

INTERNATIONAL SMALL CAP DIVERSIFIED VALUE FUND

HWTIX

DECEMBER 31, 2022

MANAGER REVIEW & ECONOMIC OUTLOOK

MARKET COMMENTARY

In calendar year 2022, the global economy and capital markets experienced numerous milestones that had not been observed for quite some time. Despite returning +15.2% in the fourth quarter, the MSCI World ex-USA Small Cap Index declined -20.6% over the full year, its worst annual performance since 2011. Value stocks declined but held up much better than growth stocks. The MSCI World ex-USA Small Cap Value Index declined -14.0% compared to the MSCI World ex-USA Small Cap Growth's -27.0% 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.

Forecasting economic growth and/or predicting recessions is not our expertise. We do, however, fully acknowledge current warnings signs, e.g., continued central bank tightening and inverted yield curves. 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 Small Cap Energy sector returned +27% in 2022, the best-performing sector by substantial margin. All other MSCI World ex-USA Small Cap 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 absolute weight and relative weight to the index. 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.

ATTRIBUTION – 4Q22 & 2022

The Hotchkis & Wiley International Small Cap Diversified Value Fund outperformed the MSCI World ex-USA Small Cap Index in the fourth quarter of 2022. The overweight in Financials, along with stock selection in Consumer Discretionary, Industrials, and Energy resulted in the bulk of the performance advantage. The underweight in Real Estate also helped. Stock selection in Consumer Staples and Materials modestly detracted during the quarter.

The Fund significantly outperformed the benchmark over calendar year 2022. Stock selection was positive in 10 of the 11 GICS sectors, with stock selection strongest in Information Technology, Industrials, Consumer Discretionary, and Financials. The overweight positions in Financials and Energy also worked well. Conversely, stock selection and the underweight in Utilities modestly detracted from relative performance in 2022.

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. 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. **Diversification does not assure a profit nor protect against loss in a declining market. Past performance is no guarantee of future results.**



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PERFORMANCE (%) as of December 31, 2022

	QTR	YTD	1 Yr	Since 6/30/20
Int'l Small Cap Diversified Value Fund – I Shares	18.60	-8.68	-8.68	14.34
MSCI World ex-USA Small Cap	15.21	-20.59	-20.59	5.47
MSCI World ex-USA Small Cap Value	16.80	-14.00	-14.00	9.56

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 4.23% for I Shares; 0.99% 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. Investing in smaller and/or newer companies involves greater risks than those associated with investing in larger companies. 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. Attribution is an analysis of the portfolio's return relative to a selected benchmark, is calculated using daily holdings information and does not reflect the payment of transaction costs, fees and expenses of the Fund.

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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 Small Cap Index is a free float-adjusted weighted index capturing small cap stocks. The MSCI World ex-USA Small Cap Value and MSCI World ex-USA Small Cap Growth Indices are free float-adjusted weighted indexes capturing small 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. It is not possible to invest directly in an index.

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.

Mutual fund investing involves risk. Principal loss is possible.
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