MID-CAP VALUE FUND

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MANAGER REVIEW & ECONOMIC OUTLOOK

DECEMBER 31, 2022

MARKET COMMENTARY

The Russell Midcap Index increased 9.2% in the fourth quarter of 2022. The Russell Midcap Value Index outperformed for the quarter, returning +10.5% vs. +6.9% for the Russell Midcap Growth Index.

In calendar year 2022, the economy and capital markets experienced numerous milestones that had not been observed for quite some time. The S&P 500 declined -18.1%. Since the Great Depression, only three years have been worse: 1974 (oil crisis), 2002 (tech bubble burst), and 2008 (financial crisis). Value stocks declined but held up much better than growth stocks. The Russell Midcap Value declined -12.0% compared to the Russell Midcap Growth's -26.7% decline. Considering the still wide valuation gap and value's significant outperformance in periods of elevated/rising inflation and interest rates, we are optimistic that value's outperformance can persist.

Inflation peaked midyear at 9.1%, the highest reading in more than 40 years[1]. To combat rising prices, the Federal Open Market Committee increased the Fed Funds rate by more than 400 basis points over the course 2022, from 0.25% to 4.5% (upper bounds). This was the largest rate hike in any calendar year since 1973, and the current 4.5% level is its highest in more than 15 years. Other interest rates followed suit. 10-year treasury yields peaked above 4% for the first time in more than a decade; 30-year mortgage rates peaked above 7% for the first time in more than 2 decades. Yields on corporate credit also increased significantly. The treasury yield curve remains significantly inverted, which has been a harbinger of recessions historically. The tight labor market exhibited strong contrasting signals, however, with the unemployment rate reaching a 50-year low. Expectations for future corporate earnings are roughly flat, thus the stock market's decline was entirely due to a compression in valuation multiples as opposed to an actual or expected decline in earnings.

Forecasting economic growth and/or predicting recessions is not our expertise. We do, however, fully acknowledge current warnings signs, e.g., continued Fed tightening and the yield curve. Two things providing solace in the event of an economic slowdown are modest financial leverage and attractive valuations. There are fewer excesses in the system compared to prior recessionary periods like 2008. Unlike then, balance sheets of both consumers and financial institutions are quite strong today. Further, equity valuations are reasonable, and in select market segments, unusually attractive. A strong argument could be made that a recession is already priced into equity markets, at least in certain market segments, which is different compared to recessionary periods like 2002. While several signs point to an economic slowdown, several others suggest that the severity would be manageable and/or much of the pain has already been felt.

The S&P 500 Energy sector returned +65% in 2022, the best-performing sector by a substantial margin. The only other S&P 500 sector with a return above zero was Utilities, which was up about +2%. Crude oil is a depleting resource/commodity. Wells produce less oil as they age, the pace of which is called its *decline rate*. To maintain flat production, companies must invest considerable sums in new projects to offset declining production elsewhere. To *increase* production, these investments need to be substantial. In recent years, however, energy companies have spent considerably less on new production than they have historically, instead using cash flows to pay down debt and/or return capital to shareholders. Our view has been, and continues to be, that this lack of investment will create a situation where supply is unable to keep pace with global demand. This imbalance should keep the price of oil elevated and facilitates strong free cash flows for energy companies. Much of this cash flow is earmarked for share repurchases, which is accretive to earnings per share. Capital expenditures have increased recently but spending on long lead time projects appears insufficient to oversupply the market. Thus, this imbalance could persist for some time. Meanwhile, energy stocks' valuations remain compelling even after the impressive performance because they are coming from such a low base. Free cash flow yields are well into the teens, hence our significant overweight.

Financials represents the portfolio's largest weight, and second largest overweight relative to the index. Our thesis on Financials is straightforward—it is the most attractively valued sector in the portfolio. The sector trades at notable discounts to other parts of the market and relative to its own history, despite balance sheets that are well positioned to withstand a potential economic slowdown. Our positions are focused on companies with difficult-to-replicate franchises that should earn returns well above their cost of capital.

ATTRIBUTION – 4Q22 & 2022

The Hotchkis & Wiley Mid-Cap Value Fund outperformed the Russell Midcap Value Index by a considerable margin in the fourth quarter of 2022. Stock selection in Industrials was particularly strong. Stock selection and the overweight in Energy, along with stock selection in Financials, Health Care, and Consumer Discretionary also contributed positively to performance. Stock selection in Consumer Staples and Utilities detracted from relative performance during the quarter, as did the underweights in Materials and Health Care. The largest positive contributors to relative performance in the quarter were Fluor Corp., APA Corp., Universal Health Services, Kosmos Energy, and AIG; the largest detractors were Popular, Warner Bros. Discovery, First Citizens Bancshares, Herbalife, and F5 Inc.

The portfolio also outperformed the benchmark by a wide margin over calendar year 2022. The overweight and stock selection in Energy contributed most to outperformance. Stock selection in Industrials and Financials also contributed positively. Stock selection and the underweight in Consumer Staples, Utilities, and Materials detracted for the year.

[1] US Consumer Price Index Urban Consumer year-over-year, not seasonally adjusted

Hotchkis &Wiley

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PERFORMANCE (%) as of December 31, 2022

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 1/2/97
Mid-Cap Value Fund – I Shares	17.29	1.63	1.63	12.44	5.31	8.98	10.92
Russell Midcap Value	10.45	-12.03	-12.03	5.82	5.72	10.11	9.78

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.

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 S&P 500® Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. 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 12/31/22 as a % of the Fund's net assets: Kosmos Energy Ltd. 5.2%, Fluor Corp. 4.5%, Popular Inc. 4.3%, APA Corp. 4.2%, Citizens Fin'l Group Inc. 4.0%, First Citizens Bancshares 3.5%, American Int'l Group Inc. 3.1%, Adient PLC 3.1%, State Street Corp. 2.7%, and F5 Inc. 2.7%.

Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g., depreciation) and interest expense to pretax income. Free cash flow represents the cash a company generates after accounting for cash outflows to support operations and maintain its capital assets. Free cash flow yield measures how much free cash flow is available in relation to a company's market capitalization. Standard deviation is a measure of the amount of variation or dispersion of a set of values. Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument.