

# SMALL CAP DIVERSIFIED VALUE FUND

## MANAGER REVIEW & ECONOMIC OUTLOOK

HWVIX | HWVAX | HWVZX



### PERFORMANCE (%) as of December 31, 2023

	QTR	YTD	1 Yr	3 Yr	5 Yr	Since 6/30/14
Small Cap Diversified Value Fund – I Shares	13.69	16.21	16.21	13.76	12.64	8.72
Russell 2000 Value	15.26	14.65	14.65	7.94	10.00	6.66

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 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.

### MARKET COMMENTARY

The Russell 2000 Index finished a challenging 2023 on a positive note, increasing +14.0% in the fourth quarter. The Russell 2000 Value Index outperformed the Russell 2000 Growth Index for the quarter, returning +15.3% vs. +12.8%. The strong fourth quarter helped lift the Russell 2000 calendar year 2023 return to +16.9%, while the small value and growth indexes returned +14.7% and +18.7%, respectively.

Throughout much of 2023, small cap stocks trailed behind their larger counterparts before narrowing the gap in the year's final months. Over the last two years, the fear of an economic recession sparked by the Fed's efforts to tame rising inflation cast a cloud over small cap stocks. Adding to economic uncertainty, a regional banking crisis in early 2023 further weighed on investors, affecting the small cap equity market disproportionately. Despite prevailing concerns, we believe investor sentiment will experience positive adjustments as interest rates continue on a path of normalization.

Meanwhile, the valuation gap between the Russell 2000 Growth and Russell 2000 Value widened significantly, expanding from 8.1x at the close of 2022 to 15.0x by the end of 2023<sup>1</sup>. The large valuation gap is based on small growth stocks at historically rich valuations, while small value stocks are at slight discounts to their long-term average valuation. The portfolio also trades at a slight discount to its historical average. This has been achieved, we believe, without assuming undue risk. We have several mechanisms embedded within our process that help us avoid stocks most exposed to the risks of cyclical downturns/recessions. We believe companies with low levels of debt, a robust capacity to generate free cash flow, and a proven track record of prudently and effectively allocating capital are best positioned to navigate any economic landscape.

We hold steady in our commitment to the principles of value investing and remain diligent in our search for new opportunities. With a stable and committed team, a healthy firm, and consistent approach, we believe our clients will be rewarded.

### ATTRIBUTION ANALYSIS – 4Q23 & 2023

The Hotchkis & Wiley Small Cap Diversified Value Fund underperformed the Russell 2000 Value Index in the fourth quarter of 2023. Stock selection and the underweight in healthcare detracted the most from relative underperformance. Stock selection industrials, energy, and materials also detracted in the quarter. Conversely, the overweight and stock selection in financials contributed positively to relative performance, as did stock selection in real estate and the underweight in energy. Stock selection and the underweight in communication services also worked well.

The Fund outperformed the benchmark over calendar year 2023. The underweight in healthcare and stock selection in consumer discretionary were the largest positive contributors to relative performance. Stock selection in financials and the overweight in technology also helped relative performance, along with the overweight in industrials. Stock selection in materials, healthcare, industrials, and energy detracted from relative performance in the year.

<sup>1</sup>Source: Bloomberg. Based on FY2 price-to-earnings ratio.

Portfolio managers' opinions and data included in this commentary are as of December 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.**

# SMALL CAP DIVERSIFIED VALUE FUND

## MANAGER REVIEW & ECONOMIC OUTLOOK

HWVIX | HWVAX | HWVZX



*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. 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. 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.

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.

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.

**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.

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](http://WWW.HWCM.COM)