MID-CAP VALUE FUND

HWMIX
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MANAGER REVIEW & ECONOMIC OUTLOOK

MARCH 31, 2023

MARKET COMMENTARY

After outperforming growth by 14.7% in 2022 (by declining less), value underperformed growth in the first quarter of 2023 by 7.8% (+1.3% vs. +9.1%). The Russell Midcap technology sector was up 14.5% in the quarter. Technology comprises a much larger portion of the Russell Midcap Growth than the Russell Midcap Value (26% vs. 9%). Conversely, the energy sector declined -9.6%, while the financials sector rose +4.1%. These sectors comprise a much larger portion of the Russell Midcap Value than the Russell Midcap Growth (22% vs. 11%).

We remain partial to financials, with banks representing the largest absolute weight. The banking industry has been in the crosshairs of skeptics since the early March failure of Silicon Valley Bank ("SVB"). SVB failed due to a combination of unique characteristics and mismanagement. It had an unusually concentrated depositor base composed of large corporate depositors; 97% of its deposits exceeded the $250,000 FDIC insurance limit, and thus were uninsured. This makes it more susceptible to a bank run because it takes significantly fewer customers withdrawing their money compared to a bank with a more diversified customer base. Further, SVB invested in long duration securities much more heavily than it should have, creating a risky asset/liability mismatch. Several other regional banks have similar problems, albeit nothing to the extreme of SVB. Nonetheless, well-capitalized, well-managed banks sold off in sympathy, and now trade at exceptionally attractive valuations for the risks at hand. The portfolio's bank exposure trades at close to 6x normal earnings and 0.8x book value, uncommonly attractive levels. We have thoroughly assessed widespread bank concerns about declining deposits, an impending recession, and potential regulatory changes. We conclude that these valuations more than compensate us for those risks. Our portfolio of banks is also well diversified across 8 different companies each with a different business mix and therefore different risks.

Energy continues to be the second largest weight in the portfolio and largest relative overweight. Our view has been, and continues to be, that lack of investment in oil production will create a situation where supply is unable to keep pace with global demand. While the risk of a slowdown in global growth appears to be growing, the imbalance in supply and demand should keep the price of oil elevated, which will likely result in continued free cash flow strength for energy companies. Much of this cash flow is earmarked for share repurchases, which is accretive to earnings per share. Capital expenditures have increased recently but spending on long lead time projects appears insufficient to oversupply the market. Thus, this imbalance could persist for some time. Meanwhile, energy stocks' valuations remain compelling even after impressive performance. Free cash flow yields are well into the teens, hence our significant overweight.

ATTRIBUTION – 1Q23

The Hotchkis & Wiley Mid-Cap Value Fund outperformed the Russell Midcap Value Index in the first quarter of 2023. Stock selection in Energy, Financials, and Communication Services worked well. Conversely, the overweight positions in Energy and Financials detracted, as did stock selection in Information Technology. The largest positive contributors to relative performance in the quarter were First Citizens Bancshares, Warner Bros. Discovery, Kosmos Energy, Adient, and GE Healthcare Technologies; the largest detractors were APA Corp., Citizens Financial Group, AIG, Popular, and Fluor..

LARGEST NEW PURCHASES – 1Q23

Centene ("CNC") is a managed care organization focused on the managed Medicaid market, with 23 million at-risk health insurance enrollees. CNC has the largest Medicaid share, with 15 million Medicaid enrollees and 2 million Exchange members (which use similar provider networks). CNC is the clear market leader in a business in which scale is a significant competitive advantage. The Medicaid market should grow faster than the economy as a whole, driven by spending per member growth. We believe Centene is trading at an attractive multiple of earnings and can grow with minimal requirements for invested capital.

Fidelity National Information Services ("FIS") is a leading provider of financial technology in the payments, banking, and capital markets industries. The Banking Solutions segment represents 46% of sales and includes FIS' very sticky core banking platform, which has just been modernized after several years of investment. Merchant Solutions accounts for 32% of sales and is focused on accepting digital payments for enterprise and e-commerce customers. Finally, Capital Markets makes up 18% of sales and has recently transitioned to a software-as-a-service model from previous licensing efforts. Shares declined recently due to concerns about competitive positioning in the small business portion of the merchant acquiring portfolio and fears of an economic slowdown. We believe that the shares represent an attractive value for a company with a strong competitive position and the potential to grow earnings per share at ~10%.

Marathon Oil is an independent exploration and production that gives us exposure to a tightening energy market. The company has leading positions in multiple unconventional resource plays in the United States which have a relatively favorable position on the global cost curve. Marathon operates primarily in the onshore US. Specifically, the company has assets in the Williston, Eagle Ford, STACK/SCOOP and North Delaware Basins. Additionally, the company has acquired prospective acreage in the Louisiana Austin Chalk and Texas Delaware. Internationally, Marathon owns a valuable asset in Equatorial Guinea which includes a 63% operated working interest in the Alba field and 80% in Block D under a production sharing contract. Marathon is currently generating large amounts of free cash flow which it is returning to shareholders primarily through share repurchases. While West Texas Intermediate ("WTI") oil prices are currently around $80 per barrel, the company would still generate over $1 billion in free cash flow if oil were to fall to $50 per barrel.

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PERFORMANCE (%) as of March 31, 2023

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 1/2/97
Mid-Cap Value Fund – I Shares	1.76	1.76	-5.73	40.41	6.12	7.43	10.89
Russell Midcap Value	1.32	1.32	-9.22	20.69	6.54	8.80	9.73

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 1.01% for I Shares. 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.

Investing in small and medium-sized companies involves greater risks than those associated with investing in large company stocks. 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 Midcap 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.

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.

Russell Investment Group is the source and owner of the Russell Index data contained herein (and all trademarks related thereto), which may not be redistributed. The information herein is not approved by Russell. H&W and Russell sectors are based on the Global Industry Classification Standard by MSCI and S&P.

The "Largest New Purchases" section includes the three largest new security positions during the quarter based on the security's quarter-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, all 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 Midcap® Index**, an unmanaged index, measures the performance of the 800 smallest companies in the Russell 1000® Index. The **Russell Midcap® Value Index** measures the performance of those Russell Midcap® companies with lower price-to-book value ratios and lower forecasted growth values. The **Russell Midcap® Growth Index** measures the performance of those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values. 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. **Top ten holdings** as of 3/31/23 as a % of the Fund's net assets: Kosmos Energy Ltd. 5.8%, First Citizens Bancshares 5.6%, Popular Inc. 4.1%, APA Corp. 4.0%, Citizens Fin'l Group Inc. 3.7%, Fluor Corp. 3.2%, Ericsson 3.2%, Adient PLC 3.0%, F5 Inc. 3.0%, and American Int'l Group Inc. 2.9%.

West Texas Intermediate (WTI) oil is a benchmark used by oil markets, representing oil produced in the U.S. **Earnings per share** is a company's net profit divided by the number of common shares it has outstanding. **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.