SMALL CAP DIVERSIFIED VALUE FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

HWVIX | HWVAX | HWVZX

PERFORMANCE (%) as of December 31, 2024

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 6/30/14
Small Cap Diversified Value Fund – I Shares	0.19	4.36	4.36	4.33	9.24	8.44	8.30
Russell 2000 Value Index	-1.06	8.05	8.05	1.94	7.29	7.14	6.79

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 0.86% for I Shares; 0.80% net expense ratio. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 29, 2025. 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 +0.3% in the fourth quarter bringing its calendar year 2024 return to +11.5%. The index had been up nearly +10% in the fourth quarter following the election results, then retreated following the December Federal Open Market Committee meeting. The committee voted to cut the fed funds rate by 25 basis points to 4.25%-4.50%, which was widely expected. The accompanying Summary of Economic Projections, however, noted higher expected inflation in the coming years. This reduced the number of expected rate cuts in 2025 which appeared to trigger the equity selloff going into the year's end, particularly in small caps.

Small caps lagged large caps significantly in 2024; the Russell 2000 Index returned +11.5% while the Russell 1000 Index returned +24.5%. The large cap index has outperformed the small cap index in 9 out of the last 10 calendar years, including the last 8 in a row. The cumulative 10-year return for the large cap index is +235% compared to the small cap index of +112% (+12.9% and +7.8% annualized, respectively). The fact that large caps outperformed seems rational considering the group's impressive earnings growth, led by the Magnificent Seven. We question the magnitude of the outperformance; however, as the valuation spread between the two has widened to rather extreme levels. On average, large caps and small caps have traded close to parity historically, based on price-to-forward earnings. Small caps have traded at a premium to large caps about half the time, and at a discount about half the time. Today, small caps' P/E ratio is less than 75% that of large caps. The only other time in history that the discount approached such deep levels was the dot.com bubble—after which small caps outperformed handsomely.

The Russell 2000 Growth Index outperformed the Russell 2000 Value Index in the year by a considerable margin (+15.2% vs. +8.1%). By most definitions, small growth stocks will always trade at a premium valuation to small value stocks. Today, this premium is much wider than average, however, ranking in the 83rd percentile over the past 20 years, based on forward P/E.

The S&P 500 trades at 25x forward earnings, a level only surpassed during the euphoric dot.com bubble. This has us guarded about the broad large cap market's prospects going forward. While large cap opportunities are available, albeit selectively, we are more sanguine about the small cap equity asset class—particularly small cap value. While the broad large cap market trades at near-record levels, the Russell 2000 Value Index trades at a small *discount* to its long-term average, a rare incongruity. Admittedly, there are stark quality differences between the two markets. Nearly all large cap companies are positive earners, while a meaningful portion of the small cap market is composed of persistent negative earners (15% to 35% depending on how it is defined). Large caps, as a group, also have less debt, and a larger portion of its debt is fixed rate. We would not advocate for passive small cap investing. Active small cap managers, however, can avoid these risky situations and create an attractively valued portfolio of good quality businesses that are well-capitalized and well-managed.

We remain patient, long-term investors focused on valuation balanced against fundamental risks, and we continue to find interesting risk/return opportunities across a variety of market segments.

(continued)

Portfolio managers' opinions and data included in this commentary are as of December 31, 2024 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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ATTRIBUTION ANALYSIS – 4Q24 & 2024

The Hotchkis & Wiley Small Cap Diversified Value Fund outperformed the Russell 2000 Value Index in the fourth quarter of 2024. The underweight position in healthcare, particularly biotechnology, helped relative performance as the Russell 2000 Value biotech stocks declined more than -12% as a group. Positive stock selection in the sector also helped. The overweight position and positive stock selection in financials was another meaningfully positive performance contributor, along with the underweight position in the lagging real estate sector. Stock selection in technology and the overweight position in consumer discretionary detracted from performance.

Over the full calendar year, the Fund underperformed the Russell 2000 Value Index. Small cap stocks with a lot of debt and/or negative earnings outperformed in the year. We generally view such stocks as risky and are systematically underweight this group, which detracted from relative performance in the year. The overweight exposure and stock selection in consumer discretionary was a performance detractor. Negative stock selection in consumer staples, industrials, and materials also hurt. The overweight position and positive stock selection in financials was the largest positive contributor in the year. The underweight position and positive stock selection in healthcare also helped.

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 **Russell 2000® Growth Index** measures the performance of those Russell 2000® Index companies with higher price-to-book ratios and higher forecasted growth values. The **Russell 1000® Index**, an unmanaged index, measures the performance of the 1,000 largest companies in the Russell 3000® Index. 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.

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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.

Forward price-to-earnings (forward P/E) is calculated by dividing the current share price of a company by the estimated future ("forward") earnings per share (EPS) of that company; **Price-to-Earnings (P/E)** is calculated by dividing the current price of a stock by the company's trailing 12 months' earnings per share; the **Magnificent Seven** represents Meta, Alphabet, Tesla, Nvidia, Apple, Amazon, and Microsoft.

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.