HIGH YIELD FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

SEPTEMBER 30, 2022

MARKET COMMENTARY

The ICE BofA US High Yield Index declined -0.7% in the third quarter of 2022 and is now down -14.6% since the beginning of the year. Investors continued to grapple with elevated inflation and the Fed's hawkish action and sentiment. The latest Consumer Price Index (CPI) reading was 8.3% year-over-year, which was slightly above consensus forecasts but below the 40-year high reached in September (9.1%). Energy prices declined, with WTI crude oil falling from $106/barrel to $79/barrel over the course of the quarter. The most recent Core CPI reading, which excludes food and energy, increased slightly from the beginning of the quarter (6.3% from 5.9%). To combat inflation, the Federal Open Market Committee continued to raise interest rates. It increased the Fed Funds Target Rate by 150 basis points via two hikes in the quarter. The target rate now stands at 3.25% (upper bound), a full 3 percentage points higher than where the year began (0.25%). Market implied expectations are for the rate to exceed 4% by year-end. Interest rates rose across all durations but more so on the short end. The 10-year/2-year treasury curve went from flat to notably inverted by quarter-end (3.8% and 4.3%, respectively). The 10-year/3-month treasury curve flattened but remains upward sloping (3.8% and 3.2%, respectively). Both curves have been efficacious recession predictors historically (when they invert); the contrasting signals have us cautious.

The economy demonstrated mixed signals. Second quarter real gross domestic product (reported in the third quarter) contracted -0.6% quarter-over-quarter. The ISM Manufacturing PMI declined to 50.9 from over 60 in late 2021 (a reading above 50 indicates expansion, below 50 contraction). The ISM Services PMI was 56.7, slightly higher than at the beginning of the quarter. Unemployment and initial jobless claims remain low. Reported corporate earnings were strong, with most companies exceeding analyst expectations. Lower forward guidance was a common theme, however. Many management teams have been pointing to inflation, continued supply constraints, and the stronger dollar as near-term profitability headwinds.

The high yield market's trailing 12-month default rate, including distressed exchanges, climbed to 1.6%. While this is well below the long-term average, it represents the highest figure in more than a year and well above the all-time low set early in 2022. At 57%, post default recovery rates are well above average, however, compared to the long-term average of 40%. Although this includes few observations considering the low default rate. The number of credits trading at distressed levels has crept upwards as well. About 9% of the high yield market trades below 70% of par, and an equal amount trades at a spread of more than 1,000 basis points.

Rating agency upgrades have outpaced downgrades for 21 consecutive months. The trailing 12-month upgrade/downgrade ratio is slightly below 2 to 1 by number of issues, and slightly above 2 to 1 by total par value. The primary market has been quiet. There has been $90 billion in new issuance thus far in 2022, a far cry from the $483 billion last year which was a record high. Aggressive new issuance, as defined by the low-rated new issuance and that issued for M&A activity, has ticked up slightly but here too the lack of observations renders this less meaningful/concerning.

Our overall view of the high yield market is about average. Valuations are better than average, but fundamentals are worse than average amid a slower growth/higher cost environment. The dispersion in valuations has widened, which we view as an opportunity given our bottom-up credit picking approach, particular in the often overlooked small and mid cap segments of the market.

ATTRIBUTION – 3Q22

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 2022. Relative to the broad benchmark, credit selection in Basic Industry was the largest performance detractor in the quarter. Credit selection in Media, Healthcare, and Telecommunications also hurt, along with the underweight position in Services. Positive credit selection in Technology, Capital Goods, and Retail were notable contributors to relative performance.

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

Fundamentals (2)

The fundamentals score remains unchanged from last quarter. Leverage and asset/interest coverage remain solid. Liquidity and maturity profiles are attractive. Growth appears to be inflecting and cost pressures are building. Defaults and distressed situations are likely to rise.

Technicals (3)

The technical score remains unchanged from last quarter. There have been large outflows in the asset class and low new issuance. The Fed creates uncertainty. The economy is slowing, and labor markets are tight.

Valuation (4)

The valuation score remains unchanged from last quarter. Yields are attractive. Spreads over treasuries are above average yet below typical recession spreads. Dispersion in valuations across the market is creating opportunity for active credit pickers.

Hotchkis & Wiley

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PERFORMANCE (%) as of September 30, 2022

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 3/31/09
High Yield Fund – I Shares	-1.31	-13.79	-12.89	-0.77	0.41	3.30	7.18
ICE BofA BB-B US HY Constrained	-0.72	-14.26	-13.64	-0.75	1.53	3.81	7.55
ICE BofA US High Yield	-0.65	-14.60	-14.04	-0.66	1.41	3.87	8.35

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.

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 (CPI) is a measurement of US prices for household goods and services. 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. 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).