

# SMALL CAP VALUE FUND

## MANAGER REVIEW & ECONOMIC OUTLOOK

HWSIX | HWSAX | HWSCX | HWSZX



### PERFORMANCE (%) as of December 31, 2023

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 9/20/85
Small Cap Value Fund – I Shares	10.95	18.83	18.83	18.39	14.77	8.33	11.30
Russell 2000 Value	15.26	14.65	14.65	7.94	10.00	6.76	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.

### MARKET COMMENTARY

The Russell 2000 Index finished a challenging 2023 on a positive note, increasing +14.0% in the fourth quarter. The Russell 2000 Value Index outperformed the Russell 2000 Growth Index for the quarter, returning +15.3% vs. +12.8%. The strong fourth quarter helped lift the Russell 2000 calendar year 2023 return to +16.9%.

Throughout much of 2023, small cap stocks trailed behind their larger counterparts before staging a robust rebound in the year's final months. Over the last two years, the fear of an economic recession sparked by the Fed's efforts to tame rising inflation cast a cloud over small cap stocks, especially those in cyclical and interest rate sensitive sectors. Adding to economic uncertainty, a regional banking crisis in early 2023 further weighed on investors. While predicting the timing and magnitude of recessions as well as their impact on stock prices is fraught with estimation error, our analysis of past impacts showed that small cap value stocks were priced for a typical recession and the market was not appreciating the recovery potential of these stocks.

Meanwhile, broad market returns were dominated by a narrow group of mega cap tech stocks. Labeled the "Magnificent 7", these giant companies<sup>1</sup> now represent about 28% of the S&P 500 and they represented about 60% of the index return. On the other end of the cap spectrum, small cap stocks are typically more economically sensitive than their large cap counterparts. By the end of 2023, the economic consensus shifted from recession to "soft landing" which sparked a rally in small cap value stocks. We continue to see historically wide valuation differentials between growth and value as well as large and small cap stocks which suggest the small cap value rally should continue.

In addition, as interest rates continue on a path of normalization, we expect investor sentiment will experience positive adjustments, primarily in relation to the cost of capital. This shift in sentiment holds significant implications for companies,

especially those of smaller scale. As the cost of capital becomes more favorable, businesses can anticipate a more conducive financial environment for growth and investment.

Historical evidence reinforces the notion that during transformative economic landscapes, the small cap value asset class can embark on a significant and lasting period of outperformance. A pertinent example is the aftermath of the tech bubble, where the Russell 2000 Value Index nearly tripled over the subsequent seven years, in stark contrast to a slight decline in the Russell 2000 Growth Index. Our enduring lesson underscores that patience emerges as a rewarding virtue for those steadfastly focused on fundamentals and valuation principles.

### ATTRIBUTION ANALYSIS – 4Q23 & 2023

The Hotchkis & Wiley Small Cap Value Fund underperformed the Russell 2000 Value Index in the fourth quarter of 2023. On a sector basis, the largest detractor from relative performance came from stock selection and the overweight in energy. Stock selection in technology, materials, industrials, and consumer discretionary also detracted in the quarter. Conversely, stock selection in communication services contributed positively to relative performance, as did stock selection in utilities and real estate.

The Fund delivered another year of strong relative performance in 2023. The balance of the excess return came from stock selection in financials. Stock selection in communication services also helped. In addition, the overweight in technology contributed to outperformance, as did the underweight in healthcare. Stock selection in industrials, real estate, energy, and technology detracted from relative performance in the year.

<sup>1</sup>"Magnificent 7" constituents: Apple, Microsoft, Amazon, Alphabet, Meta Platforms, Nvidia, and Tesla

Portfolio managers' opinions and data included in this commentary are as of December 31, 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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*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. All investments contain risk and may lose value. Equities, bonds, and other asset classes have different risk profiles, which should be considered when investing.*

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. 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. Certain information presented based on proprietary or third-party estimates are subject to change and cannot be guaranteed. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness.

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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.

**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.

**Top ten holdings** as of 12/31/23 as a % of the Fund's net assets: F5 Inc. 5.5%, Stagwell Inc. 4.6%, Popular Inc. 4.0%, Arrow Electronics Inc. 3.9%, SLM Corp. 3.8%, Korn Ferry 3.1%, Enstar Group Ltd. 2.8%, Fluor Corp. 2.8%, Kosmos Energy Ltd. 2.7%, and Avista Corp. 2.6%.

Mutual fund investing involves risk. Principal loss is possible.  
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