SMALL CAP VALUE FUND

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MANAGER REVIEW & ECONOMIC OUTLOOK

SEPTEMBER 30, 2022

MARKET COMMENTARY

The Russell 2000 Index declined -2.2% in the third quarter of 2022. The Russell 2000 Growth Index outperformed for the quarter, returning +0.2% vs. -4.6% for the Russell 2000 Value Index.

Investors continued to grapple with elevated inflation and the Fed's hawkish action and sentiment. The latest Consumer Price Index (CPI) reading was 8.3% year-over-year, which was slightly above consensus forecasts but below the 40-year high reached in June (9.1%). Energy prices declined, with WTI crude oil falling from $106/barrel to $79/barrel over the course of the quarter. The most recent Core CPI reading, which excludes food and energy, increased slightly from the beginning of the quarter (6.3% from 5.9%). To combat inflation, the Federal Open Market Committee continued to raise interest rates. It increased the Fed Funds Target Rate by 150 basis points via two hikes in the quarter. The target rate now stands at 3.25% (upper bound), a full 3 percentage points higher than where the year began (0.25%). Market implied expectations are for the rate to exceed 4% by year-end.

The economy demonstrated mixed signals. Second quarter real gross domestic product (reported in the third quarter) contracted -0.6% quarter-over-quarter. The ISM Manufacturing PMI declined to 50.9 from over 60 in late 2021 (a reading above 50 indicates expansion, below 50 contraction). The ISM Services PMI was 56.7, slightly higher than at the beginning of the quarter. Unemployment and initial jobless claims remain low. Reported corporate earnings were strong, with 78% of S&P 500 companies exceeding analyst expectations. Lower forward guidance was a common theme, however. Many management teams have been pointing to inflation, continued supply constraints, and the stronger dollar as near-term profitability headwinds.

At a price-to-earnings ratio[1] of 9.0x at the end of September, the Russell 2000 Value Index continues to trade at an attractive valuation relative to its own history, as well as to the Russell 1000 Index price-to-earnings ratio of 15.5x. While the broad market trades at a historically average valuation, it is not average across all sectors uniformly. We find few attractive opportunities in non-cyclical sectors like Consumer Staples and Utilities. Both trade at valuations considerably richer than is typical. While we are attracted to the relative stability of the underlying businesses, we are unwilling to invest at current valuations for sectors that are perpetually slow growing. We are attracted to select technology companies that trade at better valuations and grow faster. Many of these businesses also have great balance sheets and are less economically sensitive than generally believed.

We continue to find attractive opportunities in Energy. There has been massive underinvestment in new energy projects. These projects take a long time, i.e., years, to produce oil and gas, so even if investment ramps up, we appear poised for a supply shortage for some time. This should keep upward pressure on commodity prices and benefit energy companies' earnings and cash flow. Eventually this is likely to balance but this could be well into the future. In the meantime, the overearning and above normal cash flow puts energy companies in a position to return a lot of capital to shareholders. Retiring shares at attractive valuations is accretive to earnings per share and makes these companies even more attractively valued. We also remain partial to banks, which trade at significant discounts to the market and to their own history. Banks are also returning a lot of capital to shareholders and are one of very few industries than can benefit from rising interest rates. The substantial excess capital on their balance sheets should enable banks to withstand an economic downturn without requiring dilutive capital raises.

ATTRIBUTION – 3Q22

The Hotchkis & Wiley Small Cap Value Fund outperformed the Russell 2000 Value Index in the third quarter of 2022. On a sector basis, the largest contributor to relative performance during the quarter came from stock selection in Communication Services and Real Estate, along with the overweight in Energy. Stock selection in Consumer Discretionary and Health Care also contributed to relative performance during the quarter. Stock selection in Financials and Industrials detracted during the quarter, as did the underweight in Health Care. The largest positive contributors to relative performance in the quarter were Seritage Growth Properties, Stagwell, Murphy Oil, TechnipFMC, and Range Resources; the largest detractors were Euronet Worldwide, Kosmos Energy, Brink's Co., Korn Ferry, and Enstar Group.

[1]Based on FY1 consensus earnings

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PERFORMANCE (%) as of September 30, 2022

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 9/20/85
Small Cap Value Fund – I Shares	-0.85	-9.26	-5.71	10.04	5.06	9.77	10.81
Russell 2000 Value	-4.61	-21.12	-17.69	4.72	2.87	7.94	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. 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.

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 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 9/30/22 as a % of the Fund's net assets: F5 Inc. 5.9%, Stagwell Inc. 5.0%, Evercore Inc. 4.1%, Popular Inc. 3.7%, SLM Corp. 3.4%, Kosmos Energy Ltd. 3.3%, Murphy Oil Corp. 3.1%, Bank of NT Butterfield & Son 3.0%, Korn Ferry 2.8%, and Brink's Co. 2.8%.

Real gross domestic product (GDP) is the inflation adjusted value of the goods and services produced by labor and property located in the US. The Consumer Price Index is a measurement of US prices for household goods and services. Spread is the difference between valuations of value and growth stocks. Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument. Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g., depreciation) and interest expense to pretax income. Price-to-Earnings is the current market price per share divided by normalized 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.**