HIGH YIELD FUND

HWHIX
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MANAGER REVIEW & ECONOMIC OUTLOOK

JUNE 30, 2021

MARKET COMMENTARY

The ICE BofA US High Yield Index returned +2.8% in the second quarter of 2021. While the threat of new COVID variants persists, vaccination levels increased and new cases slowed. Consequently, state and local governments continued to ease closures/restrictions spurring renewed economic activity. Manufacturing rose and labor markets improved, highlighting the potential for tight supply conditions. Consumer prices rose 5% year over year, the fastest level in more than a decade. In response, Fed Chairman Powell reiterated his view that inflationary pressures would be transitory. West Texas Intermediate (WTI) crude oil touched $74/barrel, its highest level in more than two years. Corporate earnings continued to show strength, with most US corporations surpassing consensus earnings expectations.

Medium/long term interest rates fell during the quarter while yields on the short end rose slightly, thus flattening the yield curve. The 10-year treasury note declined from 1.74% to 1.47% over the quarter. The high yield market followed suit, with yields falling and spreads tightening. The yield-to-worst for the high yield market fell by (0.4%), from 4.3% at the beginning of the quarter to 3.9% at quarter end. Spreads over treasuries tightened by 32 basis points, closing the quarter at just over 300 basis points. Yields and spreads are considerably lower/tighter than historical averages. While these relatively rich valuations leave less room to absorb negative shocks, the low yields/spreads are supported by healthy fundamentals.

Defaults/distressed exchange activity over the first six months of 2021 was the high yield market's lightest in a decade. The trailing 12-month par-weighted default rate, including distressed exchanges, ended the quarter at less than 1.9%. This is a far cry from the 6.7% level at the beginning of the year. Defaults in calendar year 2020 represented $140 billion in par value (includes bonds, loans, and distressed exchanges). Year-to-date, this figure is $8.5 billion. The trailing 12-month upgrade/downgrade ratio is 1.34 to 1, which is the highest level in nearly 7 years; the trailing 6-month ratio is more than 2 to 1. Lower rated credits outperformed higher rated, fallen angels outperformed originally issued high yield bonds, small and medium credits outperformed large caps, and energy was the top-performing sector by a wide margin (WTI crude rose +24%).

The primary market is on record-setting pace, with nearly $300 billion in new issue volume since the beginning of the year. There was $450 billion in new issuance in 2020, which surpassed the prior record of $399 billion in 2013. Two-thirds of new issuance has been for refinancing, mitigating pressures from increased supply. About 15% of new issuance has been used for mergers and acquisitions activity, which is lower than historical averages, albeit modestly so.

We continue to focus on well-capitalized credits, with a penchant for the often overlooked small and mid cap segment of the market. This results in a yield/spread advantage relative to the benchmark, and because we generally focus on the senior part of the capital structure, it can be attained without assuming undue risk. We believe this combination should continue to benefit our clients.

ATTRIBUTION – 2Q21

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 2021. The Fund's focus on, and corresponding overweight allocation to small and mid cap credits helped relative performance. The largest contributor to relative performance was positive credit selection in energy, though the overweight position in energy also helped. The energy sector was by far the best-performer for both the portfolio and the indexes. Positive credit selection in retail also helped. Credit selection in basic industry was the largest performance detractor in the quarter, followed by credit selection in consumer goods.

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

Fundamentals (4)

We lowered the score from 5 to 4. Record stimulus and continued support from the Federal reserve remain supportive. Balance sheets remain strong, the outlook for growth positive, and so the outlook for defaults is rather benign. Inflationary pressures pose a risk, however, with rising material and labor costs.

Technicals (3)

We lowered the score from 4 to 3. Upgrades continue to outpace downgrades. The new issue calendar is robust, though most of the activity has been for refinancing purposes. Fund flows remain tepid.

Valuation (2)

We lowered the score from 3 to 2. Yields and spreads are both well below average levels. Spreads over treasuries of close to 300 basis points reflects a market that is priced for an optimistic environment, providing little room for negative surprises.

Hotchkis & Wiley

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PERFORMANCE (%) as of June 30, 2021

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 3/31/09
High Yield Fund – I Shares	2.84	4.90	19.32	4.86	6.17	5.80	9.11
ICE BofAML BB-B US HY Constrained	2.57	2.88	13.44	7.39	6.99	6.43	9.57
ICE BofAML U.S. High Yield	2.77	3.70	15.62	7.15	7.30	6.50	10.51

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 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 / *Index definitions* 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, 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 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 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. Yield-to-Worst is the lowest possible yield from owning a bond considering all potential call dates prior to maturity. Upgrade/Downgrade ratio is the number of ratings upgrades divided by the number of ratings downgrades (by the major ratings agencies). Fallen angels are credits that were investment grade rated when issued (BBB- or above) but have since been downgraded.