

SMALL CAP VALUE FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

HWSIX | HWSAX | HWSCX | HWSZX



PERFORMANCE (%) as of March 31, 2024

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 9/20/85
Small Cap Value Fund – I Shares	5.84	5.84	22.38	12.92	13.53	8.73	11.39
Russell 2000 Value	2.90	2.90	18.75	2.22	8.17	6.87	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 1.06% for I Shares; 0.97% 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 increased 5.2% in the first quarter of 2024. Small value stocks underperformed small growth stocks in the quarter (+2.9% vs. +7.6%). Performance was mixed across the Russell 2000 GICs sectors in the quarter, with the information technology, energy, industrials, and consumer discretionary sectors performing best. Communication services, utilities, real estate and financials declined slightly in the quarter.

Despite a respectable return in the first quarter of 2024, small-cap stocks underperformed their larger counterparts by a wide margin. The Russell 1000 Index returned +10.3%, while the Russell 2000 Index returned +5.2%, largely on the back of a few mega cap companies that exhibited robust earnings. We believe the recent performance disparity has created a compelling opportunity for small-cap investors. Since the end of 2005, the average forward price-to-earnings ratio (P/E) of the Russell 1000 Index is 15.5x. The forward P/E of the large-cap index was 19.2x at the end of Q1. By comparison, the forward P/E of the Russell 2000 at the end of the quarter was 20.9x, just above its average P/E of 19.3x since 2005. The Russell 2000 Value Index, where our expertise lies, trades at a more respectable P/E of 15.2x, which is below its longer-term average of 16.7x.

Much of the market action in Q1 hinged on released economic data and expectations for interest rate cuts by the Federal Reserve (Fed). Economic data in the U.S. has been resilient, leading to the timing of interest rate cuts being pushed further into 2024. Concern about the increasing cost of capital, which is the rate used to discount future cash flows, weighed disproportionately on smaller companies. In our view, this concern appears to be an overreaction, as the market has unfairly mispriced many companies in the cyclical sectors in which we invest.

It's worth noting that information technology represents the portfolio's largest overweight relative to the index. In tech, we do own some quality businesses, and we are willing to pay higher valuation multiples accordingly. Common traits among our tech

holdings are strong balance sheets, sticky customers that generate recurring/predictable cash flow, and promising prospects for growth. We view these businesses as less cyclical than generally understood and offer attractive diversification to complement other cyclical positions.

We continue to view the current economic backdrop as particularly compelling for high quality small cap companies, which we define as companies that are able to sustain high returns relative to cost of capital, grow faster than the economy, appropriately leveraged, and adhere to good governance. These traits do not always apply to a passive index fund such as the Russell 2000 Index where many companies are unprofitable and/or exhibit a high degree of financial leverage. With a resilient economy, moderating inflation, the potential for interest rate cuts by the Fed later this year, and continued government investment (the Bipartisan Infrastructure Law and CHIPS Act), we believe smaller companies may be poised for a sustained period of strong performance on both an absolute and relative basis.

ATTRIBUTION ANALYSIS – 1Q24

The Hotchkis & Wiley Small Cap Value Fund outperformed the Russell 2000 Value Index in the first quarter of 2024. Stock selection in the financials sector was robust in the quarter, with many of our holdings performing quite well across sub-industries. Stock selection in industrials and information technology also contributed to outperformance, as did the underweight in real estate and overweight in energy. Conversely, stock selection in consumer discretionary was challenging in the quarter. The underweight in healthcare (lack of exposure to biotechnology), stock selection in energy, and overweight in communication services also detracted.

Portfolio managers' opinions and data included in this commentary are as of March 31, 2024 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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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. 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.

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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 higher price-to-book ratios and higher forecasted growth values. The **Russell 1000® Index**, an unmanaged index, measures the performance of the 1,000 largest companies in the Russell 3000® Index. 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.

FOMC-Federal Open Market Committee; **CHIPS Act**-Creating Helpful Incentives to Produce Semiconductors; **Forward price-to-earnings ratio (P/E)**-current share price divided by estimated future earnings per share. **GICS**-Global Industry Classification Standard.

Mutual fund investing involves risk. Principal loss is possible.
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