HIGH YIELD FUND

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MANAGER REVIEW & ECONOMIC OUTLOOK

JUNE 30, 2022

MARKET COMMENTARY

The ICE BofA US High Yield Index returned -10.0% in the second quarter of 2022 and is now down -14.0% since the beginning of the year. Several economic developments in the quarter sparked fears of a recession. Real gross domestic product (GDP) was -1.6% quarter-over-quarter (1Q), the war in Ukraine showed little signs of abating, the Consumer Price Index increased 8.6% year-over-year, and an increasingly hawkish Federal Open Market Committee raised the Fed Funds rate by 125 basis points via two hikes (from 0.5% to 1.75%). The Fed signaled further rate increases going forward to combat the highest inflation level in more than 40 years. The futures market implies that investors expect the Fed Funds rate to exceed 3% by year end with more rate hikes expected in 2023. Treasury yields of all durations increased, more so on the short end resulting in a rather flat yield curve—the yields on the 10-year and 2-year are only basis points apart. Historically, inverted yield curves have been efficacious recession predictors, which has us sensibly cautious.

The trailing 12-month default rate for the high yield bond market increased to 1.08%, including distressed exchanges. While this is an increase from extreme lows, it remains well below the 20-year average of 2.7%. Post default recovery rates over the last 12 months are 68%, which is higher than any calendar year in the market's history—though it only includes 8 observations. The market's 25-year average recovery rate is about 40%. Spreads over treasuries widened by more than 240 basis points in the quarter, suggesting that the market expects default activity to increase meaningfully going forward. The market's spread over treasuries finished at 587 basis points, up from 343 basis points at the beginning of the quarter and 310 basis points at the beginning of the year. More than a tenth of the market trades at a spread wider than 1,000 basis points. The yield-to-worst on the market rose 2.9% in the quarter, finishing at 8.9%, a function of both rising rates and widening spreads. This represents the market's highest yield-to-worst since March of 2020 when uncertainty regarding the pandemic was at its peak. About 6% of the market trades for less than 70% of par value, while about 1% trades for less than half of par.

Rating agency upgrades continue to outpace downgrades, though the ratio in recent months has begun to approach 1:1. The trailing 12-month upgrade-to-downgrade ratio is 2.17:1 by number of issuers and 2.89:1 by volume, both down from the records reached earlier in the year. The number of downgrades in investment grade corporates is also low. Accordingly, the number and volume of fallen angels entering the high yield universe has been nearly non-existent in the past year and a half.

The primary market has been light this year, running well below the typical volume over the past decade. There has been a total of $71 billion in new issue volume in 2022 compared to last year's record $483 billion. About half of this year's issuance has been used for refinancing, slightly less than the average run rate of the past few years. CCC-rated new issuance as a percentage of total issuance has ticked up. Normally we view this as a sign of an overzealous market, but the statistic is a bit misleading given the overall volume is so light.

The number of attractive valuation opportunities has increased this year, though it took a negative market to get here. Nonetheless, we are more optimistic about our prospect to add value going forward than we were at the year's outset. We will continue to adhere to our competitive research advantage, particularly in small and mid cap credits, with a focus on strong asset coverage.

ATTRIBUTION – 2Q22

The Hotchkis & Wiley High Yield Fund outperformed (declined less than) the ICE BofA US High Yield Index and performed in line with the ICE BofA BB-B US High Yield Constrained Index in the second quarter of 2022. Relative to the broad benchmark, the underweight exposure to CCC-rated securities helped relative performance as this was the market's worst performing group, declining nearly -15% in the quarter. Positive credit selection in energy was significantly helpful as well, along with positive credit selection in basic industry and services. Credit selection in retail and leisure detracted from relative performance. The underweight exposure to the utility sector also hurt, albeit modestly.

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

Fundamentals (2)

The fundamentals score was reduced from last quarter (3 to 2). Cash positions remain solid, and the maturity schedule leaves little concern. Demand is starting to weaken, however, and profit margin pressures are coming. Weaker credits could be at risk.

Technicals (3)

The technical score was increased from last quarter (2 to 3). Improved valuations are attracting buyers, and docile new issuance provides support. The Fed signaling more rate hikes creates uncertainty.

Valuation (4)

The valuation score was increased from last quarter (3 to 4). Yields are the highest we have observed in years. Current spreads compensate for the likely increase in default activity. The dispersion of spreads is creating opportunities. Spreads remain below typical recession levels, however.

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PERFORMANCE (%) as of June 30, 2022

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 3/31/09
High Yield Fund – I Shares	-9.58	-12.64	-11.12	-0.55	1.06	3.95	7.43
ICE BofA BB-B US HY Constrained	-9.50	-13.64	-12.20	0.04	2.07	4.34	7.76
ICE BofA US High Yield	-9.97	-14.04	-12.66	-0.04	1.95	4.41	8.57

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.

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.

Real gross domestic product (GDP) is the inflation adjusted value of the goods and services produced by labor and property located in the US. The Consumer Price Index is a measurement of US prices for household goods and services. Fallen angels are credits that were investment grade rated when issued (BBB- or above) but have since been downgraded. Par value is the face value of a bond or a share of stock. 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. 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 curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates.