MID-CAP VALUE FUND

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MANAGER REVIEW & ECONOMIC OUTLOOK

JUNE 30, 2021

MARKET COMMENTARY

The Russell Midcap Index rose +7.5%, closing the second quarter of 2021 near an all-time high. It is up +16.3% since the beginning of the year. While the threat of new COVID variants persists, vaccination levels increased and new cases slowed. Consequently, state and local governments continued to ease closures/restrictions spurring renewed economic activity. Manufacturing rose and labor markets improved, highlighting the potential for tight supply conditions. Consumer prices rose 5% year over year, the fastest level in more than a decade. In response, Fed Chairman Powell reiterated his view that inflationary pressures would be transitory. West Texas Intermediate (WTI) crude oil touched $74/barrel, its highest level in more than two years. Corporate earnings continued to show strength, with 82% of Russell Midcap companies outperforming consensus expectations.

The Russell Midcap Growth Index outperformed the Russell Midcap Value Index (+11.1% vs. +5.7%) in the second quarter. Even so, the value index has outperformed by more than 12 percentage points over the past 9 months (+43.8% vs. +31.5%). According to data from the Ken French/Dartmouth library, which dates to 1926, the average value-led market[1] has lasted for 33 months and outperformed growth by an average of 55 percentage points. The duration and magnitude of the current rally is far short of that. Nearly all prolonged value-led markets, however, contain stints when growth outperforms value. In perhaps the strongest value rally ever, for example, value outperformed growth by 147 percentage points from March 2000 through December 2006. However, growth outperformed value in nearly one-third of those months (24 out of 82 months). Like that value run, we came from extreme valuation spreads in mid/late 2020 and continue to observe spreads that are considerably wider than average. This gives us confidence that value's advantage this time can persist in a powerful way, for a prolonged period, or both.

Interest rates fell during the quarter, particularly for long-dated bonds (the yield curve flattened). The 10-year treasury note declined from 1.74% to 1.47% over the quarter. Energy was the top-performing mid cap sector, rising by more than +15% as WTI crude prices advanced 24%. Healthcare and real estate (the latter often trades inversely to interest rates) were next best, both returning more than +10%. Utilities was the only mid cap sector that declined in the quarter, though consumer staples, consumer discretionary, and industrials also lagged.

As measured by any common valuation metric, the spread between value and growth stocks is wide. So too is the spread between the portfolio and the value benchmark, which means the spread between the portfolio and either the core or growth index is extreme. We believe this bodes well going forward as value relationships normalize. We continue to focus on companies trading at large discounts to intrinsic value but that have strong balance sheets, quality businesses, and employ appropriate corporate governance—a combination that we believe should continue to benefit our clients.

ATTRIBUTION – 2Q21

The Hotchkis & Wiley Mid-Cap Value Fund underperformed the Russell Midcap Value Index in the second quarter. Stock selection in financials, industrials, and technology detracted from performance, along with the underweight position in real estate. The overweight allocation to energy and positive stock selection in consumer discretionary helped. The largest individual detractors were Fluor, Cairn Energy, Discovery, F5 Networks, and Hewlett Packard Enterprise; the largest positive contributors were CommScope, Embraer, Bed Bath & Beyond, Royal Mail, and APA Corp.

LARGEST NEW PURCHASES – 2Q21

Credit Suisse Group presents an attractive valuation following large lapses in its risk management (e.g., exposure to Archegos). We expect that fixing its risk management process is well within its ability and doing so will have manageable cost and time commitments. While the potential for punitive regulatory actions and/or litigation exists, this is more than reflected in the current share price. While recent events are a blemish, the underlying franchise value remains intact; Credit Suisse is a high-quality business that should generate attractive returns on capital over time.

Huntsman is a chemicals and materials producer with a focus on polyurethanes. Huntsman has recently sold much of its disparate commodity chemicals portfolio at attractive prices and has used the proceeds to reduce debt and invest downstream. The company's remaining businesses are exposed to end markets that grow faster than GDP with minimal incremental capital needs and produce earnings that should be steadier than in the past. It trades at an attractive valuation and is returning substantial capital to shareholders.

(continued)

[1] A value-led market is defined as one that outperforms growth by at least 10 percentage points.

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PACCAR is one of the world's largest manufacturer of light, medium, and heavy-duty trucks, marketed under the Peterbilt, Kenworth, DAF, and Leyland brands. In addition to industry-leading brands, it has a growing global presence, and strong returns on capital. Its normal earnings power is higher than pre-pandemic results because it has made investments in technology, brand, and capacity expansions in PACCAR's Engine and Parts operations. PACCAR has an unusually high variable cost structure in its North American truck manufacturing operations, and an overly conservative balance sheet. It is structured to weather whatever the pandemic does to the global truck industry. Finally, PACCAR maintains a disciplined strategy of returning capital to its shareholders.

PERFORMANCE (%) as of June 30, 2021

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 1/2/97
Mid-Cap Value Fund – I Shares	4.25	31.07	93.96	4.36	9.90	9.68	11.29
Russell Midcap Value	5.66	19.45	53.06	11.86	11.79	11.75	10.66

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 1.04% for I Shares. Expense ratios shown are 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. 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/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. Growth investing tends to work well during speculative, momentum-driven markets, while value investing tends to work well following recessionary periods. Past recessions and recoveries cannot predict future performance due to different factors and circumstances.

Market Disruption: The global coronavirus pandemic has caused disruption in the global economy, unprecedented business and travel disruption and extreme fluctuations in global capital and financial markets. H&W is unable to predict the consequences of the upheaval 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 6/30/21 as a % of the Fund's net assets: Popular Inc. 4.3%, Fluor Corp. 3.6%, Citizens Fin'l Group Inc. 3.3%, Cairn Energy PLC 3.3%, American Int'l Group Inc. 3.2%, Kosmos Energy Ltd. 3.2%, CNH Industrial N.V. 3.1%, The ODP Corp. 3.0%, Discovery Inc. 2.7%, and CIT Group Inc. 2.6%. **Extraordinary performance is attributable in part due to unusually favorable market conditions and may not be repeated or consistently achieved in the future.**

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