MID-CAP VALUE FUND

HWMIX
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MANAGER REVIEW & ECONOMIC OUTLOOK

SEPTEMBER 30, 2020

MARKET COMMENTARY

The Russell Midcap Index returned +7.5% in the third quarter of 2020 and is now -2.4% year-to-date. More than two-thirds of Russell Midcap companies beat consensus revenue expectations and more than 80% exceeded earnings expectations. Corporate America's strong showing trumped continued worries about the prevalence of COVID-19 and Congress' stalemate over a new stimulus package. Meanwhile, the Fed continues to signal easy monetary policy for the foreseeable future, maintaining a subdued economic outlook. COVID-19 cases reaccelerated for the first time in months, but hospitalizations and deaths remained downward trending—there was a large jump in tests administered which could explain the mixed developments.

Growth outperformed value across geographies and across market capitalizations. Based on information from the Kenneth French/Dartmouth data library, value has underperformed growth over the last 10 years by the largest magnitude on record. Also, for the first time in the nearly 100-year old dataset, growth has outperformed value over a 20-year period. This has led to a colossal divergence in valuations. The Russell Midcap Value trades at 14x normal earnings, which is in line with its historical average. The Russell Midcap Growth Index, however, trades at 33x normal earnings, well above its historical average of 22x.

Perhaps more important to our client base than the value-growth dichotomy is the equally noteworthy divergence within value, both in terms of trailing performance and future opportunity. The portfolio, for example, trades at 4.4x normal earnings, a considerable discount to the value benchmark. The strongest performers within midcap value have been concentrated in market segments with low correlations to economic growth, like healthcare. The weakest performers within value have been concentrated in market segments where near-term forward earnings estimates have declined meaningfully, in some cases by 30% or more. Financials and energy comprise a disproportionate share of these examples. The positions we have in these areas have underperformed, though we view the forthcoming earnings declines as temporary. A year or two of depressed earnings reduces our intrinsic value estimate, but this impairment of value is certainly not commensurate with actual share price declines. We are unwilling to take significant balance sheet risk because a weak balance sheet can impair capital via shareholder dilution or worse. This risk aversion allows us to tolerate temporary earnings volatility and seek to take advantage when market values decline more than intrinsic values. We remain selective, however, and recognize that certain market segments and/or individual companies may not recover—we look to avoid businesses with uncertain long-term outlooks or insurmountable secular pressures.

Financials represent the portfolio's largest absolute weight and largest relative weight, and banks represent the portfolio's largest exposure within financials. Earnings estimates have declined due to the combination of increased loan loss provisions, a ban on share repurchases, slower asset growth, and lower interest rates. Accounting rules require banks to estimate loan losses upfront based on prevailing economic conditions. The substantial provisions taken during the first half of 2020 could end up being too high considering the severity of the economic outlook at the time. Banks' balance sheets were quite healthy entering 2020, as substantial capital had been built in the previous decade. The provisions already taken combined with the excess capital—not to mention the pre-provision income being generated—provides a meaningful cushion to absorb elevated credit losses. Further, banks' business models are less interest rate sensitive than generally believed. Larger banks often have diverse revenue streams, some of which have little/no interest rate sensitivity. For less-diversified banks, the net interest margin is more closely tied to the yield spread earned on loans than it is from the rate sensitive benefit they get from funding a portion of their earning assets with non-interest bearing liabilities. The banks' benefit of free funding dissipates as rates decline, but the yield spread on loans exhibits countercyclical traits (i.e. the yield spread often widens when rates decline as banks tighten lending standards). This has resulted in relatively stable net interest margins over the past decade despite persistently falling interest rates over that period.

The dichotomy between growth and value is significant and pervasive, but so too are the opportunities within value. The portfolio's valuation discount to the value benchmark is near record levels. This reflects our conviction that select opportunities are exceptionally attractive. The recent environment has not been conducive to our approach, but we are confident that patient investors could be rewarded by the rarely observed risk-adjusted potential of the current portfolio.

ATTRIBUTION – 3Q20

The Hotchkis & Wiley Mid-Cap Value Fund underperformed the Russell Midcap Value Index in the third quarter of 2020. The portfolio's value-focused approach hurt relative performance as the most deeply discounted stocks underperformed. For example, index stocks trading at a discount to book value lagged the overall index by about 9 percentage points in the quarter; the portfolio had about 47% of the portfolio invested in such stocks compared to just 11 percent for the Russell Midcap Value. The overweight position in energy, combined with the overweight position and stock selection in financials detracted from performance. Positive stock selection in industrials and technology helped. The largest detractors to relative performance in the quarter were Kosmos Energy, Apache, Fluor, AIG, and ODP Corp; the largest positive contributors were Navistar, Cairn Energy, Royal Mail, Bed Bath & Beyond, and Corning.

(continued)

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LARGEST NEW PURCHASES – 3Q20

Euronet Worldwide (EEFT) is a provider of electronic payment services with most of its profits coming from operating a network of ATMs. While EEFT will be negatively impacted in the near-term given its travel-related exposure, the company has a long runway for ATM growth, especially in Central/Eastern Europe and Asia. The company has a strong balance sheet that will help it weather extended COVID-related closures. Euronet trades at an attractive valuation given expected growth.

Pebblebrook Hotels (PEB) was created in 2009 to acquire distressed hotels at significant discounts to replacement cost. The company's strategy has been to acquire underperforming hotels in well located markets and invest to reposition the assets. Today, PEB has an impressive portfolio of high-quality properties that we expect to perform well in a post-COVID operating environment. PEB stock has lagged the market recovery year-to-date, has an extremely attractive valuation, and has an excellent management team with a strong capital allocation history.

PERFORMANCE (%) as of September 30, 2020

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 1/2/97
Mid-Cap Value Fund – I Shares	3.19	-29.94	-23.85	-12.59	-3.57	5.05	8.73
Russell Midcap Value	6.40	-12.84	-7.30	0.82	6.38	9.71	9.33

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. 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 recent global coronavirus pandemic has caused and continues to cause 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, depending on the severity and the length of the outbreak, has the potential to negatively impact the firm's investment strategies and reduce available investment opportunities.

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.

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. Price-to-Normal Earnings is the current market price per share divided by normalized earnings per share. Book value is the net asset value of a company, calculated by subtracting total liabilities from total assets. Top ten holdings as of 9/30/20 as a % of the Fund's net assets: Cairn Energy PLC 5.7%, Popular Inc. 4.3%, Citizens Fin'l Group Inc. 4.1%, Royal Mail PLC 3.4%, American Int'l Group Inc. 3.3%, Navistar Int'l Corp. 3.2%, CNO Financial Group Inc. 3.0%, NRG Energy Inc. 2.7%, Bed Bath & Beyond Inc. 2.6% and Vistra Energy Corp. 2.4%. **Forward earnings is not representative of the Fund's future performance.**