

MID-CAP VALUE FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

HWMIX | HWMAX | HVMCX | HWMZX



PERFORMANCE (%) as of March 31, 2024

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 1/2/97
Mid-Cap Value Fund – I Shares	4.92	4.92	23.58	12.26	11.69	7.06	11.33
Russell Midcap Value	8.23	8.23	20.40	6.80	9.94	8.57	10.11

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 1.00% 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.

MARKET COMMENTARY

The Russell Midcap Index increased +8.6% in the first quarter of 2024. The Russell Midcap Growth Index outperformed for the quarter, returning +9.5% vs. +8.2% for the Russell Midcap Value Index. Performance was positive in 10 of the 11 GICS sectors, led by industrials, financials, and energy. Only real estate saw a small decline in the quarter.

Much of the market movement in Q1 hinged on released economic data and expectations for interest rate cuts by the Federal Reserve (Fed). Economic data in the U.S. has been resilient, leading to the timing of interest rate cuts being pushed further into 2024. Concern about the increasing cost of capital, which is the rate used to discount future cash flows, weighed disproportionately on smaller companies, although mid cap stocks did hold up better than their smaller counterparts. In our view, this concern appears to be an overreaction, as the market has unfairly mispriced many companies in the cyclical sectors in which we invest.

Financials remain our portfolio's largest holding, both in absolute and relative terms. We are well diversified across the banks, capital markets, and insurance companies. Banks are currently trading at especially large discounts to the broad market, despite solid current earnings and strong capital ratios. While economic and regulatory risks persist, we believe the high single-digit price-to-earnings ratios and discounts to book value present attractive upside potential.

Our energy exposure represents the portfolio's largest overweight sector. We continue to see value in energy stocks that trade at a low multiple of normal earnings and should maintain profitability in an inflationary environment. The supply/demand outlook for oil suggests oil prices are likely to remain elevated for longer than typical. Oil supply cuts by OPEC+ and capital discipline by US oil producers are resulting in shrinking oil inventories. We believe the recent move higher in oil prices may be sustainable as economic

conditions around the world show signs of improvement. Conversely, we continue to see fewer compelling valuation opportunities in mid cap real estate, industrials, and utilities companies.

Overall, we continue to view the current economic backdrop as particularly compelling for high quality mid cap companies, which we define as having low debt, attractive returns on invested capital, the ability to generate free cash flow, and strong management teams. These traits do not always apply to a passive index fund such as the Russell Midcap Index where many companies are unprofitable and/or exhibit a high degree of financial leverage. With a resilient economy, moderating inflation, the potential for interest rate cuts by the Fed later this year, and continued government investment (the Bipartisan Infrastructure Law and CHIPS Act), we believe companies down the market cap spectrum may be poised for a sustained period of strong performance on both an absolute and relative basis.

ATTRIBUTION ANALYSIS – 1Q24

The Hotchkis & Wiley Mid-Cap Value Fund underperformed the Russell Midcap Value Index in the first quarter of 2024. Stock selection in energy detracted the most from relative performance in the quarter. Stock selection in consumer discretionary, industrials, and information technology also detracted in the quarter. The underweight in industrials was also a drag on performance. Stock selection and the underweight in utilities contributed positively to relative performance. The underweight in real estate also worked well in the quarter, as did the overweight in energy and stock selection in healthcare.

(continued)

Portfolio managers' opinions and data included in this commentary are as of March 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.**

LARGEST INDIVIDUAL CONTRIBUTORS – 1Q24

Vistra Energy is a portfolio of power generation plants paired with a competitive retail business. Vistra's retail business is smaller than the generation business, consuming about two thirds as much power as the generation business produces. Texas is the largest market in terms of both generation and retail, but Vistra has assets and operations throughout the US. We believe that Vistra trades at a substantial discount compared to fully regulated utilities. While the performance of Independent Power Producers has been historically volatile due to commodity market exposure, Vistra's business model and balance sheet have evolved and are moving closer to that of a regulated utility. Additionally, their growing retail business provides a natural hedge to power price volatility. Performance trended upward over the period as the company reported solid earnings beating consensus EPS by ~13%. Additionally, the board announced an increase in its quarterly dividend by 9% YoY to \$0.215/share which further helped boost performance.

Allison Transmission Holdings designs and manufactures automatic transmissions used in commercial and military applications. We believe Allison is undervalued as it is the established leader in fully automatic commercial truck transmissions. Today, it controls more than 60% share of the global fully automatic commercial transmission market. Allison's Q4 results greatly surpassed consensus estimates driven by strong end markets and pricing. Finally, management's 2024 outlook was better than the Street's expectations.

FIS is a diversified provider of financial technology, software and services. It is one of the largest merchant acquirers globally. FIS also provides issuer processing, core bank processing and capital markets offerings. FIS has historically reported in three primary segments: Merchant Solutions, Banking Solutions (including core processing), and Capital Markets. Uncertainty around FIS' merchant acquiring business allows us to purchase a scaled and diversified financial technology business, which should grow ahead of GDP and at very high returns on incremental capital, at a below market multiple. FIS outperformed during the quarter as the company completed the sale of a majority stake in its merchant acquiring business, posted solid Q4 results, gave guidance for a sustainable acceleration in revenue growth, and committed to continued share repurchases.

LARGEST INDIVIDUAL DETRACTORS – 1Q24

Kosmos Energy is an independent exploration and production company focused offshore. In addition to its existing production, Kosmos has LNG assets that are set to begin production in 2024 and a platform to acquire and operate additional offshore resources. Kosmos enjoys a competitive advantage due to the expertise required to explore, discover, and operate assets offshore. Currently the stock is undervalued as the stock doesn't fully reflect the value of the company's existing production. Performance declined over the period with the announcement that the company would be issuing \$300M in convertible senior notes.

Ericsson is a vendor of hardware and software needed to operate wireless networks. This business is effectively an oligopoly, and we believe margins should be better than they have been historically. Ericsson's stock underperformed following weak 2023 results and 2024 outlook. This is a cyclical business, and we believe that the weakness in network operators' capex is temporary, and that network equipment spending will recover to more normalized levels.

Adient Ltd., Domiciled in England, is the world's largest supplier of automotive seating systems and interior components. Adient's business is defensible due to long product cycles, its global just-in-time (JIT) infrastructure, and established OEM relationships. Adient's new management team is in the process of turning around a series of poor decisions left by the former team. Adient's fiscal year Q1 results (calendar year Q4) were below consensus estimates, driven by softness in China. FY 2024 sales guidance was slightly lowered, but EBITDA guidance remains unchanged. Investors are concerned whether Adient will be able to hit their EBITDA guidance, given the more challenging demand environment. Our long-term thesis remains intact.

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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. 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. 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 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. 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 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.

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.

Top ten holdings as of 3/31/24 as a % of the Fund's net assets: Kosmos Energy Ltd. 4.8%, Popular Inc. 4.4%, Citizens Fin'l Group Inc. 4.2%, APA Corp. 4.1%, Fluor Corp. 4.0%, Ericsson 3.4%, Adient PLC 2.8%, F5 Inc. 2.8%, Olin Corp. 2.5%, and State Street Corp. 2.5%. **EBITBA**-earnings before interest, taxes, depreciation, and amortization; **CHIPS Act**-Creating Helpful Incentives to Produce Semiconductors; **OPEC**-Organization of the Petroleum Exporting Countries; **GICS**-Global Industry Classification Standard; **Free cash flow**-represents the cash a company generates after accounting for cash outflows to support operations and maintain its capital assets.

Mutual fund investing involves risk. Principal loss is possible.
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