MID-CAP VALUE FUND

HWMIX
HWMAX
HWMCX
HWMZX

MANAGER REVIEW & ECONOMIC OUTLOOK

SEPTEMBER 30, 2021

MARKET COMMENTARY

The Russell Midcap Index declined a modest -0.9% in the third quarter of 2021. The index reached an all-time high in early September, up more than +4% for the quarter, before declining throughout the remainder of the month. Economic developments over the quarter were mixed. Real GDP grew an impressive +6.7% in the most recent quarter (seasonally adjusted quarter-over-quarter). The positive momentum in labor markets slowed, however, as many businesses are contending with serious labor shortages. Business owners are hopeful that labor availability will improve due to the expiration of enhanced pandemic unemployment benefits in September, though higher wages and benefits appear likely. This fuels already-tight supply conditions and increases inflationary pressures. Inflation persisted above 5% (year-over-year), its highest level in well over a decade. The Fed voted to keep its target Fed Funds rate near zero until the economy approaches "maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time."[1] There have been some increasingly hawkish comments from Federal Open Market Committee (FOMC) members, with some suggesting that the economic recovery warrants tapering in the near term. The yield on the 10-year treasury note began and ended the quarter at about 1.5% but fell below 1.2% intra-quarter. Shorter and longer duration treasuries experienced similar moves during the quarter, i.e., there was little change to the yield curve.

Oil prices followed a curiously similar path to interest rates. WTI crude oil began the quarter at about $73/barrel, then declined to nearly $62/barrel intra-quarter, before reverting to $75/barrel by quarter end. Through July and August, the mid cap index was up more than +3% but the energy sector was down -9%. This reversed in September. All Russell Midcap sectors declined during September except energy, which was up more than 10% as crude prices rose. For the entire quarter, energy was about flat (+0.2%), which was slightly better than the overall index (-0.9%). Financials performed best, as banks, consumer finance, capital markets, and insurance all outperformed. Communication services and consumer staples were the largest mid cap laggards. Overall, Corporate America continues to perform well as more than 80% of Russell Midcap companies surpassed consensus earnings expectations in the quarter.

Growth outperformed (i.e., declined less than) value slightly. The Russell Midcap Growth Index declined -0.8% while the Russell Midcap Value Index declined -1.0%. In the recent past, COVID-19 developments appear to have dictated which investing style outperformed—positive developments have favored value, negative developments growth. At the beginning of the quarter, there were about 12,000 to 15,000 new confirmed cases per day[2]. As the Delta variant spread, this number increased to more than 150,000 by mid-September, before retreating to about 110,000 by quarter end. The performance difference between value and growth largely moved in tandem with COVID's progression. At the peak of new cases in mid-September, mid growth led mid value by more than 3 percentage points quarter-to-date. This gap narrowed almost entirely by September's end, as new cases subsided. We continue to focus on fundamentals and valuation because that is what drives stock prices in the long run; however, we believe the demise of the pandemic through improved inoculation, herd immunity, or both, could provide a welcomed catalyst for a prolonged value rally.

Dating back to 1926, the average value rally has lasted just shy of three years, with an average outperformance of 55 percentage points, cumulatively[3]. Some of the more powerful and long-lasting value rallies have persisted for 7 to 10 years, with value outperforming growth by well over 100 percentage points. The common trait among these most formidable value-led markets is that each came on the heels of a prolonged period of growth outperformance, and each began with wide valuation spreads. The similarities between today's environment and the early stages of those strong value rallies are palpable. Because the portfolio trades at a valuation discount to the Russell Midcap Value, we believe a value-led market would be highly conducive to our investment approach, even relative to the value benchmark. We continue to focus on companies that trade at significant discounts to intrinsic value, but also possess quality businesses, strong balance sheets, and prudent corporate governance.

ATTRIBUTION – 3Q21

The Hotchkis & Wiley Mid-Cap Value Fund underperformed the Russell Midcap Value Index in the third quarter of 2021. Stock selection in consumer discretionary, technology and industrials detracted from performance, along with the underweight exposure to real estate. The overweight and stock selection in energy was a positive contributor, along with the overweight position in financials. The largest detractors to relative performance in the quarter were Royal Mail, ODP Corp., CommScope, Discovery, and Magna International; the largest positive contributors were Cairn Energy, AIG, Range Resources, Popular, and AMERCO.

LARGEST NEW PURCHASES – 3Q21

Amdocs is the market leader in software-based systems used by major telecommunications firms. Its OSS systems are used to manage services on its network and monitor, control, and analyze network performance. Its BSS systems are used to bill its customers. Amdocs systems are integral for its customers: AT&T spends over 1% of its Wireless Service revenue with Amdocs and about 85% of Vodafone revenue is billed from Amdocs systems. Amdocs' stable, high-margin business sells at a discount to the market because of poor historic growth but we believe growth should accelerate as headwinds specific to customers like AT&T abate and tailwinds from 5G infrastructure grow.

Bed Bath & Beyond is the third largest retailer of domestic and home furnishing goods behind Walmart and Target, as well as being the largest specialty retailer in this industry. Prior management's poor execution alienated consumers and left the company without the right merchandise mix. Following efforts by activist shareholders, the company completely replaced its management team in late 2019 by bringing in a CEO who spearheaded a merchandising-led turnaround at Target. The new management team sold non-core assets, modernized the ecommerce operation, began remodeling the company's stores, and started a multi-year process of building the right assortment. This merchandise change is key to their plan and includes basics such as launching private label brands. The new management team's plan will take time to implement but appears similar to successful turnarounds at other specialty retailers. Bed Bath & Beyond trades for less than 5x our estimate of normal earnings.

(continued)

[1] https://www.federalreserve.gov/monetarypolicy/files/monetary20210922a1.pdf
[2] 7-day moving averages
[3] Statistics in this paragraph reference data from the Kenneth French Dartmouth data library

Hotchkis & Wiley

MID-CAP VALUE FUND

HWMIX
HWMAX
HWMCX
HWMZX

MANAGER REVIEW & ECONOMIC OUTLOOK

SEPTEMBER 30, 2021

Jazz Pharmaceuticals is a specialty pharma company with dominant franchises in neurology and oncology. It is best known for its narcolepsy drug Xylem. The company also recently acquired GW Pharmaceuticals, whose primary asset is a drug for epilepsy called Epidiolex. The stock is attractively valued today because of concerns over new entrants in narcolepsy and generic entries in the coming years. There is also concern over the durability of Epidiolex's intellectual property and the leveraged balance sheet due to the GW Pharmaceuticals acquisition. However, we think the market overlooks several opportunities relating to the durability of the narcolepsy franchise. First, the successful conversion of their existing Xyrem population to Xywav, a newly approved version of the drug with lower sodium content. Second, the expanded indication to idiopathic hypersomnia. We also believe the IP durability around Epidiolex could be better than most expect, and the epilepsy population is stickier than many appreciate. The company is highly cash generative and should have little issue bringing leverage down to its target levels in the next few years. The stock offers an attractive risk/reward profile and is led by one of the better management teams in the sector, with a history of conservative capital allocation.

PERFORMANCE (%) as of September 30, 2021

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 1/2/97
Mid-Cap Value Fund – I Shares	-2.63	27.62	83.03	2.43	7.14	12.87	11.04
Russell Midcap Value	-1.01	18.24	42.40	10.28	10.59	13.93	10.50

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 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, 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 9/30/21 as a % of the Fund's net assets: Popular Inc. 4.6%, Cairn Energy PLC 4.4%, Citizens Fin'l Group Inc. 3.7%, Fluor Corp. 3.6%, American Int'l Group Inc. 3.5%, Kosmos Energy Ltd. 3.3%, CNH Industrial N.V. 3.2%, The ODP Corp. 2.7%, Adient PLC 2.7%, and CIT Group Inc. 2.7%.

Duration is a measure of the price sensitivity of a bond to interest rate movements. Yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. Spread is the difference between valuations of value and growth stocks. **Extraordinary performance is attributable in part due to unusually favorable market conditions and may not be repeated or consistently achieved in the future.**