

# INTERNATIONAL SMALL CAP DIVERSIFIED VALUE FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

HWTIX



## PERFORMANCE (%) as of December 31, 2024

	QTR	YTD	1 Yr	3 Yr	Since 6/30/20
Int'l Small Cap Diversified Value Fund – I Shares	-6.42	4.40	4.40	4.81	13.42
MSCI World ex-USA Small Cap Index	-7.86	2.76	2.76	-2.77	6.40
MSCI World ex-USA Small Cap Value Index	-8.12	2.95	2.95	0.52	9.17

*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](http://www.hwcm.com).*

The Fund's total annual operating gross expense ratio as of the most current prospectus is 3.95% for I Shares; 0.99% net expense ratio. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 29, 2025. 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.

## MARKET COMMENTARY

The MSCI World ex-USA Small Cap Index declined -7.9% in the fourth quarter of 2024, finishing calendar year 2024 with a modest return of +2.8%. Political instability in Europe and threats of global trade impediments appeared to weigh on international equity markets. In local currency, the index was close to flat in the quarter, but the US Dollar strengthened relative to other major currencies. The US Dollar Index, which averages exchange rates between the US Dollar and a basket of major world currencies, rose nearly 8% in the fourth quarter. Unlike the US equity market, performance deviations by market cap and by style (growth/value) were modest outside the US. Within the MSCI World ex-USA Small Cap Index, financials and energy declined the least while real estate, materials, and healthcare all declined by at least -10%.

Valuations for the broad US market are well-above average, which has us guarded about its prospects going forward. Outside the US, however, valuations appear considerably more attractive, including non-US small cap equities. The MSCI World ex-USA Small Cap Index trades at 15.4x consensus fiscal year 1 ("FY1") earnings, which ranks in the 34th percentile dating back to 2006, when we have reliable data (1 would be cheapest, 100 most expensive). The median forward P/E for the index over this period is 17.4x, or two turns higher than we observe currently. Meanwhile, the portfolio trades at a considerable discount to the index. It trades at 10.0x FY1 consensus earnings and 8.5x our estimate of normal earnings.

The portfolio's largest sector weights are, in order, industrials, financials, and consumer discretionary. The industrials exposure is composed of an eclectic mix of businesses ranging from machinery to professional services. The financials exposure is composed of a diversified mix of banks, insurers, and various other financial service/capital markets

companies. A diverse mix of specialty retail, automotive related, and various other consumer oriented businesses comprise the portfolio's consumer discretionary exposure. Common characteristics among these positions are balance sheet strength, business quality, and prudent corporate governance—all at attractive valuations. We have had difficulties finding such opportunities in real estate and materials, which represent the largest underweight sectors.

We remain patient, long-term investors focused on valuation balanced against fundamental risks, and we continue to find interesting risk/return opportunities across a variety of market segments.

## ATTRIBUTION ANALYSIS – 4Q24 & 2024

In the fourth quarter, the Hotchkis & Wiley International Small Cap Diversified Value Fund outperformed, i.e., declined less than, both the MSCI World ex-USA Small Cap Index and the value version of the same index. Relative to the primary/broad index, the overweight position in financials, the index's best-performing sector, and the underweight in real estate, the index's worst-performing sector, helped relative performance. Positive stock selection in energy and healthcare were also positive contributors. Stock selection in industrials and technology detracted from performance.

The Fund also outperformed both benchmarks over the full calendar year. Like the fourth quarter, the overweight in financials and underweight in real estate helped over the full year relative to the broad benchmark. Positive stock selection in healthcare, technology, and financials also helped. Stock selection in industrials, consumer discretionary, and materials detracted from performance.

Portfolio managers' opinions and data included in this commentary are as of December 31, 2024 and are subject to change without notice. Any forecasts made 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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*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](http://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. All investments contain risk and may lose value. Equities, bonds, and other asset classes have different risk profiles, which should be considered when investing.*

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. 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.

The **MSCI World Index** is a free float-adjusted weighted index capturing large and mid cap stocks. 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 represents stocks across 22 of 23 Developed Markets (DM) countries, excluding the United States and include reinvestment of dividends, net foreign withholding taxes. The

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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.

Certain information presented based on proprietary or third-party estimates are subject to change and cannot be guaranteed. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness.

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