

MARKET COMMENTARY

The S&P 500 Index returned +8.9% in the third quarter of 2020 and is now in positive territory year-to-date (+5.6%). Two-thirds of S&P 500 companies beat consensus revenue expectations and 85% exceeded earnings expectations. Corporate America's strong showing helped allay worries about the prevalence of COVID-19 and Congress' stalemate over a new stimulus package. Meanwhile, the Fed continues to signal easy monetary policy for the foreseeable future, maintaining a subdued economic outlook. COVID-19 cases reaccelerated for the first time in months, but hospitalizations and deaths remained downward trending—there was a large jump in tests administered which could explain the mixed developments.

Growth outperformed value across geographies and across market capitalizations. Based on information from the Kenneth French/Dartmouth data library, value has underperformed growth over the last 10 years by the largest magnitude on record. Also, for the first time in the nearly 100-year old dataset, growth has outperformed value over a 20-year period. This has led to a colossal divergence in valuations. Apple, for example, is a very good business, with a great balance sheet, an iconic brand, and a loyal customer base. For *half* the price of Apple, however, you could buy *all* the banks in the S&P 500. The bank group (again, at half the price) generated more than twice the revenue and twice the earnings of Apple. For the price of Tesla, you could buy the next four largest global auto manufacturers and have money left over. Tesla generated revenue last year of \$25 billion and the other four autos generated revenue of \$743 billion; Tesla's earnings were negative while the other four autos generated \$38 billion in earnings. \$38 billion in *earnings* compared to \$25 billion in *revenue* seems like a better option at the same price, let alone a discount.

Perhaps more important to our client base than the value-growth dichotomy is the equally noteworthy divergence within value, both in terms of trailing performance and future opportunity. The strongest performers within value have been concentrated in market segments with low correlations to economic growth, like healthcare and consumer staples. The weakest performers within value have been concentrated in market segments where near-term forward earnings estimates have declined meaningfully, in some cases by 30% or more. Financials, energy, and cyclical industrials comprise a disproportionate share of these examples. The positions we have in these areas have underperformed, though we view the forthcoming earnings declines as temporary. A year or two of depressed earnings reduces our intrinsic value estimate, but this impairment of value is certainly not commensurate with actual share price declines. We concentrate the portfolio into companies with strong balance sheets that can withstand economic downturns. This steadfast risk aversion allows us to tolerate temporary earnings volatility and seek to take advantage when market values decline more than intrinsic values. We remain selective, however, and recognize that certain market segments and/or individual companies may not recover—we look to avoid businesses with uncertain long-term outlooks or insurmountable secular pressures.

Financials represent the portfolio's largest absolute weight; banks represent the portfolio's largest exposure within financials. Earnings estimates have declined due to the combination of increased loan loss provisions, a ban on share repurchases, slower asset growth, and lower interest rates. Accounting rules require banks to estimate loan losses upfront based on prevailing economic conditions. The substantial provisions taken during the first half of 2020 could end up being too high considering the severity of the economic outlook at the time. Banks' balance sheets were quite healthy entering 2020, as substantial capital had been built in the previous decade. The provisions already taken combined with the excess capital—not to mention the pre-provision income being generated—provides a meaningful cushion to absorb elevated credit losses. Further, banks' business models are less interest rate sensitive than generally believed. The large money center banks have diverse revenue streams, some of which have little/no interest rate sensitivity. For less-diversified banks, the net interest margin is more closely tied to the yield spread earned on loans than it is from the rate sensitive benefit they get from funding a portion of their earning assets with non-interest bearing liabilities. The banks' benefit of free funding dissipates as rates decline, but the yield spread on loans exhibits countercyclical traits (i.e. the yield spread often widens when rates decline as banks tighten lending standards). This has resulted in relatively stable net interest margins over the past decade despite persistently falling interest rates over that period.

The dichotomy between growth and value is significant and pervasive, but so too are the opportunities within value. The portfolio's valuation discount to the value benchmark is near record levels, reflecting our view that select opportunities are exceptionally attractive. The recent environment has not been conducive to our approach, but we are confident that patient investors could be rewarded by the rarely observed risk-adjusted potential of the current portfolio.

ATTRIBUTION – 3Q20

The Hotchkis & Wiley Value Opportunities Fund underperformed the Russell 3000 Value Index in the third quarter of 2020. The portfolio's value-focused approach hurt relative performance as the most deeply discounted stocks underperformed. For example, index stocks trading at a discount to book value lagged the overall index by about 10 percentage points in the quarter; the portfolio had more than one-third of the portfolio invested in such stocks compared to just 11 percent for the Russell 3000 Value. Security selection in consumer discretionary and financial detracted from performance along with the overweight exposure to energy. Positive security selection in technology, energy, and real estate helped. The largest detractors to relative performance in the quarter were General Electric, Tesla put options, AIG, Wells Fargo, and Vodafone; the largest positive contributors were Royal Mail, TE Connectivity, Whiting Petroleum bonds, News Corp, and Amerco.

(continued)

Portfolio managers' opinions and data included in this commentary are as of September 30, 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.**

VALUE OPPORTUNITIES FUND

HWAIX
HWAAX
HWACX
HWAZX

MANAGER REVIEW & ECONOMIC OUTLOOK

SEPTEMBER 30, 2020

LARGEST NEW PURCHASES – 3Q20

Heineken (HEIO NA) is the second-largest brewer in the world, led by the flagship brand Heineken, as well as Amstel, Tiger, and Tecate. The company's significant exposure to the fastest-growing emerging markets and premium brand gives it a long runway for growth ahead. Recently, beer volume has been under pressure due to the global pandemic's forced closure of bars and restaurants. This provided us the opportunity to invest in this premier franchise at a discount to intrinsic value. We believe the pandemic will subside, and recent cost-cutting initiatives will improve run rate margins in a normal operating environment.

PERFORMANCE (%) as of September 30, 2020

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 12/31/02
Value Opportunities Fund – I Shares	4.56	-18.43	-12.90	-1.38	4.58	10.31	10.33
Russell 3000 Value	5.42	-12.23	-5.67	2.11	7.43	9.75	8.16

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 0.97% 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.

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 "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.

Popular (BPOP) is the largest bank in Puerto Rico, with over \$50 billion in assets and a dominant 45% market share of loans and deposits in the US territory. Concerns that the fiscal challenges facing the government of Puerto Rico will require austerity, leading to further economic weakness as well as write-downs on P.R. municipal debt, have pressured Popular's stock. While the fiscal situation in Puerto Rico is suboptimal and will result in write-downs on BPOP's municipal exposure, actual direct exposure to the P.R. government and other local municipalities is relatively small when compared to BPOP's substantial excess capital and healthy ongoing capital generation. With its 45% market share in Puerto Rico, BPOP is a very well positioned and profitable bank, trading at a discount to its intrinsic value.

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 3000® Value Index includes stocks from the Russell 3000® Index with lower price-to-book ratios and lower expected growth rates. The S&P 500® Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. 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 9/30/20 as a % of the Fund's net assets: Microsoft Corp. 7.4%, General Electric Co. 7.2%, American Int'l Group Inc. 5.1%, Wells Fargo & Co. 4.6%, News Corp. 3.8%, Oracle Corp. 3.8%, Triple-S Management Corp. 3.6%, Anthem Inc. 3.6%, TE Connectivity Ltd. 3.6% and Bank of America Corp. 3.6%. Book value is the net asset value of a company, calculated by subtracting total liabilities from total assets.

Forward earnings is not representative of the Fund's future performance.

Mutual fund investing involves risk. Principal loss is possible.
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