

MARKET COMMENTARY

The value investment style continued to outperform the market during the first quarter of 2022. The Russell 2000 Value Index was down a modest -2.4% while the Russell 2000 Growth Index declined -12.6%. Nearly all economic sectors declined in the quarter with the notable exception of Energy which was up an impressive +42%.

After a long period of fighting deflation, the Fed must now contend with the highest level of inflation in 40 years. While initial assessments indicated recent inflation was likely due to pandemic disruptions, many economists and the Fed are increasingly concerned that this new inflation might be with us longer than originally thought and that Fed action is needed to keep inflation under control. Add to this concern Russia's invasion of Ukraine which accelerated inflationary forces in important commodities such as oil and gas. While inflation is a real concern, our view is the Fed is more concerned about deflation and maintaining economic growth. While the Fed will likely raise interest rates, we expect they will ease at the first signs of economic weakness.

The price of crude oil increased by 33%, finishing the quarter at \$100/barrel; natural gas rose +51%, finishing the quarter at \$5.64/MMBtu. Sanctions and trade disruption create supply shocks, putting inflationary pressures on significant Russian exports like oil, natural gas, and metals—each experienced meaningful price increases in the period. Our view has been that the lack of investment in new energy projects/production would create an imbalance once demand recovered to pre-pandemic levels; the resulting supply shortage would put upward pressure on energy prices. While this continues to be our view, Russia's invasion of Ukraine has exacerbated the situation. The rise in energy prices has effectively de-risked energy sector. These companies are flush with cash and are reducing debt. Consequently, energy remains a significant sector overweight in the portfolio notwithstanding the strong recent performance.

Higher interest rates are generally bad for equities and particularly bad for growth stocks. Value equities are shorter duration securities compared to growth equities. In a discounted cash flow analysis, the terminal value estimate represents the lion's share of a conventional growth stock's value, whereas a conventional value stock will generate meaningful cash flows sooner. In addition, financials, the largest sector in the value market, represent the lone sector that benefits from rising rates (higher earnings).

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 44x. This equates to a gap of 30x, which is much wider than the historical median of 18x. The gap has been wider than current levels only 20% of the time dating back to the mid-1990s, using monthly data. At a 12x forward P/E and less than 11x normal P/E, 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 – 1Q22

The Hotchkis & Wiley Small Cap Value Fund outperformed the Russell 2000 Value Index in the first quarter of 2022 by a considerable margin. The overweight and stock selection in energy was the largest positive contributor. Positive stock selection in industrials, consumer discretionary, and financials also helped. The overweight position in technology and stock selection in communication services detracted from performance. The largest positive contributors to relative performance in the quarter were Range Resources, Kosmos Energy, Meritor, NOV Inc., and Fluor; the largest detractors were Stagwell, Telos, Evercore, Arrow Electronics, and Equitrans Midstream.

Portfolio managers' opinions and data included in this commentary are as of March 31, 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 VALUE FUND

HWSIX
HWSAX
HWSCX
HWSZX

MANAGER REVIEW & ECONOMIC OUTLOOK

MARCH 31, 2022

PERFORMANCE (%) as of March 31, 2022

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 9/20/85
Small Cap Value Fund – I Shares	9.10	9.10	21.20	16.67	10.00	12.00	11.52
Russell 2000 Value	-2.40	-2.40	3.32	12.73	8.57	10.54	n/a

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 1.07% for I Shares. 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.

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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® 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 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 3/31/22 as a % of the Fund's net assets: Stagwell Inc. 4.3%, Range Resources Corp. 4.0%, Kosmos Energy Ltd. 3.6%, Popular Inc. 3.6%, Evercore Inc. 3.2%, Seritage Growth Properties 3.2%, Fluor Corp. 2.9%, Euronet Worldwide Inc. 2.8%, TrueBlue Inc. 2.8%, and SLM Corp. 2.8%.

Spread is the difference between valuations of value and growth stocks. **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.
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