MID-CAP VALUE FUND

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MANAGER REVIEW & ECONOMIC OUTLOOK

JUNE 30, 2022

MARKET COMMENTARY

The Russell Midcap Index declined -16.9% in the second quarter of 2022. The Russell Midcap Value Index declined -14.7% while the Russell Midcap Growth Index declined -21.1%. All eleven Russell Midcap GICS sectors declined in the quarter.

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 least economically sensitive sectors—consumer staples and utilities—each declined less than 9% in the quarter. All other sectors declined -12% or more, with communication services (-26%), technology (-23%) and consumer discretionary (-20%) the worst performers. The portfolio is more heavily weighted to economically sensitive areas of the market, with energy, financials, and industrials being our largest sector weights relative to the Russell Midcap Value Index. The stocks we own in these sectors have good balance sheets, generate attractive free cash flow, and 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.

Despite value's recent outperformance, the valuation spread between growth and value remains wide because the spread at the period's outset was extreme. The Russell Midcap Value trades at 12x forward P/E (consensus FY1) compared to the Russell Midcap Growth at 18x. We believe these large spreads and the macroeconomic backdrop should continue to benefit value relative to growth, which should be a conducive environment for our investment approach.

ATTRIBUTION – 2Q22

The Hotchkis & Wiley Mid-Cap Value Fund underperformed the Russell Midcap Value Index in the second quarter of 2022. Stock selection in energy was the leading detractor from relative performance during the quarter. Stock selection in communication services and consumer discretionary also detracted. The overweight in energy and stock selection in technology and financials contributed positively to performance. The largest positive contributors to relative performance in the quarter were First Citizens BancShares, Popular, Vistra Energy, NRG Energy, and Cenovus Energy; the largest detractors were Warner Bros. Discovery, The ODP Corp., Olin Corp., Adient, and Universal Health Services.

LARGEST NEW PURCHASES – 2Q22

Gap Inc. is a global apparel retailer selling four key brands: Old Navy, Gap, Banana Republic, and Athleta. The company operates as an omni-channel retailer, with ~40% of sales coming from digital platforms and the rest from brick-and-mortar locations. The collection of brands has ~3,400 stores, with just over 2,800 corporate owned stores and ~550 franchise locations. Over half of sales come from Old Navy, while less than 20% of revenue is generated from indoor malls. The company has been closing locations and exiting businesses as part of an effort to optimize the portfolio. We believe the portfolio is well positioned for recovery: Old Navy has limited competition at its price point, Athleta is growing rapidly, and Banana Republic is benefitting from a more casual return to work dress code. At 5.3x our view of normal earnings, we think the recent sell-off is overdone, and believe we are buying a collection of reasonably well-positioned brands for a very good price.

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)

Hotchkis & Wiley

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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 1/2/97
Mid-Cap Value Fund – I Shares	-16.18	-8.04	-2.34	9.01	4.88	8.96	10.72
Russell Midcap Value	-14.68	-16.23	-10.00	6.70	6.27	10.62	9.77

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.

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.

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 6/30/22 as a % of the Fund's net assets: Kosmos Energy Ltd. 5.2%, Popular Inc. 4.8%, Fluor Corp. 4.6%, First Citizens Bancshares 4.3%, Citizens Fin'l Group Inc. 3.5%, APA Corp. 3.3%, American Int'l Group Inc. 3.2%, Adient PLC 3.0%, Vistra Energy Corp. 2.6%, and State Street Corp. 2.4%.

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/Earnings is the current market price per share divided by normalized earnings per share. Forward Price/Earnings (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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