

# SMALL CAP VALUE FUND

HWSIX  
HWSAX  
HWSCX  
HWSZX

## MANAGER REVIEW & ECONOMIC OUTLOOK

JUNE 30, 2023

### MARKET COMMENTARY

In the second quarter the best returns occurred in the large cap market where mega cap tech stocks continued to fuel large cap index returns. Returns in the small cap market were solid as the Russell 2000 Index increased 5.2% in the second quarter of 2023. The Russell 2000 Value Index underperformed for the quarter, returning +3.2% vs. +7.1% for the Russell 2000 Growth Index.

It appears the catalyst for positive stock returns this year is due to more encouraging inflation news which suggests the Fed's interest rate hike process is nearing its final stages. While most economists expect the US economy will slip into recession, many forecasters are beginning to see a soft landing as more likely than a hard landing. Our study of historical stock price returns around recessions shows that the small cap market was pricing a painful, but not devastating, recession. As the macro-economic data begins to support a soft landing scenario, stocks are rallying to reflect a less negative outlook. Not all sectors are reporting positive results and the small cap market is still in bear territory. The underperformance of small versus large and value versus growth can be laid at the foot of the regional bank crisis which hit small cap financials (bank in particular) very hard. In an otherwise ebullient market, small cap bank stocks were down about -8% during the second quarter which was a significant drag on the over all small cap market and value portfolios.

So where does this market rally leave us in terms of valuation? Given the recent growth spurt, small cap value trades at a larger-than-normal discount to large caps and to its small cap growth counter parts. We continue to see the market environment shifting to favor active investing and value, which should be a stylistic tailwind for our fund. This year's market leadership is narrowly focused in a few mega cap stocks. For example, the 3 largest market cap stocks in the S&P 500 Index generated nearly half of the index return this year. While the advent of artificial intelligence is exciting, it will likely benefit more than three companies. In our experience, narrow markets create opportunities for active managers who are not forced to own the biggest companies simply because they represent a disproportionate weight in the "market" index.

### ATTRIBUTION – 2Q23

The Hotchkis & Wiley Small Cap Value Fund outperformed the Russell 2000 Value Index in the second quarter of 2023. On a sector basis, the largest contributor to relative performance during the quarter came from stock selection in financials where we continue to be underweight banks stocks. The overweight positions in technology and industrials also contributed to outperformance. Stock selection in industrials, consumer discretionary, and energy detracted during the quarter. The largest positive contributors to relative performance in the quarter were SLM Corp., Equitrans Midstream, Itron, Arrow Electronics, and Greenbrier; the largest detractors were Kosmos Energy, Berry Petroleum, Stagwell, Adient, and Avista Corp.

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	10 Yr	Since 9/20/85
Small Cap Value Fund – I Shares	3.47	6.35	19.73	27.89	7.47	9.30	11.13
Russell 2000 Value	3.18	2.50	6.01	15.43	3.54	7.29	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](http://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.

*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.*

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 higher price-to-book ratios and higher forecasted growth values. The **S&P 500® Index** is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. 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.

**Top ten holdings** as of 6/30/23 as a % of the Fund's net assets: F5 Inc. 6.8%, Stagwell Inc. 5.1%, Popular Inc. 3.8%, SLM Corp. 3.7%, Arrow Electronics Inc. 3.6%, Evercore Inc. 3.5%, Expro Grp Hldgs N.V. 3.0%, ManpowerGroup Inc. 3.0%, Kosmos Energy Ltd. 2.8%, and Fluor Corp. 2.8%.

Mutual fund investing involves risk. Principal loss is possible.  
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