

MARKET COMMENTARY

The Russell 2000 Index rose 4.3% in the quarter and is up +17.5% since the beginning of the year. While the threat of new COVID variants persists, vaccination levels increased and new cases slowed. Consequently, state and local governments continued to ease closures/restrictions spurring renewed economic activity. Manufacturing rose and labor markets improved, highlighting the potential for tight supply conditions. Consumer prices rose 5% year over year, the fastest level in more than a decade. In response, Fed Chairman Powell reiterated his view that inflationary pressures would be transitory. West Texas Intermediate (WTI) crude oil touched \$74/barrel, its highest level in more than two years. Corporate earnings continued to show strength, with 68% of Russell 2000 companies outperforming consensus expectations.

Large growth outperformed large value in the quarter, but the Russell 2000 Value Index slightly outperformed the Russell 2000 Growth Index (+4.6% vs. +3.9%) in the second quarter. The small value index has outperformed by more than 27 percentage points over the past 9 months (+68.9% vs. +41.2%). According to data from the Ken French/Dartmouth library, which dates to 1926, the average value-led market¹ has lasted for 33 months and outperformed growth by an average of 55 percentage points. The duration and magnitude of the current rally is far short of that. Nearly all prolonged value-led markets, however, contain stints when growth outperforms value. In perhaps the strongest value rally ever, for example, value outperformed growth by 147 percentage points from March 2000 through December 2006. However, growth outperformed value in nearly one-third of those months (24 out of 82 months). Like that value run, we came from extreme valuation spreads in mid/late 2020 and continue to observe spreads that are considerably wider than average. This gives us confidence that value's advantage this time can persist in a powerful way, for a prolonged period, or both.

Interest rates fell during the quarter, particularly for long-dated bonds (the yield curve flattened). The 10-year treasury note declined from 1.74% to 1.47% over the quarter. Communication services was the Russell 2000's top performing sector in the quarter, which was due to AMC Entertainment's +455% return. Energy was next best, returning more than +20%. Utilities was the only sector that declined in the quarter, though industrials, financials, and consumer staples also lagged.

As measured by any common valuation metric, the spread between value and growth stocks is wide. So too is the spread between the portfolio and the value benchmark, which means the spread between the portfolio and either the core or growth index is extreme. We believe this bodes well going forward as value relationships normalize. We continue to focus on companies trading at large discounts to intrinsic value but that have strong balance sheets, quality businesses, and employ appropriate corporate governance—a combination that we believe should continue to benefit our clients.

ATTRIBUTION – 2Q21

The Hotchkis & Wiley Small Cap Diversified Value Fund underperformed the Russell 2000 Value Index in the second quarter. The portfolio's overweight to stocks under \$1 billion in market cap (30% vs. 15%) and underweight to stocks over \$1 billion in market cap (68% vs. 85%) detracted from performance as smaller stocks lagged. From a stock specific perspective, all of the underperformance can be attributable to not owning AMC Entertainment, which returned more than +455% and was a large benchmark weight. The underweight in real estate and stock selection in technology also detracted from performance. The overweight and positive stock selection in energy helped relative performance. Positive stock selection in financials also helped.

¹A value-led market is defined as one that outperforms growth by at least 10 percentage points.

Portfolio managers' opinions and data included in this commentary are as of June 30, 2021 and are subject to change without notice. Any forecasts made cannot be guaranteed. 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. **Diversification does not assure a profit nor protect against loss in a declining market. Past performance is no guarantee of future results.**

SMALL CAP DIVERSIFIED VALUE FUND

HWVIX
HWVAX
HWVZX

MANAGER REVIEW & ECONOMIC OUTLOOK

JUNE 30, 2021

PERFORMANCE (%) as of June 30, 2021

	QTR	YTD	1 Yr	3 Yr	5 Yr	Since 6/30/14
Small Cap Diversified Value Fund – I Shares	3.86	29.54	79.26	8.66	14.97	9.99
Russell 2000 Value	4.56	26.69	73.28	10.27	13.62	9.25

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 0.92% for I Shares; 0.80% net expense ratio. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 31, 2021. Expense ratios shown are 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 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. 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. Growth investing tends to work well during speculative, momentum-driven markets, while value investing tends to work well following recessionary periods. Past recessions and recoveries cannot predict future performance due to different factors and circumstances.

Market Disruption: The global coronavirus pandemic has caused disruption in the global economy, unprecedented business and travel disruption and extreme fluctuations in global capital and financial markets. H&W is unable to predict the consequences of the upheaval 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 6/30/21 as a % of the Fund's net assets: Range Resources Corp. 0.6%, Whiting Petroleum Corp. 0.5%, Bonanza Creek Energy Inc. 0.5%, Northern Oil and Gas 0.5%, Oasis Petroleum Inc. 0.5%, Genesco Inc. 0.5%, Nextier Oilfield Solutions Inc. 0.5%, Goodyear Tire & Rubber Co. 0.5%, Interface Inc. 0.4%, and Customers Bancorp Inc. 0.4%. **Extraordinary performance is attributable in part due to unusually favorable market conditions and may not be repeated or consistently achieved in the future.**

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