

MARKET COMMENTARY

The MSCI World ex-USA Index returned +4.9% in the third quarter of 2020 and is now -7.1% year-to-date. Strong corporate earnings trumped continued worries about the prevalence of COVID-19. Meanwhile, the largest central banks continue 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.

Growth outperformed value across geographies and across market capitalizations. Perhaps more important to our clients than the value-growth dichotomy is the equally noteworthy divergence within value, both in terms of trailing performance and future opportunity. Among the best performing market segments within value are those with low correlations to economic growth, like healthcare utilities, and consumer staples. The weakest performers within value have been concentrated in market segments where near-term forward earnings estimates have declined meaningfully, in some cases by 30% or more. Financials and energy comprise a disproportionate share of these examples. The positions we have in these areas have underperformed, though we view the forthcoming earnings declines as temporary. A year or two of depressed earnings reduces our intrinsic value estimate, but this impairment of value is certainly not commensurate with actual share price declines. We are unwilling to take meaningful balance sheet risk because a weak balance sheet can significantly impair capital via shareholder dilution or worse. This steadfast risk aversion allows us to tolerate temporary earnings volatility and seek to take advantage when market values decline more than intrinsic values. We remain selective, however, and recognize that certain market segments and/or individual companies may not recover—we look to avoid businesses with uncertain long-term outlooks or insurmountable secular pressures.

Financials represent the portfolio's largest absolute weight and largest relative weight. Banks represent the portfolio's largest exposure within financials. The valuations/upside potential are among the most attractive in the portfolio. Earnings estimates have declined due to the combination of increased loan loss provisions, a ban on share repurchases, slower asset growth, and lower interest rates. International banks have built substantial capital to help absorb potential credit losses should the difficult economic environment persist. Further, banks' business models are less interest rate sensitive than generally believed, largely due to diverse revenue streams.

The dichotomy between growth and value is significant and pervasive, but so too are the opportunities within value. The portfolio's valuation discount to the benchmark is substantial, reflecting our view that select opportunities are exceptionally attractive. The recent environment has not been conducive to our approach, but we are confident that patient investors could be rewarded by the rarely observed risk-adjusted potential of the current portfolio.

ATTRIBUTION – 3Q20

The Hotchkis & Wiley International Value Fund underperformed the MSCI World ex-USA Index in the third quarter of 2020. The portfolio's value-focused approach hurt relative performance as the most deeply discounted stocks underperformed. The overweight and stock selection in financials was the largest detractor to performance in the quarter. Positive stock selection in technology and industrials helped relative performance. The largest individual detractors to relative performance in the quarter were Frank's International, Vodafone, Societe Generale, BNP Paribas, and Global Indemnity Group; the largest positive contributors were Royal Mail, Siemens, Taiwan Semiconductor, Cairn Energy, and Ericsson.

LARGEST NEW PURCHASES – 3Q20

Accor is an asset light hotel management franchise company that owns 22 hotel brands. Its stock price declined due to the travel impact of COVID, but the company is well managed, has a strong balance sheet, and difficult to replicate franchise value.

Compass (CPG LN) is the world's largest contract catering company. There is ample growth opportunity given over 50% of the £200B market is highly fragmented, either managed in-house or by small local operators. The business is generally very stable with mostly recurring revenue, a diverse customer mix, and multi-year contracts with 95%+ client retention rates. The COVID-19 mandatory business closures, coupled with the concern of increased work-from-home arrangements, has led to a large share price decline. Although the visibility of the recovery is low, CPG should be able to weather the uncertainty given its strong balance sheet and robust liquidity position. We believe the stock is trading at an attractive valuation given the quality of the business and post-COVID growth opportunities.

NXP Semiconductors has leadership positions in automotive semiconductors, microcontrollers, embedded processing and security, in addition to position in other analog/mixed signal radio frequency businesses. Its emphasis on scale and R&D investment enables it to take market share and grow faster than peers. Its favorable competitive position, shareholder friendly management, and attractive valuation make it an appealing investment.

Portfolio managers' opinions and data included in this commentary are as of September 30, 2020 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. Diversification does not assure a profit nor protect against loss in a declining market.**

INTERNATIONAL VALUE FUND

HWNIX

MANAGER REVIEW & ECONOMIC OUTLOOK

SEPTEMBER 30, 2020

PERFORMANCE (%) as of September 30, 2020

	QTR	YTD	1 Yr	3 Yr	Since 12/31/15
International Value Fund – I Shares	3.03	-25.10	-16.97	-9.60	-0.87
MSCI World ex-USA	4.92	-7.13	0.16	0.62	4.76
MSCI World ex-USA Value	1.35	-18.88	-12.74	-5.88	0.99

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 6.10% for I Shares; 0.95% 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.

The Fund may invest in foreign and emerging markets securities, which subjects the Fund to increased risk. Please read the fund prospectus for a full list of fund risks. Equities, bonds, and other asset classes have different risk profiles, which should be considered when investing. All investments contain risk and may lose value. Specific securities identified are the largest contributors (or detractors) on a relative basis to the MSCI World ex-USA Index. Securities' absolute performance may reflect different results. The Fund may not continue to hold the securities mentioned and the Advisor has no obligation to disclose purchases or sales of these securities. Attribution is an analysis of the portfolio's return relative to a selected benchmark, is calculated using daily holding information and does not reflect the payment of transaction costs, fees and expenses of the Fund. The "Largest New Purchases" section includes the three largest new security positions during the quarter/year based on the security's quarter/year-end weight adjusted for its relative return contribution; does not include any security received as a result of a corporate action; if fewer than three new security positions during the quarter/year, all new security positions are included.

Style Risk: A value-oriented investment approach involves the risk that value stocks may remain undervalued or may not appreciate in value as anticipated. Value stocks can perform differently from the market as a whole or from other types of stocks and may be out of favor with investors and underperform growth stocks for varying periods of time.

Growth investing tends to work well during speculative, momentum-driven markets, while value investing tends to work well following recessionary periods. Past recessions and recoveries cannot predict future performance due to different factors and circumstances, including differences in US and international financial markets.

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.

MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. 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.

The MSCI World ex-USA Index is a free float-adjusted weighted index capturing large and mid cap stocks. The MSCI World ex-USA Value and MSCI World ex-USA Growth Indices are free float-adjusted weighted indices capturing large and mid cap stocks, exhibiting overall value or growth style characteristics, respectively. The MSCI indices represent stocks across 22 of 23 Developed Markets (DM) countries, excluding the United States and include reinvestment of dividends, net foreign withholding taxes. The indices do not reflect the payment of transaction costs, fees and expenses associated with an investment in the Fund. The Fund's value disciplines may prevent or restrict investment in major stocks in the benchmark indices. It is not possible to invest directly in an index. Top ten holdings as of 9/30/20 as a % of the Fund's net assets: Tokio Marine Hldgs Inc. 4.0%, Siemens AG 4.0%, CNH Industrial NV 3.8%, BAE Systems PLC 3.7%, Airbus SE 3.7%, Royal Mail PLC 3.6%, Heineken Hldg 3.5%, Enstar Group Ltd. 3.2%, Magna International Inc. 3.2%, and Medtronic PLC 3.2%. **Forward earnings is not representative of the Fund's future performance.**

Mutual fund investing involves risk. Principal loss is possible.
NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE
The Hotchkis & Wiley Funds are distributed by Quasar Distributors, LLC

WWW.HWCM.COM