HIGH YIELD FUND

HWHIX
HWHAX
HWHCX
HWHZX

MANAGER REVIEW & ECONOMIC OUTLOOK

MARCH 31, 2022

MARKET COMMENTARY

The ICE BofA US High Yield Index returned -4.5% in the first quarter of 2022. The Consumer Price Index reached 7.9% year-over-year, its highest level in 40 years, raising the threat of tightening monetary policy. Russia's invasion of Ukraine fueled inflation worries further. Sanctions and trade disruptions create supply shocks, putting inflationary pressures on significant Russian exports like oil, natural gas, and metals—each experienced meaningful price increases in the period. The number of job openings continues to hover around its highest level in 20 years, increasing the risk of further wage inflation.

To combat these inflationary threats, the Federal Open Market Committee ("FOMC") increased the Fed Funds rate by 0.25% and signaled more aggressive rate increases in the coming year. Treasury yields increased across the curve, more so on the short end. Yields on the 2-, 5-, 10-, and 30-year treasuries rose 1.6%, 1.2%, 0.8%, and 0.5%, respectively. The 10-year/2-year yield curve ended the period essentially flat, both slightly above 2.3%. Historically, an inverted yield curve has been a harbinger for eventual recessions. While this gives us pause, other yield curves that have been at least as efficacious in forecasting recessions are showing a different story. The 10-year/3-month T-Bill, for example, widened in the quarter and remains rather steep. Advocates of this curve seem to contend that the 10-year yield is unnaturally low because there has been a large "artificial buyer" in the form of the US Government's quantitative easing. Both yield curves have merit, and so a recession is a possibility, but the path is not clear. Our penchant for attractive asset coverage in more senior parts of the capital structure should help guard against a potential economic slowdown.

The yield on the ICE BofA US High Yield Index increased by 1.7%, ending the quarter at 6.0%. Spreads over treasuries widened by 33 basis points, finishing at 343. Changes in yields and spreads were relatively constant by quality, size, and sector. Energy was a notable exception, with yields rising just over 1% and spreads tightening slightly. Lower rated credits widened slightly more than higher rated credits.

High yield market defaults remain benign. The trailing 12-month default rate, including distressed exchanges, was 0.5% for the period ended March 31. This is well below the long-term average of 3.6%. Rating agency upgrades have exceeded downgrades for 15 consecutive months. The trailing 12-month upgrade/downgrade ratio closed the period at 2.5/1 by number of issuers and 3.6/1 by volume, both all-time records. A negligible portion of the high yield market trades at distressed prices: just 1.2% trades at less than 70% of par and 0.7% trades at less than 50% of par.

New issue volume has been considerably lighter in 2022 than it has been in recent years. There was $46 billion in new issuance year-to-date compared to last year's quarterly average of $120 billion—though last year's $480+ billion of new issuance was a record. While less active, the primary market has shown nascent signs of increased aggressiveness. Less than half of new issuance was used for refinancing, and 25% was used for leveraged buyout ("LBO")/acquisition financing. In recent years, closer to two-thirds of new issuance was used for refinancing and the percentage used for LBO/acquisitions was in the mid-teens. None of this is particularly surprising, however, considering the rise in interest rates.

We will continue to adhere to our competitive research advantage, particularly in small and mid cap credits, with a focus on strong asset coverage. We believe this will benefit our clients irrespective of economic developments or general market temperament.

ATTRIBUTION – 1Q22

The Hotchkis & Wiley High Yield Fund outperformed (declined less than) the ICE BofA US High Yield Index and the ICE BofA BB-B US High Yield Constrained Index in the first quarter of 2022. Relative to the broad benchmark, positive credit selection drove nearly all the outperformance. Credit selection was significantly positive in energy (+2.9% vs. -2.4% for the index) and basic industry (-2.8% vs. -5.5% for the index). Positive credit selection in consumer goods and transportation was modestly helpful. The overweight position in basic industry detracted from performance in the quarter. Negative credit selection in telecommunications and automotive hurt modestly.

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

Fundamentals (3)

The fundamentals score was reduced from last quarter. Revenue and cash flow have been robust. Leverage has declined and liquidity remains high. Defaults remain low. EBITDA margins, however, remain elevated, while cost pressures continue to build.

Technicals (2)

The technicals score was reduced from last quarter. The FOMC has pivoted to monetary policy tightening and signaled its intent to move aggressively. Fund flows have turned decidedly negative, and the new issue market has cooled considerably.

Valuation (3)

The valuation score was increased from last quarter. Yields and spreads both widened in the quarter. Excess spreads (after adjusting for low defaults) remain reasonable, so long as defaults remain subdued. The dispersion of spreads is sufficiently wide, a good sign for active credit pickers.

Hotchkis & Wiley

HIGH YIELD FUND

HWHIX
HWHAX
HWHCX
HWHZX

MANAGER REVIEW & ECONOMIC OUTLOOK

MARCH 31, 2022

PERFORMANCE (%) as of March 31, 2022

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 3/31/09
High Yield Fund – I Shares	-3.38	-3.38	1.08	3.43	3.50	5.18	8.42
ICE BofAML BB-B US HY Constrained	-4.58	-4.58	-0.49	4.39	4.58	5.59	8.75
ICE BofAML US High Yield	-4.51	-4.51	-0.29	4.40	4.56	5.70	9.62

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 0.75% for I Shares; 0.70% net expense ratio. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 31, 2022. 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.

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. 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 BofA BB-B US High Yield Constrained Index contains all securities in the ICE BofA 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 BofA 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 Consumer Price Index is a measurement of U.S. prices for household goods and services. 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 BofA index data referenced is the property of ICE Data Indices, LLC ("ICE BofA") and/or its licensors and has been licensed for use by Hotchkis & Wiley. ICE BofA and its licensors accept no liability in connection with its use. See www.hwcm.com for full disclaimer.

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.

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.

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 non-rated.

Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument. Spread is the percentage point difference between yields of various classes of bonds compared to treasury bonds. Spread over treasuries is the difference in yield between a fixed income security and a Treasury security of similar maturity. Upgrade/Downgrade ratio is the number of ratings upgrades divided by the number of ratings downgrades (by the major ratings agencies). Yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income. Earnings before interest, taxes, depreciation, and amortization (EBITDA) is a metric that measures a company's overall financial performance.