HIGH YIELD FUND

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MANAGER REVIEW & ECONOMIC OUTLOOK

SEPTEMBER 30, 2021

MARKET COMMENTARY

The ICE BofA US High Yield Index returned +0.9% in the third quarter of 2021. The index reached an all-time high in mid-September, up +1.4% for the quarter before declining throughout the remainder of the month. Economic developments over the quarter were mixed. Real GDP grew an impressive +6.7% in the most recent quarter (seasonally adjusted quarter-over-quarter). The positive momentum in labor markets slowed, however, as many businesses are contending with serious labor shortages. Business owners are hopeful that labor availability will improve due to the expiration of enhanced pandemic unemployment benefits in September, though higher wages and benefits appear likely. This fuels already-tight supply conditions and increases inflationary pressures. Inflation persisted above 5% (year-over-year), its highest level in well over a decade. The Fed voted to keep its target Fed Funds rate near zero until the economy approaches "maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time."[1] There have been some increasingly hawkish comments from Federal Open Market Committee (FOMC) members, with some suggesting that the economic recovery warrants tapering in the near term. The yield on the 10-year treasury note began and ended the quarter at about 1.5% but fell below 1.2% intra-quarter. Shorter and longer duration treasuries experienced similar moves during the quarter, i.e., there was little change to the yield curve.

Yields rose and spreads widened across the broad high yield market, albeit ever so slightly. The yield-to-worst and spread over treasuries on the ICE BofA US High Yield Index increased 0.23% and 11 basis points, respectively, over the quarter. The index closed the quarter with a yield-to-worst of 4.1% and spread over treasuries of 315 basis points. Performance deviations by credit quality, sector, size, etc. were unusually small during the quarter, as all major segments of the credit market performed similarly.

The default environment is exceptionally benign. The quarter experienced the lowest default volume, including distressed exchanges, in more than 7 years. That puts calendar year 2021 on pace to be the lowest default year in more than a decade. The trailing 12-month default rate ended the quarter at 0.99%, also the lowest level in more than 7 years. Post default recovery rates have also improved (39%) to in line with long-term historical averages (40%). This represents a substantial improvement from the unusually low recovery rates of 2019 and 2020, which were 23% and 22%, respectively. High yield market revenue has increased nearly 40% since the depths of the COVID crisis, while EBITDA has risen by 80%. Net leverage across the market has declined to well below average, while cash on hand remains well above average. The low default environment is a direct byproduct of these healthy corporate fundamentals. Unfortunately, low yields and tight spreads are also a byproduct.

Rating agencies have been upgrading credits at a rapid pace compared to downgrades. The issuer-weighted upgrade/downgrade ratio reached an all time high of 1.72 to 1, a remarkable rise from 0.34 to 1 at the start of the year (a ratio of more than 1.0 to 1 indicates more upgrades than downgrades, and vice versa). The volume-weighted upgrade/downgrade ratio is even higher, reaching a record 2.35 to 1.

At $410 billion, new issuance in 2021 has already surpassed every prior year except 2020 ($450 billion). Liberal new issuance can warrant investor caution, but the primary market has remained rather well behaved. More than 60% of all new issuance has been used for refinancing, while less than 20% has been earmarked for leveraged buyout/acquisition activities—the latter is a more aggressive use of capital. These figures are reasonably close to long-term averages. Also, just 14% of new issuance has been CCC-rated, slightly lower than average.

We continue to focus on credits with attractive asset coverage, often in the more senior parts of the capital structure. We will also continue to make the most of our research advantage in small and mid cap credits, which provides us a yield/spread advantage relative to the market without assuming unnecessary risk.

ATTRIBUTION – 3Q21

The Hotchkis & Wiley High Yield Fund underperformed the ICE BofA US High Yield Index and the ICE BofA BB-B US High Yield Constrained Index in the third quarter of 2021. Performance dispersion by credit quality, size, and sector was noticeably low across the high yield market. Accordingly, there were no major portfolio themes that were material contributors or detractors in the quarter. Slightly positive credit selection in utilities and technology was not enough to overcome negative credit selection in the basic industry sector, which was the largest detractor in the quarter.

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

Fundamentals (4)

The fundamentals score remained unchanged from last quarter. Revenue and cash flow have been robust. Leverage has declined and liquidity remains high. Defaults are also on the decline. EBITDA margins are elevated, perhaps at unsustainable levels.

Technicals (3)

The technical score remained unchanged from last quarter. The Fed has maintained its dovish stance. There is an attractive yield/duration profile. Supply/demand appears a bit unbalanced, however, as new issuance remains elevated while fund flows are tepid.

Valuation (2)

The valuation score remained unchanged from last quarter. Excess spreads (after adjusting for low defaults) are reasonable, so long as defaults remain subdued. The dispersion of spreads is sufficiently wide, a good sign for active credit pickers. However, yields are low are spreads are tight.

[1] https://www.federalreserve.gov/monetarypolicy/files/monetary20210922a1.pdf

Hotchkis & Wiley

HIGH YIELD FUND

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PERFORMANCE (%) as of September 30, 2021

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 3/31/09
High Yield Fund – I Shares	0.69	5.63	14.21	4.39	5.13	6.74	8.98
ICE BofAML BB-B US HY Constrained	0.94	3.84	9.76	6.89	6.15	7.08	9.46
ICE BofAML U.S. High Yield	0.94	4.67	11.46	6.62	6.35	7.30	10.37

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 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 non-rated.

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/Downgrade ratio is the number of ratings upgrades divided by the number of ratings downgrades (by the major ratings agencies). Duration is a measure of the price sensitivity of a bond to interest rate movements. Yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income. Earnings before interest, taxes, depreciation, and amortization (EBITDA) is a metric that measures a company's overall financial performance.