HIGH YIELD FUND

HWHIX
HWHAX
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MANAGER REVIEW & ECONOMIC OUTLOOK

MARCH 31, 2023

MARKET COMMENTARY

The ICE BofA US High Yield Index returned +3.7% in the first quarter of 2023, a welcomed rebound from last year's -11.2% decline. Inflation fears appear to have lessened as the Consumer Price Index decelerated to 6% year-over-year, a far cry from its mid-2022 peak of more than 9%. The Federal Open Market Committee increased the Fed Funds rate twice during the quarter, both 25 basis point hikes. The important benchmark rate now stands at 5.0% (upper bound), the first time it has reached this level in more than 15 years. The market implied probability of another small rate hike at the next meeting is about 50/50. The 3-month T-Bill followed suit, rising by about 0.5% to close the quarter at 4.8%. Treasury yields of other durations declined in the quarter, however, by roughly 20 to 35 basis points depending on the maturity. Both the 10-Year/2-Year and the 10-Year/3-Month yield curves remain meaningfully inverted. This has signaled recessions historically and we remained guarded accordingly, though responsible leverage/interest coverage levels and extended maturity profiles provide solace.

The high yield market largely rose in unison during the quarter. Modest exceptions include lower rated credits outperforming higher rated credits and large cap credits outperforming small cap credits. The yield-to-worst on the high yield market declined from about 9.0% at the beginning of the quarter to 8.5% at the end of the quarter. Spreads-over-treasuries tightened by about half this much, going from 481 basis points to 458 at quarter-end.

The high yield market's trailing 12-month default rate, including distressed exchanges, was 1.9% at the end of the quarter, up 26 basis points from 3 months ago and up 141 basis points from 12 months ago. This remains notably lower than the market's 30-year average of 3.2%. The market's post default recovery rate over the past 12 months was 47%, slightly better than its 30-year average of 40%. The portion of the high yield market trading at distressed levels has crept up but remains well below levels typically reached during recessionary periods. About 10% of the market has a spread-over-treasuries of more than 1,000 basis points. About 8% of the market trades below 70% of par, and less than 3% trades below 50% of par.

Credit rating agencies have been busy, but balanced. Year-to-date, there have been 85 upgrades and 90 downgrades, with similar total par values among the two groups. The trailing 12-month upgrade-to-downgrade ratio ended the quarter at 1.04 to 1 by number of issuers, and 1.19 to 1 by total par value. This is down considerably from the all-time high reached last year.

The pace of the primary issue calendar is slightly ahead of last year's pace but remains somewhat dormant. There was $40 billion in new issuance during the year's first quarter. This compares to $106 billion in all of 2022, and $483 billion in 2021 which was an all-time high. Nearly 70% of this year's new issues was used for refinancing, while just 8% was used for acquisition activity. These percentages reflect a well-behaved new issue market.

Our overall view of the high yield market remains about average, with better-than-average fundamentals but valuations that reflect a rather sanguine outlook. We believe our positions' attractive valuations combined with strong asset coverage and a focus on the more senior part of the capital structure represents a compelling and appropriate balance in the current environment.

ATTRIBUTION – 1Q23

The Hotchkis & Wiley High Yield Fund outperformed the ICE BofA US High Yield Index and the ICE BofA BB-B US High Yield Constrained Index in the first quarter of 2023. Relative to the broad benchmark, positive credit selection drove all the outperformance in the quarter. It was particularly positive in Retail, Telecommunications, and Consumer Goods. The underweight position in Telecommunications also helped. Credit selection in Banking and Healthcare detracted from performance in the quarter.

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

Fundamentals (2)

The fundamentals score remains unchanged from last quarter. Leverage and asset/interest coverage remain solid. Liquidity and maturity profiles are attractive. Growth appears to be inflecting and margins are holding. Defaults and distressed situations are rising but below historical levels.

Technicals (3)

The technical score remains unchanged from last quarter. Upgrades into investment grade have been shrinking the market. New issuance in recent years has reduced refinancing risks. Fed uncertainty has kept investors on the sidelines.

Valuation (4)

The valuation score remains unchanged from last quarter. Yields are above historical averages, though spreads are below typical recession levels. Dispersion in valuations across the market is creating opportunities for active credit pickers.

Hotchkis & Wiley

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PERFORMANCE (%) as of March 31, 2023

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 3/31/09
High Yield Fund – I Shares	3.97	3.97	-2.93	7.86	2.04	3.47	7.56
ICE BofA BB-B US HY Constrained	3.57	3.57	-2.89	5.36	3.27	4.06	7.87
ICE BofA US High Yield	3.73	3.73	-3.50	5.86	3.07	4.03	8.63

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 0.77% for I Shares; 0.70% net expense ratio. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 31, 2023. 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 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.

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-to-Downgrade ratio** is the number of ratings upgrades divided by the number of ratings downgrades (by the major ratings agencies). **Yield-to-worst** is the lowest possible yield from owning a bond considering all potential call dates prior to maturity. **Par** is the stated value or face value of a financial instrument. **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.