SMALL CAP VALUE FUND

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MANAGER REVIEW & ECONOMIC OUTLOOK

JUNE 30, 2020

MARKET COMMENTARY

The Russell 2000 Index returned +25.4% in the second quarter of 2020, recovering much of its first quarter decline; the index is -13.0% since the beginning of the year. Most US states took steps to reopen during the quarter, and the Federal Reserve announced additional actions to further stimulate the economy: continue large scale asset purchases, hold interest rates near zero through 2022 if needed, and initiate purchases of individual corporate bonds. Employment and consumer spending improved more quickly than the market anticipated, helping fuel the equity market rebound. Volatility remained elevated, however, as an increase in COVID-19 cases accompanied the reopening efforts, and turbulent US/China trade negotiations resurfaced.

The Russell 2000 Growth Index outperformed the Russell 2000 Value Index by more than 11 percentage points in the quarter (+30.6% vs. +18.9%). This extended small cap growth's year-to-date advantage to more than 20 percentage points (-3.1% vs. -23.5%) and its three-year edge to nearly 38 percentage points (+25.4% vs. -12.5%). The wide valuation gap between growth and value now resembles levels only observed during the late 1990's tech/growth bubble.

Our estimate of a company's intrinsic value is based on its earnings power over the long term, i.e. over a period of many years. If a company's earnings in any one year are impaired, due to a pandemic or otherwise, it will reduce our estimate of intrinsic value. However, unless the company lacks the financial wherewithal to survive challenging times—something we work hard to avoid in the first place—it is unlikely to result in a 50% reduction to our intrinsic value estimate. Yet in many cases recent market prices have declined by this amount or more, often despite little to no solvency/survival risk. Meanwhile, companies that are largely insulated from COVID-19's reach, and those that benefit from it in the short term, have seen their stock prices rise by similar amounts. Many of these companies traded at elevated valuations even before this period. We recognize the seriousness of the pandemic, including its extensive impact on the economy and capital markets; however, we view the market's response as myopic. While COVID-19 has taken a painful toll, both human and economic, we will get through it. When we do, we are confident that more rational economics will prevail, and valuations will revert toward more normal relationships—our clients are well positioned to potentially benefit from such a scenario.

Recently, the Business Cycle Dating Committee of the National Bureau of Economic Research ("NBER") declared February 2020 as the official start of a recession. This ended the 128-month expansion, which was the longest, though not the strongest period of sustained economic growth in the history of US business cycles, dating back to at least 1854. Since the Great Depression, the average recession has lasted less than a year. In the recovery following recessions, value has outperformed growth consistently and by a large margin. In the five-year period following a recession's end, value beat growth in *all* 14 recovery periods dating back to the Great Depression, with an average performance advantage of more than 50 percentage points.*

The irrational gap between growth and value indices represent an uncommon opportunity, but in our view, the true opportunity in today's market goes well beyond this simple incongruity. The opportunities within value are extraordinary. The portfolio trades at 5.6x normal earnings which is near record low levels compared to its history; the Russell 2000 Value trades at 10.6x normal earnings which is also near record low levels compared to its history; and the Russell 2000 Growth trades at 23.9x which is near record high levels compared to its history.

ATTRIBUTION – 2Q20

The Hotchkis & Wiley Small Cap Value Fund outperformed the Russell 2000 Value Index in the second quarter of 2020. Positive stock selection trumped the portfolio's value-biased headwind in the quarter. Stock selection was particularly helpful in real estate, financials, industrials, and communication services. The underweight exposure to utilities also helped performance. Stock selection in consumer discretionary and healthcare were detractors, along with the overweight exposure to financials. The largest positive contributors to relative performance in the quarter were Sonic Automotive, Resideo Technologies, Range Resources, Bank of N.T. Butterfield, and Fluor; the largest detractors were Enstar Group, Frank's International, Global Indemnity, Avista, and Embraer.

Hotchkis & Wiley

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PERFORMANCE (%) as of June 30, 2020

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 9/20/85
Small Cap Value Fund – I Shares	22.58	-29.22	-24.70	-8.07	-3.43	7.45	9.80
Russell 2000 Value	18.91	-23.50	-17.48	-4.35	1.26	7.82	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 1.05% for I Shares. Expense ratios shown are 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.

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. Growth investing tends to work well during speculative, momentum-driven markets, while value investing tends to work well following recessionary periods. Value stocks following a recession may start from a lower market value than growth stocks which can contribute to their outperformance. Past recessions and recoveries cannot predict future performance due to different factors and circumstances.

Market Disruption: The recent global coronavirus pandemic has caused and continues to cause disruption in the global economy, unprecedented business and travel disruption and extreme fluctuations in global capital and financial markets. H&W is unable to predict the consequences of the upheaval caused by coronavirus pandemic, which, depending on the severity and the length of the outbreak, has the potential to negatively impact the firm's investment strategies and reduce available 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 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. Price-to-Normal Earnings is the current market price per share divided by normalized earnings per share. Top ten holdings as of 6/30/20 as a % of the Fund's net assets: Evercore Inc. 5.2%, Enstar Group Ltd. 5.0%, Bank of NT Butterfield & Son 4.6%, Arrow Electronics Inc. 4.2%, Popular Inc. 3.8%, Seritage Growth Properties 3.8%, Triple-S Management Corp. 3.5%, News Corp. 3.1%, Frank's International 3.0% and Sonic Automotive Inc. 2.9%.

*Source: BofA, Dartmouth/Ken French Data Library, NBER. Value defined as highest 3 deciles of book to market/Growth as lowest 3 deciles of book to market.

Mutual fund investing involves risk. Principal loss is possible.
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