HIGH YIELD FUND

3Q23 MANAGER REVIEW & ECONOMIC OUTLOOK

HWHIX | HWHAX | HWHCX | HWHZX

Hotchkis & Wiley

PERFORMANCE (%) as of September 30, 2023

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 3/31/09
High Yield Fund – I Shares	0.74	6.57	11.50	3.52	2.02	3.58	7.48
ICE BofA BB-B US HY Constrained	0.25	5.16	9.73	1.32	2.96	4.17	7.70
ICE BofA US High Yield	0.54	6.03	10.28	1.85	2.82	4.17	8.48

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.

MARKET COMMENTARY

The ICE BofA US High Yield Index returned +0.5% in the third quarter of 2023 and is now up +6.0% since the beginning of the year.

The FOMC raised the Fed Funds target rate another 25 basis points in its July meeting to 5.5% (upper bound), its highest level in more than 20 years. Treasury yields rose accordingly, especially on the long end of the curve, which made the yield curve a bit less inverted. Historically, inverted yield curves have been efficacious harbingers for recessions, but the strong labor market is a conflicting signal. Should a recession transpire, we view a mild/modest slowdown as most likely considering fewer excesses in the system and conservative balance sheets for businesses and consumers alike. Nonetheless, we focus on senior secured credits with strong asset coverage because these characteristics function as effective defenses in recessionary periods. We do not necessarily expect to benefit from this conservatism during times of market exuberance, but rather during times of market stress.

The yield on the 2-year treasury rose 15 basis points to end the quarter at 5.05%, while the yield on the 10-year treasury rose 73 basis points to end the quarter at 4.57%. The high yield market's yield-to-worst rose in tandem with treasury yields, increasing 37 basis points to 8.9%. There was essentially no change in spreads over treasuries, which finished the quarter at just over 400 basis points.

Default activity in the third quarter was lower than default activity in either the first or second quarters of 2023. The trailing 12-month default rate, including distressed exchanges, was 2.1% as of September 30, up modestly from 1.7% at the beginning of the year. This remains below the long-term average of 3.1%, though importantly, the historical default rate is far from normally distributed—it is generally benign, i.e., very low, until market stresses cause large spikes. Therefore, the historical median is considerably lower than the historical mean. Defaults have been reasonably diversified across market segments, as opposed to focused in one or two sectors. There have been no energy defaults over the past year, however. Recovery rates remain unusually low, which has been driven by paltry recoveries from unsecured defaults. The trailing 12-month recovery rate for senior secured defaults is 40%, which is below the long-term average of 53%. The recovery rate for senior unsecured bonds, however, stands at a record low of 3%, a far cry from its historical average of 35%. Putting them together, the total high yield bond market's recovery rate is 24% compared to the long-term average of 40%.

Historically, about one-third of high yield bonds that reach spread levels of at least 1,000 basis points default within a year. Today, about 7% of the market trades at such levels, which would imply a default rate of 2.4% for this group alone in the year ahead. At the height of COVID in early 2020, 32% of the market traded at spreads above 1,000 basis points, though much less than a third of this cohort ended up defaulting in the subsequent 12 months.

Rating agency upgrades outpaced downgrades by wide margin in the quarter. The upgrade-to-downgrade ratio in the quarter was 1.4 to 1 by number of issuers, and 2.3 to 1 by volume. Year-to-date, the ratios are 1.0 to 1 and 1.4 to 1, respectively.

(continued)

Portfolio managers' opinions and data included in this commentary are as of September 30, 2023 and are subject to change without notice. Any forecasts made cannot be guaranteed. **Diversification does not assure a profit nor protect against loss in a declining market. Past performance is no guarantee of future results.**

The primary market has remained quiet in 2023, though not as slow as 2022. Total new issuance year-to-date stands at $137 billion compared to $106 billion in all of 2022. Still, this is a much slower pace than the $450+ billion of new issuance in both 2020 and 2021, though these were record highs. The primary market has been as conservative as it has been slow. Just 6% of new issuance in 2023 has been CCC-rated, more than half of which was for refinancing. Nearly two-thirds of all new issuance in 2023 has been for refinancing purposes.

Our overall view of the high yield market remains slightly below average, with below average fundamentals and reasonable valuations. We continue to 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 ANALYSIS

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 2023. It outperformed the constrained index by a larger margin because the broad index benefited from the outperformance of lower rated credits. Relative to either index, positive credit selection in small and mid cap credits contributed to the outperformance; the overweight exposure was modestly helpful as well. Positive credit selection in basic industry, media, and energy were meaningfully positive, as was the overweight exposure to energy and insurance. The underweight position in financials services and credit selection in the technology and automotive sectors detracted from relative 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 remains unchanged from last quarter. 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.

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. All investments contain risk and may lose value. 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.

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. 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. Certain information presented based on proprietary or third-party estimates are subject to change and cannot be guaranteed. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness.

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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.

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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. **Yield curve** plots interest rates of bonds of equal credit and different maturities. **Par** is the stated value or face value of a financial instrument.

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