

MARKET COMMENTARY

In 2020, investors witnessed the devastating impact of a worldwide pandemic on the global economy. While the effect was severe, investors perceived it as a transitory event, and recognized the stimulative influence of massive monetary and fiscal intervention. These interventions helped propel the Russell 2000 Index +20% for the year. Value investors were largely left behind; however, as the Russell 2000 Growth Index soared +35% and the Russell 2000 Value Index returned a modest +5%. This represented small growth's largest outperformance since 1999, and if history is any guide, sets the stage for a value comeback. We had a glimpse of what that comeback might look like during the fourth quarter of 2020. Value stocks outperformed, buoyed by the economic ramifications of new COVID-19 vaccines and another round of fiscal stimulus.

In our experience, when a major asset class underperforms for as long as small cap value has, most investors are under-allocated to the asset class. Signs of this neglect include incessant rhetoric about the asset class' demise in the financial media, unusually wide valuation gaps, and the fatigue/frustration asset allocators experience when compelled to repeatedly explain why they have invested in such a lagging strategy. When the economic winds shift, however, the out-of-favor asset class can enjoy a substantial and sustained period of outperformance. Following the tech bubble, for example, the Russell 2000 Value Index nearly tripled in the ensuing seven years while the Russell 2000 Growth Index declined slightly. We have learned time and time again, that patience has been rewarded for those that stay focused on fundamentals and valuation.

Despite value outperforming growth in the fourth quarter, the Russell 2000 Value continues to trade at a larger than normal discount to the Russell 2000 Growth. Also, despite the Fund outperforming the value index, the portfolio continues to trade at a larger than normal discount to the Russell 2000 Value. The portfolio's 4Q outperformance narrowed the gap modestly but we anticipate considerably more reversion ahead. To achieve such a large valuation discount, a portfolio must not only be invested in stocks trading at substantial discounts to intrinsic value but must also be very different than the index. The portfolio is both. Its active share is 96, which means that 96% of the portfolio is positioned differently than the Russell 2000 Value.

Financials and banks remain the portfolio's largest sector and industry weights, respectively. Banks have been an unloved industry for years as scars from the financial crisis remain and regulatory uncertainties linger. When it appeared that the market was finally beginning to recognize the industry's strong recurring profitability and its massive de-risking efforts over the past decade, the pandemic caused investors to shun banks regardless of underlying fundamentals or valuations. Among the most important of these de-risking efforts was a substantial increase in capital held on banks' balance sheets. In addition to having

excess capital, banks took large provisions throughout the year for potential credit delinquencies that may occur in the future. While these provisions hit 2020 bank earnings, the industry continued to produce compelling pre-provision income, even in the low interest rate environment. The combination of having strong balance sheets, large reserve pools, and ongoing profitability gives us confidence that banks have more than enough capacity to withstand a severe economic downturn much worse than we have experienced thus far. Yet many banks trade at single-digit multiples of normal earnings, which we see as extremely attractive in this market. Further, many banks are in a position to return considerable capital to shareholders. This would be accretive to earnings per share thereby improving valuations even more.

Calendar year 2020 was challenging in a myriad of ways. Looking through our value investor lens, the year tested our patience and conviction. We held steady in our commitment to the principles of value investing and worked as a team to ensure existing investments remained prudent and to find new ideas in an ever-changing environment. We will continue to do both. Our team remains entirely intact, the firm is healthy, and we are optimistic that our clients can be rewarded by our commitment and effort. It was reassuring to observe our time-tested investing style come back into vogue during the most recent quarter and we are optimistic that this reversion could be powerful and lasting. We look forward to the new year with enthusiasm.

ATTRIBUTION – 4Q20

The Hotchkis & Wiley Small Cap Value Fund outperformed the Russell 2000 Value Index in the fourth quarter of 2020 by a strong margin. The portfolio has long exhibited valuation characteristics at a discount to the Russell 2000 Value, which had been a major stylistic headwind throughout 2020 until reversing in the fourth quarter. Positive stock selection in financials was the largest contributor in the quarter, as the portfolio's banks, capital markets, consumer finance, and insurance exposure all helped. Positive stock selection in industrials was another meaningful contributor. The underweight exposure to materials and stock selection in both technology and real estate were modest detractors. The largest individual positive contributors in the quarter were Evercore, Euronet Worldwide, Popular, Frank's International, and Fluor; the largest detractors were Seritage Growth Properties, Equitrans Midstream, Range Resources, Sonic Automotive, and Arrow Electronics.

Over the calendar year, the fund underperformed the Russell 2000 Value Index. The value-focused approach that helped during the fourth quarter hurt over the course of the entire year. The overweight position in energy along with stock selection in healthcare and real estate were the largest detractors; positive stock selection in financials was the largest contributor.

Portfolio managers' opinions and data included in this commentary are as of December 31, 2020 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. **Past performance is no guarantee of future results. Diversification does not assure a profit nor protect against loss in a declining market.**



SMALL CAP VALUE FUND

HWSIX
HWSAX
HWSCX
HWSZX

MANAGER REVIEW & ECONOMIC OUTLOOK

DECEMBER 31, 2020

PERFORMANCE (%) as of December 31, 2020

| | QTR | YTD | 1 Yr | 3 Yr | 5 Yr | 10 Yr | Since 9/20/85 |
|---------------------------------|-------|-------|-------|------|------|-------|---------------|
| Small Cap Value Fund – I Shares | 38.31 | -0.32 | -0.32 | 0.71 | 5.74 | 7.95 | 10.72 |
| Russell 2000 Value | 33.36 | 4.63 | 4.63 | 3.72 | 9.65 | 8.66 | 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.

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.

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. Investment grade refers to the quality of a company's credit. Active share is the extent to which the portfolio differs from the Russell 2000 Value Index. Top ten holdings as of 12/31/20 as a % of the Fund's net assets: Enstar Group Ltd. 4.6%, Popular Inc. 4.6%, Euronet Worldwide Inc. 4.4%, Arrow Electronics Inc. 4.1%, Evercore Inc. 3.8%, Bank of NT Butterfield & Son 3.5%, Seritage Growth Properties 3.5%, News Corp. 3.2%, Amerco 3.1% and First Hawaiian Inc. 3.1%.

Mutual fund investing involves risk. Principal loss is possible.
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