HIGH YIELD FUND

HWHIX
HWHAX
HWHCX
HWHZX

MANAGER REVIEW & ECONOMIC OUTLOOK

JUNE 30, 2020

MARKET COMMENTARY

The ICE BofA US High Yield Index returned +9.6% in the second quarter of 2020, recovering some of its first quarter decline; the index is -4.8% since the beginning of the year. Most US states took steps to reopen during the quarter, and the Federal Reserve announced additional actions to further stimulate the economy: continue large scale asset purchases, hold interest rates near zero through 2022 if needed, and initiate purchases of individual corporate bonds. Employment and consumer spending improved more quickly than the market anticipated, helping fuel the rebound in credit markets. An increase in COVID-19 cases accompanied the reopening efforts; however, which muted the recovery.

There was little performance dispersion in the quarter by credit rating, but there were large differences by sector. Energy credits led the way, returning +33%. Automotive, banking, and leisure credits were next best, returning +14%, +11%, and +10%, respectively. Transportation, media, and services credits lagged the broad market, returning +3%, +4%, and +5%, respectively. Small/mid cap credits outperformed large cap credits by about 3 percentage points, partially reversing the large performance difference in the first quarter. Unlike the first quarter, treasury yields changed little; the yield on the 2-year note declined about 10 basis points, the yield on the 10-year note was about flat, and the yield on the 30-year bond increased about 10 basis points. This resulted in a slight steepening of the yield curve.

In the second quarter, $82 billion worth of bonds defaulted or were involved in a distressed exchange, which represents an all-time high for a calendar quarter. The number since the beginning of the year is $106 billion, which would eclipse any calendar year on record outside of 2009 when $205 billion worth of bonds defaulted or were involved in a distressed exchange. The default rate, including distressed exchanges, closed the quarter at 6.6%--a 10 year high. Energy has comprised 30% of the default volume year-to-date; the sector's default rate stands at more than 19%. Excluding energy, the high yield market's default rate would be 4.2%, only slightly higher than long term averages. The trailing 12-month, post-default recovery rate is just 17%, which represents a record low, well below the long-term average of about 40%.

At the beginning of the quarter, nearly 9% of the high yield market traded at less than 50% of par value. Due to both default activity and spread tightening, this number fell to 2.5% of the market by quarter's end—energy credits represent nearly two-thirds of this. Credit rating downgrades have outpaced upgrades nearly 5 to 1 this year (497 downgrades to 101 upgrades). Fallen angel volume this year has also been record-setting. Since the beginning of the year, 47 fallen angels have migrated from investment grade to high yield, totaling $191 billion in bonds. This surpassed the previous annual record of $150 billion set in 2009 and has changed the composition of the index meaningfully, most notably by increasing the weight in autos and energy.

ATTRIBUTION – 2Q20

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 second quarter of 2020. Small and mid cap credits outperformed large cap credits, which helped relative performance—the opposite occurred in the first quarter, in a big way, which was major headwind for our small/mid cap focus. From a sector perspective, overall credit selection was decidedly positive, with the portfolio outperforming 15 of the 19 high yield sectors. Services, transportation, basic industry, leisure, and automotive were the largest positive contributors. The underweight exposure to telecommunications also helped. Negative credit selection in energy and capital goods detracted from performance, along with the modest underweight exposure in energy.

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

Fundamentals (2)
We increased the score from 1 to 2 after having lowered it last quarter due to COVID-19. Economic data are improving, and the reopening process remains ongoing. Corporate earnings and guidance remain weak, and COVID-19 infection rates have risen amid reopening efforts.

Technicals (3)
We increased the score from 2 to 3 as the Fed has taken decisive steps to support credit markets. We have observed strong primary market issuance and fund flows into the asset class have been positive. Elevated defaults/downgrades offset some of these positive attributes.

Valuation (4)
We left the score unchanged. Yields declined and spreads narrowed but reopen progress and the increase in fallen angels helps offset the move in valuations. Spreads are at about 640 basis points, and the dispersion of spreads is wide—the later is conducive for active credit pickers. The small/mid spread advantage relative to large caps is wide. The uncertain COVID-19 outcome keeps our optimism about valuations in check.

Hotchkis & Wiley

PERFORMANCE (%) as of June 30, 2020

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 3/31/09
High Yield Fund – I Shares	10.22	-8.73	-7.26	-0.20	2.26	5.72	8.24
ICE BofAML BB-B US HY Constrained	9.44	-3.62	0.52	3.60	4.77	6.53	9.24
ICE BofAML U.S. High Yield	9.61	-4.78	-1.10	2.94	4.58	6.48	10.07

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, 2021. 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. 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.