

MARKET COMMENTARY

In 2020, investors witnessed the devastating impact of a worldwide pandemic on the global economy. While the effect was severe, investors perceived it as a transitory event, and recognized the stimulative influence of massive monetary and fiscal intervention. These interventions helped propel the Russell Midcap Index which returned +17% for the year. Value investors were largely left behind; however, as the Russell Midcap Growth Index soared +36% and the Russell Midcap Value Index returned a modest +5%. This represented mid cap growth's largest outperformance since 1999, and if history is any guide, sets the stage for a value comeback. We had a glimpse of what that comeback might look like during the fourth quarter of 2020. Value stocks outperformed, buoyed by the economic ramifications of new COVID-19 vaccines and another round of fiscal stimulus.

In our experience, when a major asset class underperforms for as long as value has, most investors are under-allocated to the asset class. Signs of this neglect include incessant rhetoric about the asset class' demise in the financial media, unusually wide valuation gaps, and the fatigue/frustration asset allocators experience when compelled to repeatedly explain why they have invested in such a lagging strategy. When the economic winds shift, however, the out-of-favor asset class can enjoy a substantial and sustained period of outperformance. Following the tech bubble, for example, mid cap value outperformed mid cap growth by more than 150 percentage points cumulatively over the ensuing seven years. We have learned time and time again, that patience has been rewarded for those that stay focused on fundamentals and valuation.

Despite value outperforming growth in the fourth quarter, the Russell Midcap Value Index continues to trade at a larger than normal discount to the Russell Midcap Growth Index. Also, despite the Fund outperforming the value index, the portfolio continues to trade at a larger than normal discount to the Russell Midcap Value. The Fund's 4Q outperformance narrowed the gap modestly but we anticipate considerably more reversion ahead. To achieve such a large valuation discount, a portfolio must not only be invested in stocks trading at substantial discounts to intrinsic value but must also be very different than the index. The portfolio is both. Its active share is 92, which means that 92% of the portfolio is positioned differently than the Russell Midcap Value.

Financials remain the portfolio's largest sector weight, and banks are the largest industry exposure within financials. Banks have been an unloved industry for years as scars from the financial crisis remain and regulatory uncertainties linger. When it appeared that the market was finally beginning to recognize the industry's strong recurring profitability and its massive de-risking efforts over the past decade, the pandemic caused investors to shun banks regardless of underlying fundamentals or valuations. Among the most important of these de-risking efforts was a substantial increase in capital held on banks' balance sheets. In addition to having excess capital, banks took large provisions throughout the year for potential credit delinquencies that may occur in the future. While these provisions hit 2020 bank earnings, the industry continued to produce compelling pre-provision income, even in the low interest rate environment. The combination of having strong balance

sheets, large reserve pools, and ongoing profitability gives us confidence that banks have more than enough capacity to withstand a severe economic downturn much worse than we have experienced thus far. Yet many banks trade at single-digit multiples of normal earnings, which we see as extremely attractive in this market. Further, many banks are in a position to return considerable capital to shareholders. This would be accretive to earnings per share thereby improving valuations even more.

Calendar year 2020 was challenging in a myriad of ways. Looking through our value investor lens, the year tested our patience and conviction. We held steady in our commitment to the principles of value investing and worked as a team to ensure existing investments remained prudent and to find new ideas in an ever-changing environment. We will continue to do both. Our team remains entirely intact, the firm is healthy, and we are optimistic that our clients can be rewarded by our commitment and effort. It was reassuring to observe our time-tested investing style come back into vogue during the most recent quarter and we are optimistic that this reversion could be powerful and lasting. We look forward to the new year with enthusiasm.

ATTRIBUTION – 4Q20

The Hotchkis & Wiley Mid-Cap Value Fund outperformed the Russell Midcap Value Index in the fourth quarter of 2020 by a wide margin. The portfolio has long exhibited valuation characteristics at a discount to the Russell Midcap Value, which had been a major stylistic headwind throughout 2020 until reversing in the fourth quarter. Positive stock selection drove about 80% of the outperformance, as the portfolio outperformed the index in 9 of the 10 GICS sectors in which it is invested (there was no exposure to materials). Positive stock selection in financials, energy, consumer discretionary, and industrials were the largest contributors to performance; the overweight exposure to financials and energy were also helpful. Stock selection in healthcare was a modest detractor, along with the lack of exposure to materials. The largest positive contributors to relative performance in the quarter were Cairn Energy, CIT Group, Kosmos Energy, Popular, and Adient; the largest detractors were Vistra, Centene, H&R Block, Navistar, and Equitrans Midstream.

Over the calendar year, the Fund underperformed the Russell Midcap Value Index. The value-focused approach that helped during the fourth quarter hurt over the course of the entire year. Accordingly, the largest contributors/detractors over the year were largely opposite of what occurred during the fourth quarter. The overweight position in energy was the largest detractor in the year.

LARGEST NEW PURCHASES – 4Q20

Allison Transmission is the established leader in fully automatic commercial truck transmissions and maintains overwhelming share of the market (it invented the product). While there are concerns over pandemic-driven economic weakness, Allison's once overloaded balance sheet has been addressed and the company generates strong free cash flow. Fears that the company will lose profit as the mix of electric and fuel cell drivetrains rises are also overblown. We note that Allison has a growing alternative drivetrain business and the content on

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Portfolio managers' opinions and data included in this commentary are as of December 31, 2020 and are subject to change without notice. Any forecasts made cannot be guaranteed. 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. **Past performance is no guarantee of future results. Diversification does not assure a profit nor protect against loss in a declining market.**



MID-CAP VALUE FUND

HWMIX
HWMAX
HWMCX
HWMZX

MANAGER REVIEW & ECONOMIC OUTLOOK

DECEMBER 31, 2020

those drivelines can be in excess of 3x what it is on a comparable internal combustion engine-powered vehicle today. While there are bound to be growing pains from the transition to new driveline technology, Allison is making the required investments to remain relevant and we believe can perform well. In the meantime, it appears clear that internal combustion engines will remain prominent, and Allison is likely to continue gaining share. In other words, under most plausible scenarios, we believe Allison should remain a well-positioned cash generator for the foreseeable future, and we should continue to see the company return cash to shareholders in the form of increasing dividends and opportunistic share repurchases.

Host Hotels is a REIT that owns about 80 hotels primarily in the US. It trades at a discount to the replacement cost of its assets and at an attractive multiple of normal earnings. It has well-positioned hotels and an investment grade balance sheet. Travel has been disrupted due to

the COVID-19 pandemic, but Host's hotels are in markets that serve both leisure and business travel. Delays in business travel may cause it to underearn temporarily but this should not impair the long-term normal earnings power of the franchise.

KBR's primary business is a provider of outsourced engineering services to governments worldwide. KBR manages civilian programs for agencies like NASA, but most of its business is defense related with programs in engineering, space, and logistics. About one-third of KBR's profits are from its Technology segment which sells high value consulting services and specialty catalysts to customers in chemical, fertilizer, and oil refining markets. KBR's balance sheet is strong. It trades at an attractive multiple of current earnings and we expect double-digit EPS growth as revenue grows with secular tailwinds on its end-markets, margins expand modestly, and the company uses its cash flow to buy back stock.

PERFORMANCE (%) as of December 31, 2020

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 1/2/97
Mid-Cap Value Fund – I Shares	43.41	0.48	0.48	-2.89	3.62	7.19	10.28
Russell Midcap Value	20.43	4.96	4.96	5.37	9.73	10.49	10.08

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.

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 12/31/20 as a % of the Fund's net assets: Cairn Energy PLC 6.9%, Popular Inc. 4.8%, Citizens Fin'l Group Inc. 4.3%, Royal Mail PLC 3.2%, American Int'l Group Inc. 3.2%, CIT Group Inc. 3.0%, Kosmos Energy Ltd. 2.9%, CNH Industrial NV 2.8%, CNO Financial Group Inc. 2.6% and NRG Energy Inc. 2.6%. Earnings per share (EPS) growth is the annual rate of growth of earnings from investments. Price-to-Normal Earnings is the current market price per share divided by normalized earnings per share. Active share is the extent to which the portfolio differs from the Russell Midcap Value Index. Investment grade refers to the quality of a company's credit. **Forward earnings is not representative of the Fund's future performance.**

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