LARGE CAP VALUE FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

HWLIX | HWLAX | HWLCX | HWLZX

PERFORMANCE (%) as of December 31, 2023

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 6/24/87
Large Cap Value Fund – I Shares	11.19	16.84	16.84	12.55	12.91	8.89	9.13
Russell 1000 Value	9.50	11.46	11.46	8.86	10.91	8.40	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 0.99% for I Shares; 0.95% net expense ratio. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 29, 2024. 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 S&P 500 Index returned +11.7% in the fourth quarter bringing its calendar year 2023 return to +26.3%. This represents a full recovery from its decline in the prior calendar year. The index's two-year return is a modest +3.4%, or +1.7% annualized. Most attribute 2022's selloff to rampant inflation and the accompanying increase in interest rates. The Federal Open Market Committee raised its Fed Funds rate 11 consecutive times throughout 2022 and 2023 to combat inflation, before pausing at its most recent meetings. The recovery in 2023 appears largely attributable to signs that the rate hikes were successful in quelling inflation. The most recent CPI release indicated a 3.1% increase year-over-year, representing considerable disinflation from the mid-2022 peak of 9.1%.

The stark return divergence between value stocks and growth stocks continued in 2023, though in opposite direction to 2022. In 2022, large value declined -7.5% compared to large growth at -29.1%. In 2023, large value returned +11.5% compared to large growth at +42.7%. Putting the two years together, large value returned an uneventful +1.5% annualized compared to +0.6% for large growth, though value's return pattern had a significantly lower amplitude. The Russell 1000 Value's discount to its growth counterpart moved from slightly wider than its 45-year average to nearly 2 standard deviations wider than average over the course of 2023. Much of this was driven by what has become known as the "Magnificent 7", which returned between +49% (Apple) and +239% (Nvidia) in the year[1]. The S&P 500's return excluding these stocks would have been a more ordinary +10%. The 7 stocks now comprise 28% of the S&P 500, far surpassing the index's concentration level at the peak of the dot.com bubble in the late 1990s, when the top 7 stocks comprised 21% of the index. The trailing P/E ratio of this group is nearly two and a half times that of the remaining 493 index constituents, a ratio almost identical to the peak of the dot.com bubble. In our view, the combination of high concentration and elevated valuations poses considerable risk to passive equity investors, perhaps more than any other time in contemporary history.

The large valuation gap is based on growth stocks at historically rich valuations, while value stocks look to be in-line with their long-term average valuation. The portfolio, however, not only trades at a large discount to the value index but it also trades at a small discount to its own historical average. This has been achieved, we believe, without assuming undue risk. The portfolio exhibits an interesting balance of stocks trading at extremely attractive valuations for reasons we view as temporary and/or exaggerated, and others trading at higher multiples but well below intrinsic value considering the quality of the businesses. Citigroup is an example that exemplifies the former, while F5 Inc. the latter—these are among the two largest positions in the portfolio.

Citigroup has approximately 200 million customer accounts, approximately $2 trillion in assets, and more than $1 trillion in deposits. Its scale advantages would be nearly impossible to replicate. Nonetheless, the stock trades at less than 9x consensus forward earnings, less than 5x our estimate of normal earnings, and half of book value—a hard-to-believe valuation, in our view. The difference between consensus earnings and normal earnings is largely explained by elevated expenses related to 1) its investment in improved risk control functions and 2) tied up capital in businesses that have been designated for sale. As these items correct, the company's return on tangible equity should revert toward peer/historical levels and earnings should improve significantly. Meanwhile, we are reassured by the conservative amount of capital on its balance sheet (common equity tier 1 ratio of 13.5%) and the substantial return of capital to shareholders (dividend yield of more than 4% and a payout yield considerably higher than that). While we believe the operational improvements are highly achievable, Citi's valuation is attractive without it. This, combined with the attractive risk profile provides a considerable margin of safety.

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[1] "Magnificent 7" constituents: Apple, Microsoft, Amazon, Alphabet, Meta Platforms, Nvidia, and Tesla

Portfolio managers' opinions and data included in this commentary are as of December 31, 2023 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.**

F5 provides mission-critical software to corporate IT departments. F5's products help manage heavy and unpredictable application traffic while also implementing important security protocols. Once installed, removing or changing F5's products is difficult and costly, which results in high customer retention and recurring revenues. In addition to a predictable cash flow stream, F5 has a net cash balance sheet and attractive secular growth tailwinds in modern applications and multicloud networking. The stock trades at 12x normal earnings and 9x EV/normal EBIT, a bargain for a business with the aforementioned risk profile. The company appears to be misclassified as a commoditized IT hardware provider—it has always sold some of its products as hardware appliances, it falls in the communications equipment GICS industry, and is generally covered by sell side analysts following hardware. This misunderstanding creates opportunity. The stock's valuation represents that of a low margin, low return hardware company, while its economics represent that of the high-quality software company it actually is. The value of F5's products has always been the underlying software it delivers, sometimes on a standalone basis, sometimes via its hardware appliance. The company has 80% gross margins, which is double that of the hardware industry and in-line with the software industry. Recently reported earnings have been depressed by growth investments in R&D and marketing along with industry-wide IT spending delays that have impacted new sales, which should be temporary and normalize in due course.

ATTRIBUTION ANALYSIS – 4Q23 & 2023

The Hotchkis & Wiley Large Cap Value Fund outperformed the Russell 1000 Value Index in the fourth quarter of 2023. The portfolio's exposure to financials, both the overweight and positive stock selection, was the largest positive contributor in the quarter. The portfolio's financial holdings returned more than +21% as a group during the quarter. Positive stock selection in healthcare and technology also helped, along with the underweight exposure to consumer staples. The overweight allocation to energy, the index's only negative sector, was the largest performance detractor. The underweight exposure to real estate, along with stock selection in communication services and industrials also hurt.

The Fund also outperformed the Russell 1000 Value Index over the full calendar year, by a comfortable margin. Positive stock selection in industrials, healthcare, and financials helped relative performance over the year. The overweight exposure to technology, the index's second-best performing sector (communication services), also helped—we reduced the overweight position throughout the year due to changes in relative valuation. We had found few attractive opportunities in consumer staples and utilities which also worked in our favor, as the underweight positions helped. The portfolio's communication services positions returned nearly +29% over the year, but that failed to keep pace with the index's +42% return, which hurt relative performance. The overweight position and stock selection in energy was also a performance detractor in the year.

LARGEST INDIVIDUAL CONTRIBUTORS – 4Q23

Ericsson (ERIC) is the largest vendor of hardware and software needed to operate wireless networks outside China. Ericsson's margins have been modestly below normal as management turns around its mismanaged Cloud Software & Services segment. Valuation is attractive even if Ericsson's competitors do not lose market share, but we believe there is a growing opportunity to benefit from problems facing its key competitors. Ericsson's stock rallied in December following AT&T's announcement of a multi-year deal with Ericsson to deploy commercial scale Open Radio Access Network (Open RAN) in the US.

US Bancorp (USB) is the 5th largest bank in the US by assets with a strong market position in the Mid-West and Western US and above average core profitability. US Bancorp's franchise is very attractive and was further improved by its acquisition of Union Bank from MUFG as the merger offers the potential for substantial cost synergies and will materially increase its market share in its core western US markets. The stock's strong performance during the quarter was driven by growing confidence among investors that a recession is less likely to occur, and that the Federal Reserve will begin cutting interest rates in 2024.

Citigroup (C) is the 4th largest US bank by assets with approximately $2 trillion in total assets. Investment in its IT, compliance and risk capabilities have pressured margins and returns over recent years obscuring the bank's strong core franchise. As Citi completes this investment program over the next year or two, we expect expenses to decline and margins and returns to move toward management's targets as well as those produced by peers. On our estimates of normal earnings Citigroup is an attractive value. Citi performed well during the quarter due to a decline in rates and increased confidence that Citi will see an inflection in its costs beginning in the second half of 2024.

LARGEST INDIVIDUAL DETRACTORS – 4Q23

APA Corp. (APA) is an independent E&P operating in the North Sea, onshore in Egypt, and in the Midland and Delaware basins in the Permian, as well as in Suriname through a JV with Total offshore. Recent exploration success in Suriname and Egypt has allowed APA to de-emphasize spending on lower returning assets in the US and North Sea. Given APA's production sharing contracts and relatively modest corporate production decline rate, the company can maintain its dividend and fund its growth capex plans at $50 oil. Management targets shareholder return and debt paydown with its considerable free cash flow generation at current commodity price levels. Total, APA's partner in Suriname, funds a large majority of initial Suriname development capex leading to very attractive incremental reinvestment rates for APA in this region. Finally, APA's LNG contract with Cheniere is an option on non-US gas prices. APA underperformed during the quarter, as it traded down in sympathy with lower oil and gas prices.

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Marathon Oil Corp. (MRO) is an independent E&P operating primarily onshore United States. Internationally, MRO owns valuable free cash flow generative assets and equity investments in gas processing and LNG facilities in Equatorial Guinea. MRO has a leading position in multiple unconventional resource plays in the United States and returns significant capital to shareholders. The energy market had been underearning versus normal levels of profitability and is now generating significant FCF in what could be a perennially undersupplied market. Recent performance for Marathon was related to the decline in energy prices.

NOV Inc. (NOV) headquartered in Houston, is a leading diversified provider of oilfield capital equipment, consumables and services, providing rig kits for onshore and offshore rigs, downhole tools, tubulars and tubular inspection, and manufacturing of both onshore and offshore production and completions equipment. NOV maintains a top two or three market position in most of its business lines and should earn attractive returns in a more normalized oil price environment. The majority of NOV's product lines should experience significant increases in volumes and pricing as oilfield activity increases, while longer-term the earnings power of Rig Aftermarket business should also improve given a very large installed base. NOV underperformed during the quarter, as management reduced guidance for FY2023 free cash flow generation, despite better than expected earnings performance, and oil and gas prices were weak.

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. 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. 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. 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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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.

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.

Top ten holdings as of 12/31/23 as a % of the Fund's net assets: Citigroup Inc. 4.2%, Wells Fargo & Co. 4.1%, F5 Inc. 3.8%, Ericsson 3.5%, Elevance Health Inc. 3.5%, APA Corp. 3.3%, General Motors Co. 3.0%, American Int'l Group Inc. 3.0%, US Bancorp 2.9%, and Bank of New York Mellon 2.5%; **Standard deviation**-measure of the amount of variation or dispersion of a set of values; **Dividend yield**-a stock's annual dividend payments to shareholders expressed as a percentage of the stock's current price; **Payout yield**-dividends plus share buybacks divided by equity; **Margin of safety**-difference between the intrinsic value of a stock and its market price; **EV/normal EBIT** (enterprise value to earnings before interest and taxes)-valuation multiple used to determine a security's relative value; **R&D**-Research and development; **Capex**-capital expenditure; **E&P**-exploration and production; **Free cash flow**-represents the cash a company generates after accounting for cash outflows to support operations and maintain its capital assets; **GICS**-Global Industry Classification Standard; **LNG**-Liquefied natural gas.