

SMALL CAP DIVERSIFIED VALUE FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

HWVIX | HWVAX | HWVZX



PERFORMANCE (%) as of September 30, 2025

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 6/30/14
Small Cap Diversified Value Fund – I Shares	7.40	1.22	1.41	11.82	16.42	10.00	7.84
Russell 2000 Value Index	12.60	9.04	7.88	13.56	14.59	9.23	7.14

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 +12.4% in the third quarter of 2025, closing the period near all-time highs. Small caps outperformed large caps and gold was up 17%, closing the period at an all time high. It is unusual for this duo to perform well over the same period, though the current economic and political landscapes are also unusual.

Inflation remains closer to 3% rather than the Fed's stated long-term target of 2%, but it has been relatively steady over the past few quarters. Persistent signs that inflation is not reaccelerating, combined with indications of a softening labor market, prompted the Federal Open Market Committee to cut its Fed Funds target rate by 0.25% to 4.25% (upper bound). The futures market suggests that another 0.25% cut in October is a near certainty, and an additional 0.25% cut in December is probable. The market's increasingly dovish interest rate outlook buoyed equities. Nearly two-thirds of the Russell 2000 constituents reported earnings that beat consensus estimates. The portfolio fared better than this, unfortunately fundamentals were not rewarded in the quarter.

In our view, the small cap market's performance in the quarter epitomizes a low quality rally. Highly speculative, risky stocks dominated. Companies with negative earnings returned more than +25% in the quarter compared to less than +10% for those with positive earnings. Companies in the lowest quintile of return-on-equity (ROE), a common gauge for quality, returned +22% compared to +9% for the highest quintile. Stocks falling in the highest beta quintile returned +23% compared to +8% for the lowest quintile.

Biotechnology, precious metals miners, bitcoin miners, satellites, and coal were among the best performing small cap market segments. These are not areas typically associated with first rate businesses.

Ten years ago, the portfolio had a price-to-earnings (P/E) ratio of 10x, a meaningful discount to the Russell 2000 Value Index. It had an ROE of 11% compared to 9% for the index. The Fund returned +160% in the ensuing 10 years compared to +142% for the index (+10.0% and +9.2% annualized, respectively). Today, the portfolio's P/E ratio is lower than it was 10 years ago (9x) while its ROE is higher (12%). The index trades at 12x P/E with an ROE of 8%. The portfolio's composition consists of quality, profitable businesses trading at attractive valuations. This has been a winning recipe over the long run, and we are optimistic it will be in the future as well.

ATTRIBUTION ANALYSIS – 3Q25

The Hotchkis & Wiley Small Cap Diversified Value Fund underperformed the Russell 2000 Value Index in the third quarter of 2025. The underperformance was more about what we did not own rather than what we did own. For example, 7 of the 10 largest detractors were index-only names that returned between +68% and +176% in the quarter. Common traits among these, and other small stocks that posted heroic returns in the quarter, are low/negative earnings, high betas, and low returns on equity. The portfolio's underweight exposure to biotechnology, precious metals miners, bitcoin miners, and coal also hurt.

Portfolio managers' opinions and data included in this commentary are as of September 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. Any indices and other financial benchmarks shown are provided for illustrative purposes only, are unmanaged, reflect reinvestment of income and dividends and do not reflect the impact of advisory fees. 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.

Federal Open Market Committee directs open market operations in the United States and is made up of 12 members; **Return on Equity (ROE)** is a measure of a company's financial performance calculated by dividing net income by shareholders' equity; and **Price-to-Earnings (P/E)** is a valuation metric that compares a company's stock price to its earnings per share, revealing how much investors are willing to pay for each dollar of a company's earnings.

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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