

SMALL CAP DIVERSIFIED VALUE FUND

HWVIX
HWVAX
HWVZX

JUNE 30, 2023

MANAGER REVIEW & ECONOMIC OUTLOOK

MARKET COMMENTARY

The Russell 2000 Index increased 5.2% in the second quarter of 2023. The Russell 2000 Value Index underperformed the Russell 2000 Growth Index in the quarter, returning +3.2% vs. +7.1%.

The US Consumer Price Index has fallen from its 9.1% peak in mid-2022 to 4.0% and is expected to decline further, which appears to be a primary catalyst for the positive move in equity markets. Lower inflation and lower interest rates are generally good for equities. This seems to have trumped concerns about an economic slowdown. Bloomberg publishes a *United States Recession Probability Forecast*, which surveys a group of economists on what they think the chances of a recession are in the next 12 months. The index currently stands at 65%. However, equity markets fell in 2022 more than they have risen in 2023, i.e., the Russell 2000 is still down -14% over the past year and a half suggesting a slowdown might be priced in already. Also, not all recessions/slowdowns are created equally. Balance sheets of consumers and companies are generally healthy, unlike 2007/2008. Fewer excesses in the financial system are likely to limit the severity of a recession if one occurs.

Performance deviations between value and growth have been stark in recent periods. Small growth extended its year-to-date edge to +11.1% (+13.6% vs. +2.5%). The performance deviation also extends to size as the Russell Top 200 Index outperformed the Russell 2000 Index by +11.4% year-to-date. Small caps and value trade at a larger-than-normal discount to large caps and growth. We do not view this as sustainable, and a reversion toward more normal valuation relationships would be significantly favorable to value relative to growth going forward. Our fund generally trades at a discount to the value index, and our penchant for stocks under \$1B in market cap leads us to exhibit a smaller and more value leaning bias relative to our benchmark. While the fund's performance has been satisfactory during this period of outperformance by large caps and growth, the fund would benefit from value and smaller stocks coming back into vogue—that should be a stylistic tailwind for our fund.

We will continue to focus on adding value via broad stock selection, disproportionately from the smaller and least efficient part of the market. We view this as our ongoing competitive advantage irrespective of market direction or temperament.

ATTRIBUTION – 2Q23

The Hotchkis & Wiley Small Cap Diversified Value Fund outperformed the Russell 2000 Value Index in the second quarter of 2023. Stock selection in consumer discretionary made the largest contribution to relative outperformance. Stock selection in financials worked well, as did stock selection and the overweight in technology. Stock selection in industrials and the overweight in healthcare detracted from relative performance in the quarter. The overweight in financials detracted as well.

Portfolio managers' opinions and data included in this commentary are as of June 30, 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 June 30, 2023

	QTR	YTD	1 Yr	3 Yr	5 Yr	Since 6/30/14
Small Cap Diversified Value Fund – I Shares	4.07	4.25	12.47	22.27	5.52	7.92
Russell 2000 Value	3.18	2.50	6.01	15.43	3.54	5.72

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 29, 2024. 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.

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 **Russell Top 200® Index** tracks the stock market performance of the largest 200 companies in the Russell 3000® Index. The **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. 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.

Mutual fund investing involves risk. Principal loss is possible.
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