HIGH YIELD FUND

HWHIX
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HWHCX
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MANAGER REVIEW & ECONOMIC OUTLOOK

DECEMBER 31, 2022

MARKET COMMENTARY

In calendar year 2022, the economy and capital markets experienced numerous milestones that had not been observed for quite some time. The ICE BofA US High Yield Index ("high yield market") declined -11.2%. Since its 1985 inception, only 2008 was a worse calendar year (-26.4% during the financial crisis). Inflation peaked midyear at 9.1%, the highest reading in more than 40 years[1]. To combat rising prices, the Federal Open Market Committee increased the Fed Funds rate by more than 400 basis points over the course 2022, from 0.25% to 4.5% (upper bounds). This was the largest rate hike in any calendar year since 1973, and the current 4.5% level is its highest in more than 15 years. Other interest rates followed suit. 10-year treasury yields peaked above 4% for the first time in more than a decade; 30-year mortgage rates peaked above 7% for the first time in more than 2 decades. Yields on corporate credit also increased significantly. The high yield market's yield-to-worst rose 4.7% over the course of the year, from 4.3% to 9.0%. The treasury yield curve remains significantly inverted, which has been a harbinger of recessions historically. The tight labor market exhibited strong contrasting signals, however, with the unemployment rate reaching a 50-year low.

Forecasting economic growth and/or predicting recessions is not our expertise. We do, however, fully acknowledge current warnings signs, e.g., continued Fed tightening and the yield curve. Two things providing solace in the event of an economic slowdown are modest financial leverage and attractive valuations. There are fewer excesses in the system compared to prior recessionary periods like 2008. Unlike then, balance sheets of both consumers and financial institutions are quite strong today. Further, high yield valuations are reasonable, and in select market segments, unusually attractive. A strong argument could be made that a recession is already priced in. While several signs point to an economic slowdown, several others suggest that the severity would be manageable and/or much of the pain has already been felt.

The trailing 12-month high yield default rate increased over the course of the year, rising from a near all-time low of 0.4% at the beginning of the year to 1.7% at the end of the year. This remains well below the 30-year average of 3.2%, but uncertain economic growth and increasingly restrictive capital markets could cause this to increase. Post default recovery rates were 55% for the year, above the 40% long term average, though there were a limited number of observations.

Credit valuations improved over the year, as yields increased by 4.7% (4.3% to 9.0%) and spreads over treasuries widened by 171 basis points (310 to 481 bps). Yields and spreads increased for lower rated credits disproportionately, as higher rated credits outperformed. About 9% of the high yield market trades for less than 70% of par, and about 3% trades for less than half of par, both notable increases from the beginning of the year. The trailing 12-month ratio of rating agency upgrades to downgrades was 1.35 to 1 by number of issuers and 1.74 to 1 by total volume, but this has been trending down in recent months. In fact, downgrades have outpaced upgrades in each of the last three months. The new issue calendar was notably light in 2022, with a little more than $100 billion in total new issuance. This compares to 2021's record of $483 billion.

We continue to view the high yield market's prospects as roughly average relative to history. Questionable growth and increased cost pressures could very well increase distressed situations, though much of this appears priced in, i.e., valuations are attractive. Valuation dispersion is sufficiently wide, which is conducive for our bottom-up credit picking approach and our penchant for small and mid cap credits.

ATTRIBUTION – 4Q22 & 2022

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 fourth quarter of 2022. Relative to the broad benchmark, positive credit selection in Energy, Leisure and Consumer Goods helped relative performance. Credit selection in Basic Industry, Media, and Healthcare detracted from performance.

For the full calendar year, the Fund also outperformed both benchmarks. The focus on small and mid-sized credits helped performance as smaller credits declined less than larger credits. Relative to the broad benchmark, the underweight to CCC-rated credits helped as this cohort lagged the rest of the high yield market. Credit selection was decidedly positive, with credit selection in Energy, Capital Goods, and Technology leading the way. The overweight to Energy also helped. Credit selection in Basic Industry, Media, and Retail hurt relative performance in the year.

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.

[1]US Consumer Price Index Urban Consumer year-over-year, not seasonally adjusted

Portfolio managers' opinions and data included in this commentary are as of December 31, 2022 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.**

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PERFORMANCE (%) as of December 31, 2022

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 3/31/09
High Yield Fund – I Shares	4.63	-9.80	-9.80	-0.02	1.13	3.40	7.40
ICE BofA BB-B US HY Constrained	4.35	-10.53	-10.53	-0.18	2.32	3.94	7.74
ICE BofA US High Yield	4.01	-11.17	-11.17	-0.21	2.13	3.95	8.50

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.

Credit Quality 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. 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). Yield-to-worst is the lowest possible yield from owning a bond considering all potential call dates prior to maturity.

Mutual fund investing involves risk. Principal loss is possible.
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