

SMALL CAP DIVERSIFIED VALUE FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

HWVIX | HWVAX | HWVZX



PERFORMANCE (%) as of June 30, 2025

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 6/30/14
Small Cap Diversified Value Fund – I Shares	2.65	-5.76	1.01	7.23	14.91	7.78	7.33
Russell 2000 Value Index	4.97	-3.16	5.54	7.45	12.47	6.72	6.16

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 0.88% for I Shares; 0.81% net expense ratio. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 29, 2026. 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.

MARKET COMMENTARY

The Russell 2000 Index returned +8.5% in the second quarter of 2025 in one of the more volatile quarters in recent memory. Following the so-called "liberation day" tariff announcement on April 2nd, the index cratered -14% over four trading days. The market bottomed on April 8th. The Russell 2000 was down more than -20% for the year at that point, before returning +24% over the next ~11 weeks. It ended the quarter down -1.8% since the beginning of the year. This serves as a reminder that patience is not just a preference in successful investing, it is a requirement. Since 1930, for example, the S&P 500's price return is more than +23,000%. Excluding the 10 best days every decade, its return would be about +70%¹.

The primary reason for the recovery seems to be that the market believes tariffs will be less draconian than they appeared originally. Equities rallied when the Administration showed an openness to negotiate down and/or delay the implementation of tariffs. Corporate earnings also helped boost the recovery, with nearly two-thirds of Russell 2000 Index companies beating consensus expectations. Despite the portfolio's underperformance in the quarter, 70% of its holdings exceeded consensus earnings expectations.

The Russell 2000 Growth Index outperformed the Russell 2000 Value Index in the quarter by a wide margin (+12% vs. +5%) and is now ahead since the beginning of the year. Small caps' best performing sectors were technology and industrials, both of which comprise larger portions of the growth index than the value index. The real estate, utilities, consumer staples, and energy sectors declined; three of the four comprise larger portions of the value index than the growth index (consumer staples is slightly larger in growth). Also, companies with negative earnings outperformed in the quarter and represent a larger portion of the growth index. Momentum strategies/factors performed well in the quarter.

Inflation continued to show signs of moderation, though the latest Core Personal Consumption Expenditures (PCE) reading—the Fed's preferred inflation gauge—was 2.7%. This is above its 2% long-term target. Accordingly, the Federal Open Market Committee (FOMC)

left the Fed Funds rate unchanged, at 4.25-4.50%, citing its objective of containing inflation while supporting economic growth. The futures market is still pricing in two 25-basis point rate cuts by year-end, though these are now expected to occur later in the year with a less than 10% chance of a rate cut at the upcoming July meeting.

Small cap equities continue to exhibit valuations that are more attractive than long-term averages, particularly small value stocks. Large cap equities continue to exhibit valuations that are well above long-term averages, particularly large growth stocks. The valuation gap between large and small is among the widest on record, only rivaled by the dot.com era, after which small caps outperformed handsomely. The portfolio's price-to-earnings ratio is well below its long-term average, using either consensus earnings or our own estimate of normal earnings. We are not, however, "reaching" for value. We adhere to our Fundamental Risk Rating framework and are willing to pay higher multiples for quality businesses that are well capitalized and well managed.

ATTRIBUTION ANALYSIS – 2Q25

The Hotchkis & Wiley Small Cap Diversified Value Fund underperformed the Russell 2000 Value Index in the second quarter of 2025. Some of the best performing index stocks were those with negative earnings. This group returned more than +10% compared to +3% for companies with positive earnings. The portfolio's considerable underweight to this group was a performance headwind in the quarter. Stock selection in technology detracted from performance in the quarter. Within technology, we had exposure to several names that underperformed due to modest earnings misses or disappointing guidance. There were also several technology stocks we did not own that generated significant returns, i.e., >+100%, largely due to enthusiasm about reshoring equipment manufacturing and continued AI demand. Stock selection in financials and materials also hurt. Real estate was the largest positive contributor, as both the underweight position and positive stock selection helped. The overweight position in industrials and underweight position in healthcare were also positive contributors.

¹Source: BofA US Equity & Quant Strategy, Bloomberg

Portfolio managers' opinions and data included in this commentary are as of June 30, 2025 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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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 smaller and/or newer companies involves greater risks than those associated with investing in larger companies. Please read the fund prospectus for a full list of fund risks. All investments contain risk and may lose value. Equities, bonds, and other asset classes have different risk profiles, which should be considered when investing.

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. Attribution is an analysis of the portfolio's return relative to a selected benchmark, is calculated using daily holdings information and does not reflect the payment of transaction costs, fees and expenses of the Fund.

The **Russell 2000® Index** measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The **Russell 2000® Value Index** measures the performance of those Russell 2000® companies with lower price-to-book ratios and lower 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 **Russell 2000® Growth Index** measures the performance of the small-cap growth segment of the US equity universe. 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.

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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.

The **Federal Open Market Committee (FOMC)** directs open market operations (OMOs) in the United States; **Personal consumption expenditures (PCE)** is a measure of consumer spending and includes all goods and services bought by U.S. households; **Price-to-earnings ratio (P/E)** measures a company's share price relative to its earnings per share.

Certain information presented based on proprietary or third-party estimates are subject to change and cannot be guaranteed. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness.

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