund.

The ICE BofAML BB-B US High Yield Constrained Index contains all securities in the ICE BofAML US High Yield Index rated BB+ through B- by S&P (or equivalent as rated by Moody's or Fitch), but caps issuer exposure at 2%. Index constituents are capitalization weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. 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 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 ICE BofAML index data referenced is the property of ICE Data Indices, LLC ("ICE BofAML") and/or its licensors and has been licensed for use by Hotchkis & Wiley. ICE BofAML and its licensors accept no liability in connection with its use. See www.hwcm.com / *Index definitions* for full disclaimer.

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.

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. 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. Spread is the percentage point difference between yields of various classes of bonds compared to treasury bonds. Fallen angels are credits that were investment grade rated when issued (BBB- or above), but have since been downgraded. Investment grade indicates that a municipal or corporate bond has a relatively low risk of default. Top ten holdings as of 3/31/20 as a % of the Fund's net assets: CCO Holdings LLC 2.3%, American Zinc Recycling 1.5%, General Electric 1.4%, Townsquare Media 1.1%, Bausch Health Cos. 1.1%, Plastipak Hldgs 1.1%, Rain CII Carbon LLC 1.0%, Schweitzer-Mauduit Int'l 1.0%, Grinding Media Inc. 1.0% and Salem Media Grp 1.0%.