SMALL CAP VALUE FUND

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MANAGER REVIEW & ECONOMIC OUTLOOK

DECEMBER 31, 2022

MARKET COMMENTARY

The Russell 2000 Index increased 6.2% in the fourth quarter of 2022. The Russell 2000 Value Index outperformed for the quarter, returning +8.4% vs. +4.1% for the Russell 2000 Growth Index.

In calendar year 2022, the economy and capital markets experienced numerous milestones that had not been observed for quite some time. The Russell 2000 Index declined -20.4%, its worst year since the Great Financial Crisis. Value stocks declined but held up much better than growth stocks. The Russell 2000 Value declined -14.5% compared to the Russell 2000 Growth's -26.4% decline. Considering value's significant outperformance in periods of elevated/rising inflation and interest rates, and its outperformance coming out of economic slowdowns, we are optimistic that value's outperformance can persist.

Inflation peaked midyear at 9.1%, the highest reading in more than 40 years[1]. To combat rising prices, the Federal Open Market Committee increased the Fed Funds rate by more than 400 basis points over the course 2022, from 0.25% to 4.5% (upper bounds). This was the largest rate hike in any calendar year since 1973, and the current 4.5% level is its highest in more than 15 years. Other interest rates followed suit. 10-year treasury yields peaked above 4% for the first time in more than a decade; 30-year mortgage rates peaked above 7% for the first time in more than 2 decades. Yields on corporate credit also increased significantly. The treasury yield curve remains significantly inverted, which has been a harbinger of recessions historically. The tight labor market exhibited strong contrasting signals, however, with the unemployment rate reaching a 50-year low. Expectations for future corporate earnings are roughly flat, thus the stock market's decline was entirely due to a compression in valuation multiples as opposed to an actual or expected decline in earnings.

We find forecasting economic growth and/or predicting recessions can be misleading. We do, however, fully acknowledge current warnings signs, e.g., continued Fed tightening and the yield curve. Two things providing solace in the event of an economic slowdown are modest financial leverage and attractive valuations. There are fewer excesses in the system compared to prior recessionary periods like 2008. Unlike then, balance sheets of both consumers and financial institutions are quite strong today. Further, equity valuations are reasonable, and in select market segments, unusually attractive. A strong argument could be made that a recession is partially priced into equity markets, at least in certain market segments, which is different compared to recessionary periods like 2002. While several signs point to an economic slowdown, several others suggest that the severity would be manageable and/or much of the pain has already been felt.

The Russell 2000 Value Energy sector returned +60% in 2022, the best-performing sector by substantial margin. The only other Russell 2000 Value sector with a return above zero was Utilities, which was up just +0.4%. Crude oil is a depleting resource/commodity. Put simply, when oil is extracted from a well, that well now contains less oil, and what remains is increasingly difficult to extract. As a result, wells produce less oil as they age, the pace of which is called its *decline rate*. To maintain flat production, therefore, companies must invest considerable sums in new projects to replace these wells' declining production. To *increase* production, these investments need to be substantial. In recent years, however, energy companies have spent unusually little on new production, instead using cash flows to pay down debt and/or return to shareholders. Our view has been, and continues to be, that this lack of investment will create a situation where supply, i.e., production, is unable to keep pace with global demand. This imbalance keeps the price of oil elevated and facilitates strong free cash flows for energy companies. Much of the cash flow is earmarked for share repurchases, which is accretive to earnings per share. Capital expenditures, i.e., new investments, have increased recently, but it takes a long time for such investments to result in actual production. Thus, this imbalance could persist for some time. Meanwhile, energy stocks' valuations remain compelling even after the impressive performance because they are coming from such a low base. Free cash flow yields are well into the teens, hence our continued overweight.

Financials represents the portfolio's largest weight. Our thesis on Financials is straightforward— the sector trades at notable discounts to other parts of the market and relative to its own history, despite balance sheets that are well positioned to withstand a potential economic slowdown. Information Technology represents the portfolio's largest overweight relative to the index. The valuation multiples of the portfolio's technology positions are higher than those in financials and energy, but still attractive given the quality of the business, the strong balance sheets, and the appealing growth prospects. These businesses deserve valuation multiples well above the market average, yet often trade at modest discounts, thus significantly below their intrinsic values.

ATTRIBUTION – 4Q22 & 2022

The Hotchkis & Wiley Small Cap Value Fund strongly outperformed the Russell 2000 Value Index in the fourth quarter of 2022. On a sector basis, the largest contributor to relative performance during the quarter came from stock selection in Financials. The underweight in Health Care also contributed to relative performance during the quarter, as did stock selection in Information Technology and Real Estate. Stock selection in Communication Services and Consumer Staples detracted during the quarter, as did the overweight in Information Technology. The largest positive contributors to relative performance in the quarter were Evercore, Expro Group Holdings, Fluor Corp., Enstar Group, and Seritage Growth Properties; the largest detractors were Stagwell, Popular, F5 Inc., Bank of NT Butterfield & Son, and Hudson Global.

Looking back over the year, 2022 was a strong relative performance year for the Fund compared to the benchmark. Most of the excess return was due to broad-based stock selection in Consumer Discretionary, Industrials, Information Technology, and Financials. The balance of the excess return was due to our overweight to Energy and underweight to Health Care. Stock selection in Energy detracted for the year, as did the overweight in Information Technology. The underweight in Utilities also detracted during the year. The largest positive contributors to relative performance in 2022 were Range Resources, Kosmos Energy, Fluor Corp., Points.com, and Meritor Inc.; the largest detractors were Stagwell, Telos Corp., F5 Inc., TrueBlue, and Korn Ferry.

[1]US Consumer Price Index Urban Consumer year-over-year, not seasonally adjusted

Hotchkis & Wiley

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PERFORMANCE (%) as of December 31, 2022

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 9/20/85
Small Cap Value Fund – I Shares	13.55	3.03	3.03	11.66	7.36	10.61	11.11
Russell 2000 Value	8.42	-14.48	-14.48	4.70	4.13	8.48	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 31, 2023. 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 12/31/22 as a % of the Fund's net assets: F5 Inc. 6.5%, Evercore Inc. 4.8%, Stagwell Inc. 4.0%, Popular Inc. 3.8%, SLM Corp. 3.4%, Kosmos Energy Ltd. 3.4%, Murphy Oil Corp. 3.2%, Enstar Group Ltd. 3.1%, Seritage Growth Properties 3.1%, and Expro Grp Hldgs N.V. 3.0%.

Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g., depreciation) and interest expense to pretax income. Free cash flow represents the cash a company generates after accounting for cash outflows to support operations and maintain its capital assets. Free cash flow yield measures how much free cash flow is available in relation to a company's market capitalization. Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument.