VALUE OPPORTUNITIES FUND

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MANAGER REVIEW & ECONOMIC OUTLOOK

JUNE 30, 2022

MARKET COMMENTARY

The Russell 3000 Index declined -16.7% in the second quarter of 2022. The Russell 3000 Value Index declined a more modest -12.4% while the Russell 3000 Growth Index declined -20.8%. All eleven Russell 3000 GICS sectors declined in the quarter.

Several economic developments in the quarter sparked fears of a recession. The war in Ukraine showed little signs of abating, the Consumer Price Index increased 8.6% year-over-year, and an increasingly hawkish Federal Open Market Committee raised the Fed Funds rate by 125 basis points via two hikes (from 0.5% to 1.75%). Real gross domestic product (GDP) for the quarter came in at -1.6% quarter-over-quarter. Looking forward, the Fed signaled further rate increases are probable to combat the highest inflation level in more than 40 years. The futures market implies that investors expect the Fed Funds rate to exceed 3% by year end with more rate hikes expected in 2023. Higher rates are generally bad for equities. It becomes more costly to borrow, increasing the cost of capital, which is the rate used to discount future cash flows. Higher rates impair long-duration equities disproportionately because most of the intrinsic value is derived from a terminal value estimate far into the future. In general, growth stocks are longer duration securities than value stocks. Unsurprisingly, value has outperformed growth in periods of elevated inflation and interest rates historically.

Value held up better than growth in the quarter. Energy, and the least economically sensitive sectors—health care, utilities, and consumer staples—each declined less than 8% in the quarter. All other sectors declined -15% or more, with consumer discretionary (-26%), technology (-21%) and communication services (-21%) the worst performers. The portfolio is more heavily weighted to economically sensitive areas of the market, with energy, financials, and industrials being our largest sector weights relative to the Russell 3000 Value. The stocks we own in these sectors generated attractive free cash flow and trade at large discounts to the market.

Despite value's recent outperformance, the valuation spread between growth and value remains wide because the spread at the period's outset was extreme. The Russell 3000 Value trades at 13x forward P/E (consensus FY1) compared to the Russell 3000 Growth at 20x. At both a forward and normal P/E of less than 9x, the portfolio trades at an even larger discount. We believe these large spreads and the macroeconomic backdrop should continue to benefit value relative to growth, which should be a conducive environment for our investment approach.

ATTRIBUTION – 2Q22

The Hotchkis & Wiley Value Opportunities Fund underperformed the Russell 3000 Value Index in the second quarter of 2022. Security selection and the overweight in communication services was the largest detractor from relative performance. The underweight in health care and security selection in energy and industrials also detracted. Security selection in financials and materials contributed positively to performance. The largest positive contributors to relative performance in the quarter were Points.com, Arrow Electronics, Hess, Shell, and Iracore International Holdings; the largest detractors were General Electric, F5 Inc., Warner Bros. Discovery, Seritage Growth Properties, and General Motors.

LARGEST NEW PURCHASES – 2Q22

Nielsen Holdings PLC is a global leader in marketing and analytical services for the advertising and media industry. At the end of 1Q22, Nielsen accepted an offer of $28/share from private equity consortium, Evergreen Coast Capital Corporation – valuing the company at approximately $16B including debt. Currently, shares trade for around $23 because Nielsen's largest shareholder initially announced that they intend to vote their blocking-stake against the deal. We believe this financially-focused owner is very likely to recognize the change in market reality over the past few weeks and will ultimately vote to approve the deal.

Twitter provides online social networking and microblogging services. The market is increasingly concerned that the deal to sell the company to Elon Musk will fail. While we recognize there is risk to the deal, we believe that the current price provides an attractive expected return when probability weighting the different potential outcomes.

Workday is a leader in cloud-based enterprise application software for back-office business functions including human capital management and financials. Back-office software is the least cloud-penetrated category of enterprise applications, which we believe gives Workday a long growth runway. Management believes subscription sales will likely grow ~20% for many years, which seems reasonable given Workday's <25% penetration in the Global 2000 and <10% penetration in medium enterprise globally. In addition to a strong growth outlook, Workday's formidable competitive advantages result in impressive unit economics that should support a robust mid-30s earnings before interest and taxes (EBIT) margin at maturity. Despite these quality characteristics, Workday's stock is down 45% YTD and trades for 16x normal EBIT. This is a compelling valuation for a company with premiere franchise potential.

Portfolio managers' opinions and data included in this commentary are as of June 30, 2022 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. 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. **Diversification does not assure a profit nor protect against loss in a declining market. Past performance is no guarantee of future results.**

Hotchkis & Wiley

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PERFORMANCE (%) as of June 30, 2022

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 12/31/02
Value Opportunities Fund – I Shares	-19.37	-17.24	-11.50	7.40	7.31	11.27	11.42
Russell 3000 Value	-12.41	-13.15	-7.46	6.82	7.01	10.39	8.75

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 0.94% 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.

The fund is non-diversified and may invest in foreign securities, junk bonds, derivatives, or small/mid cap 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. Specific securities identified are the largest contributors (or detractors) on a relative basis to the Russell 3000 Value Index. Securities' absolute performance may reflect different results. The Fund may not continue to hold the securities mentioned and the Advisor has no obligation to disclose purchases or sales of these securities. Attribution is an analysis of the portfolio's return relative to a selected benchmark, is calculated using daily holding information and does not reflect the payment of transaction costs, fees and expenses of the Fund.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services, LLC ("S&P") and is licensed for use by Hotchkis & Wiley ("H&W"). All rights reserved. Neither S&P nor MSCI is liable for any errors or delays in this report, or for any actions taken in reliance on any information contained herein. 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 GICS by MSCI and S&P.

The "Largest New Purchases" section includes the three largest new security positions during the quarter/year based on the security's quarter/year-end weight adjusted for its relative return contribution; does not include any security received as a result of a corporate action. If fewer than three new security positions during the quarter/year, all new security positions are included.

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 3000® Value Index includes stocks from the Russell 3000® Index with lower price-to-book ratios and lower expected growth rates. The Russell 3000® Growth Index includes companies that display signs of above average growth. The index is used to provide a gauge of the performance of growth stocks in the U.S. The indices do not reflect the payment of transaction costs, fees and expenses associated with an investment in the Fund. The Fund's value disciplines may prevent or restrict investment in major stocks in the benchmark indices. It is not possible to invest directly in an index. Top ten holdings as of 6/30/22 as a % of the Fund's net assets: Microsoft Corp. 7.6%, F5 Inc. 6.2%, General Electric Co. 6.2%, Goldman Sachs Group Inc. 4.3%, AMERCO 4.0%, General Motors Co. 3.9%, Range Resources Corp. 3.8%, Stagwell Inc. 3.4%, Alphabet Inc. 3.1%, and Rothschild & Co. 3.0%.

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. Earnings before interest and taxes (EBIT) is a measure of a company's profitability based on its core operations. 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. Normal Price/Earnings is the current market price per share divided by normalized earnings per share. Forward Price/Earnings (fiscal year) is the projected P/E ratios of the companies invested in the portfolio, which ratios represent current market price per share divided by a company's estimated future 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.**

Mutual fund investing involves risk. Principal loss is possible.
NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE
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