

MID-CAP VALUE FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

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JUNE 30, 2023

MARKET COMMENTARY

The Russell Midcap Index increased +4.8% in the second quarter of 2023. The Russell Midcap Value Index underperformed for the quarter, returning +3.9% vs. +6.2% for the Russell Midcap Growth Index. Performance deviations between value and growth have been stark in recent periods.

As it stands today, the growth index trades at a premium to its own history using any common valuation metric and the value index trades reasonably in line with its own history. The portfolio, however, trades at a considerable discount to its past. This is attainable because the portfolio is significantly different than the value index, with an active share above 90. Importantly, however, we do not blindly invest in companies/industries with the lowest price multiples. We invest in those that trade at the largest discounts to intrinsic value, and that intrinsic value is highly dependent on a company's risk profile—lower risk companies have higher intrinsic values all else equal, which we believe should command higher fair value multiples.

The US Consumer Price Index has fallen from its 9.1% peak in mid-2022 to 4.0% and is expected to decline further. Lower inflation and lower interest rates are generally good for equities. This seems to have trumped concerns about an economic slowdown. Bloomberg publishes a *United States Recession Probability Forecast*, which surveys a group of economists on what they think the chances of a recession are in the next 12 months. The index currently stands at 65%. However, equity markets fell in 2022 more than they have risen in 2023, i.e., the Russell Midcap is still down over the past year and a half suggesting a slowdown might be priced in already. Also, not all recessions/slowdowns are created equally. Balance sheets of consumers and companies are generally healthy, unlike 2007/2008. Fewer excesses in the financial system are likely to limit the severity of a recession if one occurs.

ATTRIBUTION – 2Q23

The Hotchkis & Wiley Mid-Cap Value Fund underperformed the Russell Midcap Value Index in the second quarter of 2023. Stock selection in energy, industrials, and communication services detracted. Conversely, stock selection in financials was the largest positive contributor to relative performance. Stock selection in utilities and healthcare also contributed positively during the quarter. The largest positive contributors to relative performance in the quarter were First Citizens Bancshares, Universal Health Services, AIG, SLM Corp., and PDC Energy; the largest detractors were Kosmos Energy, Citizens Financial Group, Warner Bros. Discovery, APA Corp., and Ericsson.

LARGEST NEW PURCHASES – 2Q23

California Resources Corp. is an independent oil and natural gas exploration company with a carbon capture, utilization, and storage ("CCUS") business that primarily operates for customers in the State of California. The state government regularly proposes significant restrictions on drilling companies which can be offset by the CCUS business at California Resources. The company's resources are well positioned and maintains a solid balance sheet while trading at a discount to similar E&Ps, creating value from share repurchases.

Jones Lang LaSalle Inc. is a leading professional services firm that specializes in real estate and investment management with operations in over 80 countries. Overall, among the five segments, the company engages in leasing, property management, consulting, investment sales, loan servicing, workplace management, software, and more. Shares have lagged the broader real estate index and trade at an undemanding 11x P/nEPS.

Western Alliance is one of the fastest growing and highest return regional banks in the US. While the company's stock has come under significant pressure following the collapse of Silicon Valley Bank due to a focus in banking early-stage companies, Western Alliance has a much more diversified business than Silicon Valley Bank. We believe the company can weather a large decline in deposits and is very undervalued on its normal earnings power.

Portfolio managers' opinions and data included in this commentary are as of June 30, 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.**



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PERFORMANCE (%) as of June 30, 2023

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 1/2/97
Mid-Cap Value Fund – I Shares	1.78	3.57	14.47	29.43	4.91	7.06	10.86
Russell Midcap Value	3.86	5.23	10.50	15.04	6.84	9.03	9.79

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.

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 **US Consumer Price Index** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. 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 6/30/23 as a % of the Fund's net assets: Kosmos Energy Ltd. 5.1%, APA Corp. 4.4%, Popular Inc. 4.4%, Citizens Fin'l Group Inc. 3.9%, Fluor Corp. 3.6%, Ericsson 3.2%, American Int'l Group Inc. 3.0%, Adient PLC 2.9%, F5 Inc. 2.7%, and First Citizens Bancshares 2.7%. **P/nEPS** is the current market price per share divided by normalized earnings per share. **E&P** - exploration and production. **Active share** is the extent to which the portfolio differs from the Russell Midcap Value Index.

Mutual fund investing involves risk. Principal loss is possible.
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