

# SMALL CAP DIVERSIFIED VALUE FUND

HWVIX  
HWVAX  
HWVZX

## MANAGER REVIEW & ECONOMIC OUTLOOK

MARCH 31, 2023

### MARKET COMMENTARY

The Russell 2000 Index increased 2.7% in the first quarter of 2023, a welcomed rebound from last year's -20.4% decline. Inflation fears appear to have lessened as the Consumer Price Index decelerated to 6% year-over-year, a far cry from its mid-2022 peak of more than 9%. The Federal Open Market Committee increased the Fed Funds rate twice during the quarter, both 25 basis point hikes. The important benchmark rate now stands at 5.0% (upper bound), the first time it has reached this level in more than 15 years. The market implied probability of another small rate hike at the next meeting is about 50/50.

After outperforming growth by 12% in 2022 (by declining less), small value underperformed small growth in the first quarter of 2023 by 6.7% (-0.7% vs. +6.0%). The Russell 2000 technology sector was up about 14% in the quarter. Technology comprises a much larger portion of the Russell 2000 Growth than the Russell 2000 Value (18% vs. 6%). Conversely, the financials sector declined -9%. This sector comprises a much larger portion of the Russell 2000 Value than the Russell 2000 Growth (26% vs. 7%). As a result, value spreads widened over the course of the quarter.

We remain partial to financials, with banks representing the portfolio's largest absolute and relative weight. The banking industry has been in the crosshairs of skeptics since the early March failure of Silicon Valley Bank ("SVB"). SVB failed due to a combination of unique characteristics and mismanagement. It had an unusually concentrated depositor base composed of large corporate depositors; 97% of its deposits exceeded the \$250,000 FDIC insurance limit, and thus were uninsured. This makes it more susceptible to a bank run because it takes significantly fewer customers withdrawing their money compared to a bank with a more diversified customer base. Further, SVB invested in long duration securities much more heavily than it should have, creating a risky asset/liability mismatch. Several other regional banks have similar problems, albeit nothing to the extreme of SVB. Nonetheless, well-capitalized, well-managed banks sold off in sympathy, and now trade at noteworthy valuations for the risks at hand. We have thoroughly assessed widespread bank concerns about declining deposits, an impending recession, and potential regulatory changes. We conclude that these valuations more than compensate us for those risks.

Our energy thesis remains largely unchanged, and it remains our second largest overweight after financials. The portfolio's energy positions trade at attractive valuations and are generating impressive cash flows. Balance sheets have been improved and we believe these companies will likely continue to reap the benefits of higher oil/gas prices for the foreseeable future, as the lack of investment in new production fails to supply global demand. We recognize these are not the most spectacular businesses, but high quality valuations and unusual industry tailwinds make for a convincing investment opportunity.

Technology is the portfolio's third-largest overweight relative to the index. In tech, we do own some quality businesses, and we are willing to pay higher valuation multiples accordingly. Common traits among our tech holdings are strong balance sheets, sticky customers that has generated recurring/predictable cash flow, and promising prospects for growth. We view these businesses as less cyclical than generally understood and prefer this exposure to other non-cyclical parts of the market that trade at rich valuations and grow modestly. This exposure is much different than the exposure to energy and financials, thus acting as an effective offset/complement.

### ATTRIBUTION – 1Q23

The Hotchkis & Wiley Small Cap Diversified Value Fund outperformed the Russell 2000 Value Index in the first quarter of 2023. The overweight and positive stock selection in Industrials was the largest positive contributor to relative performance in the quarter. The overweight position in Information Technology and underweight position in Health Care also helped. Conversely, the overweight in Financials and stock selection in Real Estate detracted from relative performance during the quarter.

Portfolio managers' opinions and data included in this commentary are as of March 31, 2023 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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### PERFORMANCE (%) as of March 31, 2023

	QTR	YTD	1 Yr	3 Yr	5 Yr	Since 6/30/14
Small Cap Diversified Value Fund – I Shares	0.17	0.17	-5.43	29.38	6.41	7.66
Russell 2000 Value	-0.66	-0.66	-12.96	21.01	4.55	5.51

*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](http://www.hwcm.com).*

The Fund's total annual operating gross expense ratio as of the most current prospectus is 0.87% for I Shares; 0.80% net expense ratio. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 31, 2023. 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](http://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.*

Equities, bonds, and other asset classes have different risk profiles, which should be considered when investing. All investments contain risk and may lose value. 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.

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.

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 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 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 3/31/23 as a % of the Fund's net assets: Vontier Corp. 0.5%, SiriusPoint Ltd. 0.5%, IPG Photonics Corp. 0.5%, Belden Inc. 0.5%, Emergent BioSolutions Inc. 0.5%, Proto Labs Inc. 0.5%, Flowserve Corp. 0.5%, Kosmos Energy Ltd. 0.5%, Empire State Realty Trust Inc. 0.4%, and Timken Co. 0.4%..

**Cash flow** measures the cash generating capability of a company by adding non-cash charges (e.g., depreciation) and interest expense to pretax income. **Basis point** is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument. **Consumer Price Index** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Mutual fund investing involves risk. Principal loss is possible.  
NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE  
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