INTERNATIONAL VALUE FUND

HWNIX

MANAGER REVIEW & ECONOMIC OUTLOOK

DECEMBER 31, 2020

MARKET COMMENTARY

In 2020, investors witnessed the devastating impact of a worldwide pandemic on the global economy. While the effect was severe, investors perceived it as a transitory event, and recognized the stimulative influence of massive monetary and fiscal intervention. These interventions helped propel the MSCI World ex-USA Index which returned +16% in the fourth quarter moving it into positive territory for the year (+8%). Value investors were largely left behind in the year; however, as the MSCI World ex-USA Growth Index climbed +18% and the MSCI World ex-USA Value Index declined -3%. This represented one of the largest gaps on record. We had a glimpse of what that comeback might look like during the fourth quarter of 2020. Value stocks outperformed, buoyed by the economic ramifications of new COVID-19 vaccines and another round of fiscal stimulus.

In our experience, when a major asset class underperforms for as long as value has, most investors are under-allocated to the asset class. Signs of this neglect include incessant rhetoric about the asset class' demise in the financial media, unusually wide valuation gaps, and the fatigue/frustration asset allocators experience when compelled to repeatedly explain why they have invested in such a lagging strategy. When the economic winds shift, however, the out-of-favor asset class can enjoy a substantial and sustained period of outperformance. We have learned time and time again, that patience has been rewarded for those that stay focused on fundamentals and valuation.

Despite value outperforming growth in the fourth quarter, value continues to trade at a larger than normal discount to growth. Also, the portfolio continues to trade at a large discount to the value benchmark. The Fund's 4Q outperformance narrowed the gap modestly but we anticipate considerably more reversion ahead. To achieve such a large valuation discount, a portfolio must not only be invested in stocks trading at substantial discounts to intrinsic value but must also be very different than the index. The portfolio is both. Its active share is 93, which means that 93% of the portfolio is positioned differently than the index.

Financials and banks remain the portfolio's largest sector and industry weights, respectively, both in absolute terms and relative to the benchmark. Banks have been an unloved industry for years as scars from the financial crisis remain and regulatory uncertainties linger. When it appeared that the market was finally beginning to recognize the industry's strong recurring profitability and its massive de-risking efforts over the past decade, the global pandemic caused investors to shun banks regardless of underlying fundamentals or valuations. Among the most important of these de-risking efforts was a substantial increase in capital held on banks' balance sheets. In addition to having excess capital, banks took large provisions throughout the year for potential credit delinquencies that may occur in the future. While these provisions hit 2020 bank earnings, the industry continued to produce compelling pre-provision income, even in the low interest rate environment. The combination of having strong balance sheets, large reserve pools, and ongoing profitability gives us confidence that banks have more than enough capacity to withstand a severe economic downturn much worse than we have experienced thus far. Yet many banks trade at single-digit multiples of normal earnings, which we see as extremely attractive in this market.

Calendar year 2020 was challenging in a myriad of ways. Looking through our value investor lens, the year tested our patience and conviction. We held steady in our commitment to the principles of value investing and worked as a team to ensure existing investments remained prudent and to find new ideas in an ever-changing environment. We will continue to do both. Our team remains entirely intact, the firm is healthy, and we are optimistic that our clients can be rewarded by our commitment and effort. It was reassuring to observe our time-tested investing style come back into vogue during the most recent quarter and we are optimistic that this reversion could be powerful and lasting. We look forward to the new year with enthusiasm.

ATTRIBUTION – 4Q20

The Hotchkis & Wiley International Value Fund outperformed both the MSCI World ex-USA and the MSCI World ex-USA Value Indices in the fourth quarter of 2020 by a wide margin. The portfolio has long exhibited valuation characteristics at a discount to both indices, which had been a major stylistic headwind throughout 2020 until reversing in the fourth quarter. Positive stock selection drove more than 80% of the outperformance. Positive stock selection in financials, industrials, energy, and consumer discretionary was particularly strong. The overweight exposure to financials and underweight exposure to healthcare also helped. The underweight exposure to consumer discretionary and overweight exposure to consumer staples were modestly negative. The largest positive contributors to relative performance in the quarter were CNH Industrial, Frank's International, Airbus, Magna International, and Royal Mail; the largest relative detractors were Henkel, Unilever, Schlumberger, Ezaki Glico, and GlaxoSmithKline.

Over the calendar year, the Fund underperformed the MSCI World ex-USA Index but modestly outperformed the MSCI World ex-USA Value Index. The value-focused approach that helped during the fourth quarter hurt over the course of the entire year. Accordingly, the largest contributors/detractors over the year were largely opposite of what occurred during the fourth quarter, with financials being the largest detractor for the year.

LARGEST NEW PURCHASES – 4Q20

Babcock is a UK government outsourcer with focus on Ministry of Defense contracts. Babcock's 35,000 employees perform complex and technical work with high barriers to entry and limited competition: about half of Babcock's profits are from businesses where Babcock faces no real competition. Babcock's share price fell over the past year over concerns about management changes, weak near-term free cash flow, revenue declines associated with specific programs and impacts from COVID-19. Babcock's core businesses are growing only low-single digit, but its market position is strong, and the company should generate significant cash flow over time.

(continued)

Hotchkis & Wiley

Coca-Cola Enterprise Partners (“CCEP”) is the world’s largest coke bottler, focused on the mature cash generative European territories. The business is very stable. Unfortunately, the pandemic forced the shutdown of restaurants, cafés, and bars, which caused the temporary disruption in the high margin away from home demand. CCEP is one of the consumer staples stocks with the greatest dislocation from intrinsic value, leading to our initiation of the position. Although the path to recovery may be choppy, we expect demand will fully recover.

Schlumberger is the world’s leading diversified provider of oilfield services. We recently purchased Schlumberger following the rapid dislocation in oil names given the combination of COVID-19 demand shock and the decision by Saudi Arabia and Russia to increase oil production. In highly technical areas, from reservoir understanding to subsea boosting, Schlumberger’s capabilities are unmatched. The business should generate free cash flow despite the near-term volatility in oil markets and should earn attractive returns on capital as the market normalizes.

PERFORMANCE (%) as of December 31, 2020

	QTR	YTD	1 Yr	3 Yr	5 Yr	Since 12/31/15
International Value Fund – I Shares	30.35	-2.36	-2.36	-1.63	4.57	4.57
MSCI World ex-USA	15.85	7.59	7.59	4.22	7.64	7.64
MSCI World ex-USA Value	19.30	-3.22	-3.22	-1.28	4.57	4.57

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.

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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. Price-to-Normal Earnings is the current market price per share divided by normalized earnings per share. Active share is the extent to which the portfolio differs from the MSCI World ex-USA Index. Top ten holdings as of 12/31/20 as a % of the Fund’s net assets: CNH Industrial NV 4.3%, Royal Mail PLC 3.7%, Tokio Marine Hldgs 3.7%, Airbus SE 3.6%, BAE Systems 3.3%, Heineken Hldg 3.3%, BNP Paribas SA 3.2%, Enstar Group Ltd. 3.1%, ING Groep NV 2.9%, and Henkel AG & Co. KGaA 2.9%.

Mutual fund investing involves risk. Principal loss is possible.
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