

SMALL CAP DIVERSIFIED VALUE FUND

HWVIX
HWVAX
HWVZX

JUNE 30, 2022

MANAGER REVIEW & ECONOMIC OUTLOOK

MARKET COMMENTARY

The Russell 2000 Index declined -17.2% in the second quarter of 2022. The Russell 2000 Value Index outperformed for the quarter, declining less than the Russell 2000 Growth (-15.3% vs. -19.3%). All eleven Russell 2000 GICS sectors declined in the quarter.

Several economic developments in the quarter sparked fears of a recession. Real gross domestic product (GDP) was -1.6% quarter-over-quarter (1Q), the war in Ukraine showed little signs of abating, the Consumer Price Index increased 8.6% year-over-year, and an increasingly hawkish Federal Open Market Committee raised the Fed Funds rate by 125 basis points via two hikes (from 0.5% to 1.75%). The Fed signaled further rate increases going forward to combat the highest inflation level in more than 40 years. The futures market implies that investors expect the Fed Funds rate to exceed 3% by year end with more rate hikes expected in 2023. Higher rates are generally bad for equities. It becomes more costly to borrow, increasing the cost of capital, which is the rate used to discount future cash flows. Higher rates impair long-duration equities disproportionately because most of the intrinsic value is derived from a terminal value estimate far into the future. In general, growth stocks are longer duration securities than value stocks. Unsurprisingly, value has outperformed growth in periods of elevated inflation and interest rates historically.

The least economically sensitive sectors—consumer staples and utilities—each declined less than -5% in the quarter. Small cap financials and energy also declined less than the broad index with returns of -12.5% and -13.0%, respectively. These sectors represent larger portions of the value index than the growth index. All other sectors declined -16% or more, with communication services (-29%), technology (-21%), and consumer discretionary (-22%) the worst performers.

At 8.7x normal earnings, the portfolio trades below its long-term average (10.1x). This represents an attractive discount to the index (11.5x). Value continues to trade at a large discount to growth, despite its recent outperformance. We view a reversion toward a more normal valuation relationship as more likely than not, which would represent a conducive environment for our long-term fundamental value approach.

Despite value's recent outperformance, the valuation spread between growth and value remains wide because the spread at the period's outset was extreme. The Russell 2000 Value trades at 14x forward P/E (consensus FY1) compared to the Russell 2000 Growth at 20x. At both a forward and normal P/E of less than 9x, the portfolio trades at an even larger discount. We believe these large spreads and the macroeconomic backdrop should continue to benefit value relative to growth, which should be a conducive environment for our investment approach.

ATTRIBUTION – 2Q22

The Hotchkis & Wiley Small Cap Diversified Value Fund outperformed the Russell 2000 Value Index in the second quarter of 2022. On a sector basis, the largest positive contributor to relative performance came from stock selection in industrials. The underweight and stock selection in communication services also worked well, as did stock selection and the overweight in financials. Positive stock selection in technology also helped performance. Stock selection in energy detracted from relative performance during the quarter. The overweight in consumer discretionary and the underweight in consumer staples also detracted.

Portfolio managers' opinions and data included in this commentary are as of June 30, 2022 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

JUNE 30, 2022

MANAGER REVIEW & ECONOMIC OUTLOOK

PERFORMANCE (%) as of June 30, 2022

	QTR	YTD	1 Yr	3 Yr	5 Yr	Since 6/30/14
Small Cap Diversified Value Fund – I Shares	-12.49	-13.19	-9.34	8.62	6.44	7.37
Russell 2000 Value	-15.28	-17.31	-16.28	6.18	4.89	5.68

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 0.87% 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. 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.

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.

Real gross domestic product (GDP) is the inflation adjusted value of the goods and services produced by labor and property located in the US. The Consumer Price Index is a measurement of US prices for household goods and services. Spread is the difference between valuations of value and growth stocks. Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument. Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g., depreciation) and interest expense to pretax income. Normal Price/Earnings is the current market price per share divided by normalized earnings per share. Forward Price/Earnings (fiscal year) is the projected P/E ratios of the companies invested in the portfolio, which ratios represent current market price per share divided by a company's estimated future earnings-per-share. Projected earnings are consensus analyst forecasts; actual P/E ratios may differ from projected P/E ratios. **A company's forecasted, or estimated, earnings made by analysts or by the company itself. Forward earnings differ from trailing earnings (which is the figure that is quoted more often) in that they are a projection and not a fact.**

Mutual fund investing involves risk. Principal loss is possible.
NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE
The Hotchkis & Wiley Funds are distributed by Quasar Distributors, LLC

WWW.HWCM.COM