HIGH YIELD FUND

HWHIX
HWHAX
HWHCX
HWHZX

MANAGER REVIEW & ECONOMIC OUTLOOK

JUNE 30, 2023

MARKET COMMENTARY

The ICE BofA US High Yield Index returned +1.7% in the second quarter of 2023 and is now up +5.5% since the beginning of the year. The US Consumer Price Index has fallen from its 9.1% peak in mid-2022 to 4.0% and is expected to decline further. This seems to have trumped concerns about an economic slowdown. Bloomberg publishes a *United States Recession Probability Forecast*, which surveys a group of economists on what they think the chances of a recession are in the next 12 months. The index currently stands at 65%. However, the high yield market fell in 2022 more than it has risen in 2023, i.e., the broad index is still down over the past year and a half suggesting a slowdown might be priced in already. Also, not all recessions/slowdowns are created equally. Balance sheets of consumers and companies are generally healthy, unlike 2007/2008. Fewer excesses in the financial system are likely to limit the severity of a recession if one occurs.

The Federal Open Market Committee hiked the Fed Funds rate another 25 basis points in the quarter. The important benchmark rate now stands at 5.25% (upper bound), its highest level since 2007. Government bond yields followed suit, rising more on the short end than on the long end. This inverted the yield curve further. The 3-month, 2-year, and 10-year government bond yields finished the quarter at 5.2%, 4.9%, and 3.8%, respectively. The high yield market absorbed the higher rates, as spreads for the broad index narrowed by about 50 basis points (to 405 basis points), leaving the market's yield-to-worst largely unchanged (at 8.6%).

While the default environment remains relatively benign, default activity has shown nascent signs of increasing. The par weighted trailing 12-month default rate, including distressed exchanges, is 2.7%. This compares to the long-term average of 3.2%. Post-default recovery rates have been poor, at just 17% over the past twelve months. This is a record low and compares to the long-term average of 40%. The loss rate associated with defaults, therefore, is above the long-term average[1].

Over the past year, the amount of rating agency upgrades has been about equal with the amount of downgrades. The upgrade to downgrade ratio is 1.15 to 1 by par value, and 0.90 to 1 by number of issuers. The primary market remains well off the record pace set in 2020 and 2021, with more than 60% of new issuance earmarked for refinancing.

Our overall view of the high yield market is slightly below average, with below average fundamentals and reasonable valuations for the risks at hand. 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 – 2Q23

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 2023. For the second consecutive quarter, positive credit selection drove all the outperformance. It was most positive in basic industry, retail, consumer goods, and capital goods. The underweight exposure to financial services and credit selection in the utility sector detracted from performance.

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

Fundamentals (2)

The fundamentals score remains unchanged from last quarter. Liquidity/maturity profiles are sufficient. Margins are in line with historical averages. Operating profit growth is falling amid rises in interest costs. Defaults are rising but slightly below average. Recovery rates are at record lows.

Technicals (3)

The technicals score remains unchanged from last quarter. Investors are attracted to 8% yields. Liquidity has been stable. High yield has performed well in the past following a Fed pause.

Valuation (3)

The valuation score was reduced from above average to average. Bond prices are at some of the lowest levels in years; yields are well above recent levels. Spread dispersion is sufficient to add value for active credit pickers. Spreads remain below typical recession levels.

[1] The loss rate equals the default rate multiplied by 1 minus the recovery rate

Portfolio managers' opinions and data included in this commentary are as of June 30, 2023 and are subject to change without notice. Any forecasts made cannot be guaranteed. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness. **Past performance is no guarantee of future results.**

Hotchkis & Wiley

HIGH YIELD FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

JUNE 30, 2023

PERFORMANCE (%) as of June 30, 2023

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 3/31/09
High Yield Fund – I Shares	1.74	5.79	9.23	5.02	2.28	3.72	7.56
ICE BofA BB-B US HY Constrained	1.28	4.90	8.67	2.68	3.40	4.36	7.82
ICE BofA US High Yield	1.66	5.45	8.97	3.24	3.20	4.35	8.59

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 29, 2024. 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 **US 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. 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. **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.

Mutual fund investing involves risk. Principal loss is possible.
NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE
The Hotchkis & Wiley Funds are distributed by Quasar Distributors, LLC