LARGE CAP VALUE FUND

HWLIX
HWLAX
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MANAGER REVIEW & ECONOMIC OUTLOOK

JUNE 30, 2022

MARKET COMMENTARY

The S&P 500 Index declined -16.1% in the second quarter and is now down -20.0% year-to-date. Several economic developments in the quarter sparked fears of a recession. Real gross domestic product (GDP) was -1.6% quarter-over-quarter (1Q), the war in Ukraine showed little signs of abating, the Consumer Price Index increased 8.6% year-over-year, and an increasingly hawkish Federal Open Market Committee raised the Fed Funds rate by 125 basis points via two hikes (from 0.5% to 1.75%). The Fed signaled further rate increases going forward to combat the highest inflation level in more than 40 years. The futures market implies that investors expect the Fed Funds rate to exceed 3% by year end with more rate hikes expected in 2023. Higher rates are generally bad for equities. It becomes more costly to borrow, increasing the cost of capital, which is the rate used to discount future cash flows. Higher rates impair long-duration equities disproportionately because most of the intrinsic value is derived from a terminal value estimate far into the future. In general, growth stocks are longer duration securities than value stocks. Unsurprisingly, value has outperformed growth in periods of elevated inflation and interest rates historically.

Value held up better than growth in the quarter. Energy and the three least economically sensitive sectors—consumer staples, utilities, and health care—each declined about -5% in the quarter. These sectors comprise a considerably larger portion of the value index. All other sectors declined -15% or more, with consumer discretionary (-26%), communication services (-21%) and technology (-20%) the worst performers. The Russell 1000 Growth's combined weight in these three sectors averaged more than 73% in the quarter, highlighting the index's unusual concentration the likes of which we have not observed since the tech bubble.

The portfolio's largest sector weights relative to the Russell 1000 Value Index are technology, energy, and financials. Within technology, the portfolio's largest exposure is software. While these stocks are not inexpensive on typical valuation metrics like Price/Earnings, Enterprise Value/Earnings Before Interest and Taxes, Price/Book, etc., they represented fantastic businesses that traded at large discounts to our estimate of intrinsic value. Common traits among our positions are high returns on capital, captive customer bases, good balance sheets, and a substantial return of capital to shareholders. The stocks also trade at large discounts to other parts of the market generally viewed as high quality businesses, e.g., consumer staples, though with attractive growth prospects.

Within energy, valuations remain uncommonly attractive despite the sector's significant outperformance recently, because valuations are coming off such a low base. Higher commodity prices have translated into strong free cash flow. Historically, elevated cash flows in energy were routinely used to reinvest in new exploration projects. Recently, however, cash has been used to pay down considerable amounts of debt, de-risking the sector significantly. Dividends and share repurchases have also ramped up meaningfully. With balance sheets improved and cash flow still strong, we expect share repurchases to increase even further going forward—an accretive use of capital considering the still attractive valuations. Additionally, energy in our view has been the best inflation hedge of all sectors dating back to the 1970s.

At just over 25%, financials represent the portfolio's largest weight. At just over 10%, banks represent the largest exposure within financials. As a group, the portfolio's banks trade at about 5x our estimate of normal earnings, a 20% earnings yield, which is the most attractively valued part of the portfolio. The group trades at 0.6x book value and has a dividend yield and payout yield substantially higher than the benchmark. The attractive valuations reflect the market's recession worries and the credit losses that typically coincide with economic slowdowns. Yet the capital position in the industry is such that even severe regulatory stress tests (most recently in June) are passed largely without comment. Banks may also potentially experience an earnings benefit should interest rates continue to climb—financials have been the best interest rate hedge of all sectors dating back to the 1970s.

The portfolio contains a mix of great businesses with attractive valuations and good businesses with extremely attractive valuations. At 8.3x normal earnings, the portfolio trades below its long-term average (9.0x). This represents a larger-than-normal discount to the index, which trades at a modest premium to its long-term average (15.0x current vs. 13.5x long-term average). Value continues to trade at a large discount to growth, despite its recent outperformance. We view a reversion toward a more normal valuation relationship as more likely than not, which would represent a conducive environment for our long-term fundamental value approach.

ATTRIBUTION – 2Q22

The Hotchkis & Wiley Large Cap Value Fund underperformed the Russell 1000 Value Index in the second quarter of 2022 but remains ahead of the benchmark since the beginning of the year. In the quarter, the portfolio's underweight exposure to non-cyclical sectors health care, consumer staples, and utilities hurt relative performance as these sectors declined less than the rest of the market. Stock selection in communication services, energy, and consumer discretionary also hurt. Positive stock selection in financials and the overweight position in energy helped performance in the quarter. The largest positive contributors to relative performance in the quarter were FedEx, Berkshire Hathaway, Elevance Health (formerly Anthem), Marathon Oil, and Unilever; the largest detractors were General Electric, Warner Bros. Discovery, F5 Inc., General Motors, and State Street.

LARGEST NEW PURCHASES – 2Q22

Alphabet Inc. is a holding company whose primary subsidiary is Google. Google is the largest media company in the world with about twice the ad revenue as the second largest media company (Facebook). Alphabet's other businesses are its enterprise services, which include the third-largest Cloud platform and a large knowledge worker software business (Workspace), and venture stage companies collectively reported as "Other Bets". Excluding losses in Cloud and Other Bets, Google's current valuation at 16.5x our view of normal earnings is nearly no premium to the market multiple in spite of much better growth prospects, an overcapitalized balance sheet, and significant value in Cloud, Other Bets, & new advertising products.

Olin Corp. is the largest global producer of chlor alkali chemicals and chlorine derivatives. Olin was incorporated in 1892 and is headquartered in Virginia. In a healthy GDP scenario, Olin's earnings should remain elevated, particularly with structural changes to chlorine pricing and recent cost-cutting efforts. Olin trades at a significant discount to our assessment of normal earnings, has a strong balance sheet, and the business is diversifying to our existing commodity exposure.

(continued)

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Stanley Black & Decker Inc. (SWK) is a leading manufacturer of consumer and professional hand tools and power tools, as well as fasteners and fittings for the automotive, industrial, infrastructure and oil & gas end-markets. SWK has significantly lagged the market since December 2019, as concerns about market share loss, interest rates, inflation and a consumer slowdown has hurt sentiment. We believe that market share loss concerns are overblown, as SWK has, in fact, maintained market share, and that SWK is less exposed to consumer spending than the market believes. In addition, SWK should be able to grow at an above GDP pace over the long term, due to its exposure to the faster growing corded and gas-powered equipment markets and should benefit from industry consolidation as large tools manufacturers take share from smaller ones. SWK has historically compounded earnings at an ~11% rate over the last 20 years, offers an above average dividend yield, and has performed well in previous recessions. SWK currently trades at ~10x our estimate of normal.

PERFORMANCE (%) as of June 30, 2022

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 6/24/87
Large Cap Value Fund – I Shares	-14.69	-12.30	-9.31	6.81	6.56	10.91	8.81
Russell 1000 Value	-12.21	-12.86	-6.82	6.87	7.17	10.50	n/a

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 0.97% 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 securities. 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 Russell 1000 Value 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.

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 Russell 1000® Value Index measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 1000® Growth Index measures the performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The S&P 500® Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. 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 6/30/22 as a % of the Fund's net assets: GE 4.9%, Citigroup 4.9%, Wells Fargo & Co. 3.9%, AIG 3.7%, GM 3.4%, Elevance Health 3.2%, F5 3.1%, Oracle 3.1%, Goldman Sachs 3.0%, and FedEx 2.8%.

Real gross domestic product (GDP) is the inflation adjusted value of the goods and services produced by labor and property located in the US. The Consumer Price Index is a measurement of US prices for household goods and services. Spread is the difference between valuations of value and growth stocks. Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument. Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g., depreciation) and interest expense to pretax income. Normal Price/Book is the price of a stock divided by its book value. Enterprise Value/Earnings Before Interest and Taxes is a metric used to determine if a stock is priced too high or too low in relation to similar stocks and the market as a whole. Price/Earnings is the current market price per share divided by normalized earnings per share. Forward P/E (fiscal year) is the projected P/E ratios of the companies invested in the portfolio, which ratios represent current market price per share divided by a company's estimated future earnings-per-share. Projected earnings are consensus analyst forecasts; actual P/E ratios may differ from projected P/E ratios. **A company's forecasted, or estimated, earnings made by analysts or by the company itself. Forward earnings differ from trailing earnings (which is the figure that is quoted more often) in that they are a projection and not a fact.**

Mutual fund investing involves risk. Principal loss is possible.
NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE
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