INTERNATIONAL VALUE FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

HWNIX

DECEMBER 31, 2022

MARKET COMMENTARY

The MSCI World ex-USA Index returned +16.2% in the fourth quarter of 2022. The MSCI World ex-USA Value Index increased +18.1%, while the MSCI World ex-USA Growth Index increased +14.3%.

In calendar year 2022, the global economy and capital markets experienced numerous milestones that had not been observed for quite some time. The MSCI World ex-USA declined -14.3%, its worst annual performance since the Great Financial Crisis. Value stocks declined but held up much better than growth stocks. The MSCI World ex-USA Value declined -5.6% compared to the MSCI World ex-USA Growth's -22.7% decline. Considering value's significant outperformance in periods of elevated/rising inflation and interest rates, and its outperformance coming out of economic slowdowns, we are optimistic that value's outperformance can persist.

Inflationary pressures across most of the globe appear to have peaked in recent months, although it may be too soon to take a victory lap. Much of the decline in eurozone inflation can be attributed to softer energy prices as the winter has been much milder than expected. A prolonged cold spell across the eurozone could be counterproductive in the inflation fight, particularly if fears of a looming recession recede. As such, the European Central Bank has signaled a willingness to do more after setting its benchmark rate at 2.0%, the highest since 2008.

Forecasting economic growth and/or predicting recessions is not our expertise. We do, however, fully acknowledge current warnings signs. 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, equity valuations are reasonable, and in select market segments, unusually attractive. A strong argument could be made that a recession is already priced into equity markets, at least in certain market segments, which is different compared to recessionary periods like 2002. 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 MSCI World ex-USA Energy sector returned +26% in 2022, the best-performing sector by substantial margin. All other MSCI World ex-USA sectors were negative for the year. Crude oil is a depleting resource/commodity. Put simply, when oil is extracted from a well, that well now contains less oil, and what remains is increasingly difficult to extract. As a result, wells produce less oil as they age, the pace of which is called its *decline rate*. To maintain flat production, therefore, companies must invest considerable sums in new projects to replace these wells' declining production. To *increase* production, these investments need to be substantial. In recent years, however, energy companies have spent unusually little on new production, instead using cash flows to pay down debt and/or return to shareholders. Our view has been, and continues to be, that this lack of investment will create a situation where supply, i.e., production, is unable to keep pace with global demand. This imbalance keeps the price of oil elevated and facilitates strong free cash flows for energy companies. Much of the cash flow is earmarked for share repurchases, which is accretive to earnings per share. Capital expenditures, i.e., new investments, have increased recently, but it takes a long time for such investments to result in actual production. Thus, this imbalance could persist for some time. Meanwhile, energy stocks' valuations remain compelling even after the impressive performance because they are coming from such a low base. Free cash flow yields are well into the teens, hence our continued overweight.

Financials represents the portfolio's largest weight. Our thesis on Financials is straightforward—it is the most attractively valued sector in the portfolio. The sector trades at notable discounts to other parts of the market and relative to its own history, despite balance sheets that are well positioned to withstand a potential economic slowdown. Our positions are focused on companies with difficult-to-replicate franchises that should earn returns well above their cost of capital.

ATTRIBUTION – 4Q22 & 2022

The Hotchkis & Wiley International Value Fund outperformed the MSCI World ex-USA Index in the fourth quarter of 2022. Stock selection in Energy, Industrials, and Financials resulted in the bulk of the performance advantage. Conversely, stock selection in Information Technology and Health Care detracted from relative performance. The underweight in Materials also detracted modestly. The largest positive contributors to relative performance in the quarter were CNH Industrial, ING Groep, UniCredit SpA, BNP Paribas, and Airbus; the largest detractors were Ericsson, Vodafone, Koninklijke Philips, Hudson Global, and Credit Suisse.

The Fund outperformed the benchmark over calendar year 2022. The overweight and stock selection in Energy contributed significantly to outperformance. Stock selection in Consumer Discretionary and Industrials also worked well. Conversely, stock selection in Health Care, Financials, and Information Technology detracted from relative performance in 2022.

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PERFORMANCE (%) as of December 31, 2022

	QTR	YTD	1 Yr	3 Yr	5 Yr	Since 12/31/15
International Value Fund – I Shares	23.18	-5.41	-5.41	2.95	1.24	4.90
MSCI World ex-USA	16.18	-14.29	-14.29	1.27	1.79	4.87
MSCI World ex-USA Value	18.10	-5.64	-5.64	1.13	0.56	4.23

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 4.87% for I Shares; 0.95% 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.

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.

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.

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.

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 12/31/22 as a % of the Fund's net assets: BNP Paribas SA 4.1%, Tokio Marine Hldgs Inc. 4.0%, Ericsson 3.8%, Kosmos Energy Ltd. 3.5%, UniCredit S.p.A. 3.5%, Airbus SE 3.5%, Accor SA 3.4%, ING Groep N.V. 3.1%, Medtronic PLC 3.0%, and Samsung Electronics Co. 3.0%.

Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g., depreciation) and interest expense to pretax income. Free cash flow represents the cash a company generates after accounting for cash outflows to support operations and maintain its capital assets. Free cash flow yield measures how much free cash flow is available in relation to a company's market capitalization.