HIGH YIELD FUND

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MANAGER REVIEW & ECONOMIC OUTLOOK

SEPTEMBER 30, 2020

MARKET COMMENTARY

The ICE BofA US High Yield Index returned +4.7% in the third quarter of 2020, after returning +9.6% in the second quarter. This nearly brings it into positive territory for the year (-0.3%) despite its dismal first quarter (-13.1%). Corporate America demonstrated impressive resilience in its quarterly results, which seemed to allay continued worries about the prevalence of COVID-19 and Congress' stalemate over a new stimulus package. Meanwhile, the Fed continues to signal easy monetary policy for the foreseeable future, maintaining a subdued economic outlook. COVID-19 cases reaccelerated for the first time in months, but hospitalizations and deaths remained downward trending—there was a large jump in tests administered which could explain the mixed developments.

The high yield market's yield-to-worst declined from 6.8% to 5.8% over the course of the quarter, while spreads over treasuries narrowed from 644 to 541 basis points. Treasury yields moved very little in the quarter—yields on the short end declined nominally and yields on the long end increased nominally, resulting in a slight steepening of the yield curve. Within the high yield market, lower rated credits outperformed, as yields/spreads decreased/narrowed more than for higher rated credits. Small and mid cap credits outperformed large cap credits modestly, and fallen angels outperformed credits originally issued as high yield.

During the quarter, 26 bonds defaulted or went through a distressed exchange, for a total of $19 billion in par value. This was tame compared to the 51 defaults for $80 billion in par value that occurred during the second quarter—the second most in the high yield market's history. The trailing 12-month default rate, including distressed exchanges, was 6.4% at the end of the quarter. Excluding the energy sector, which has accounted for about one-third of this year's defaults, the default rate is a more modest 4.3%. The $123 billion in defaults/distressed exchanges since the beginning of the year makes 2020 the second highest default year on record, trailing only the $205 billion that defaulted during the financial crisis in 2009. Notably, post-default recovery rates are near record lows, with the trailing 12-month recovery rate at about 15% compared to the long-term average of 40%. Less than 2% of the market trades at distressed prices (less than 50% of par value), more than half of which resides in the energy sector.

Rating agency downgrades have exceeded upgrades by a large margin. The upgrade/downgrade ratio stands at 0.38 (a ratio above 1.0 indicates more upgrades than downgrades, and vise-versa). The $600 billion in downgrades this year represents a new record for the market, though these "records" are a bit misleading as the size of the overall market has grown significantly in recent decades. The $194 billion of fallen angels entering the US high yield market in 2020 marks yet another record. The new issue calendar has been quite active in 2020, with about $300 billion in total new issuance, a run rate that is about in line with the most active years on record. About two-thirds of the total issuance was used for refinancing. Only about 10% was CCC-rated issuance, nearly all of which was for refinancing.

Roughly 60% of high yield issuers are small or mid cap (by number), though this group comprises less than 20% of the total market (by total par value of issuance). While small and mid caps have outperformed over the long term, the group has underperformed significantly in the past year. This has represented a meaningful headwind for our investment style—we have a penchant for this overlooked segment of the market—but the spread widening between these two groups represents an interesting opportunity looking forward. The ICE BofA US Small Cap Index exhibits a spread over treasuries of 632 basis points. This is 130 basis points wider than its large cap counterpart (ICE BofA US Large Cap Index), almost twice its long-term premium. The portfolio exhibits a similar spread advantage, reflecting our conviction that select opportunities are especially attractive in today's environment.

ATTRIBUTION – 3Q20

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 third quarter of 2020. Small and mid cap credits outperformed large cap credits by a small magnitude, which was a modest performance tailwind. The bulk of the outperformance is attributable to positive credit selection. Credit selection was positive in 13 of the 18 BofA sectors, with basic industry leading the way. Credit selection was also positive in the healthcare, media, and automotive sectors. The overweight position in basic industry and underweight position in telecommunications also helped relative performance. Credit selection in the retail, energy, and utility sectors detracted from performance.

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

Fundamentals (3)

We increased the score from 2 to 3. Economic data are improving, and the reopening process remains ongoing, and expansion appears underway. Corporate liquidity remains strong, defaults appear to have peaked, but COVID-19 infection rates have risen amid reopening efforts which would derail an expansion.

Technicals (4)

We increased the score from 3 to 4 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, and the election outcome could increase fiscal policy risk.

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 541 basis points, and the dispersion of spreads is wide—the latter 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

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PERFORMANCE (%) as of September 30, 2020

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 3/31/09
High Yield Fund – I Shares	5.19	-3.99	-1.80	0.86	4.31	5.45	8.53
ICE BofAML BB-B US HY Constrained	4.33	0.55	3.14	4.41	6.59	6.29	9.43
ICE BofAML U.S. High Yield	4.71	-0.30	2.30	3.83	6.61	6.28	10.28

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.

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 ICE BofA US Large Cap High Yield Index and ICE BofA US Small Cap High Yield Index track securities by market cap of the ICE BofA US Cash Pay High Yield Index which represents below investment grade US dollar denominated bonds making coupon payments in cash and that have at least $100 million in outstanding issuance. 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 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. 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/Downgrade ratio is the number of ratings upgrades divided by the number of ratings downgrades (by the major ratings agencies). Investment grade indicates that a municipal or corporate bond has a relatively low risk of default.