

MARKET COMMENTARY

The S&P 500 Index returned a modest +0.6% in the third quarter of 2021. The index reached an all-time high in early September, up nearly +6% for the quarter, before declining throughout the remainder of the month. Economic developments over the quarter were mixed. US real GDP grew an impressive +6.7% in the most recent quarter (seasonally adjusted quarter-over-quarter). The positive momentum in labor markets slowed, however, as many businesses are contending with serious labor shortages. Business owners are hopeful that labor availability will improve due to the expiration of enhanced pandemic unemployment benefits in September, though higher wages and benefits appear likely. This fuels already-tight supply conditions and increases inflationary pressures. Inflation persisted above 5% (year-over-year), its highest level in well over a decade. The Fed voted to keep its target Fed Funds rate near zero until the economy approaches “maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.”¹ There have been some increasingly hawkish comments from Federal Open Market Committee (FOMC) members, with some suggesting that the economic recovery warrants tapering in the near term. The yield on the 10-year treasury note began and ended the quarter at about 1.5% but fell below 1.2% intra-quarter. Shorter and longer duration treasuries experienced similar moves during the quarter, i.e., there was little change to the yield curve.

Oil prices followed a curiously similar path to interest rates. WTI crude oil began the quarter at about \$73/barrel, then declined to nearly \$62/barrel intra-quarter, before reverting to \$75/barrel by quarter end. Through July and August, all S&P 500 sectors had positive returns except energy, which was down more than 10%. This reversed in September. All S&P 500 sectors declined during September except energy, which was up more than 9% as crude prices rose. For the entire quarter, energy was one of four sectors with a negative return, though it was modest decline (-1.6%). Financials performed best, as both insurers and banks outperformed. Industrials performed worst, as transportation/logistics and manufacturing business were disproportionately hurt by labor and supply shortages. Overall, Corporate America continues to perform well as 87% of S&P 500 companies surpassed consensus earnings expectations in the quarter.

Growth outperformed value modestly. The Russell 3000 Growth Index returned +0.7% while the Russell 3000 Value Index declined -0.9%. In the recent past, COVID-19 developments appear to have dictated which investing style outperformed—positive developments have favored value, negative developments growth. At the beginning of the quarter, there were about 12,000

to 15,000 new confirmed cases per day². As the Delta variant spread, this number increased to more than 150,000 by mid-September, before retreating to about 110,000 by quarter end. The performance difference between value and growth largely moved in tandem with COVID’s progression. At the peak of new cases in mid-September, growth led value by more than 5 percentage points quarter-to-date. This gap narrowed to less than 2 percentage points by September’s end, as new cases subsided. We continue to focus on fundamentals and valuation because that is what drives stock prices in the long run; however, we believe the blunting of the pandemic through improved inoculation, herd immunity, or both, could provide a welcomed catalyst for a prolonged value rally.

Dating back to 1926, the average value rally has lasted just shy of three years, with an average outperformance of 55 percentage points, cumulatively³. Some of the more powerful and long-lasting value rallies have persisted for 7 to 10 years, with value outperforming growth by well over 100 percentage points. The common trait among these most formidable value-led markets is that each came on the heels of a prolonged period of growth outperformance, and each began with wide valuation spreads. The similarities between today’s environment and the early stages of those strong value rallies are noticeable. Because the portfolio trades at a valuation discount to the Russell 3000 Value, we believe a value-led market would be highly conducive to our investment approach, even relative to the value benchmark. We continue to focus on companies that trade at significant discounts to intrinsic value, but also possess quality businesses, strong balance sheets, and prudent corporate governance.

ATTRIBUTION – 3Q21

The Hotchkis & Wiley Value Opportunities Fund outperformed the Russell 3000 Value Index in the third quarter of 2021 by a considerable margin. Positive security selection in healthcare was the largest contributor, as it was announced that the sizable position in Triple-S Management would be acquired at a significant premium to its pre-announcement market price. Positive security selection in energy, technology, and communication services also helped. Security selection in real estate and consumer discretionary detracted from performance. The largest positive contributors to relative performance in the quarter were Triple-S Management, Range Resources, Stagwell, F5 Networks, and AIG; the largest detractors were Royal Mail, NOV Inc., Discovery, Seritage Growth Properties, and Iracore International.

¹ <https://www.federalreserve.gov/monetarypolicy/files/monetary20210922a1.pdf>

² 7-day moving averages

³ Statistics in this paragraph reference data from the Kenneth French Dartmouth data library

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VALUE OPPORTUNITIES FUND

HWAIX
HWAAX
HWACX
HWAZX

MANAGER REVIEW & ECONOMIC OUTLOOK

SEPTEMBER 30, 2021

PERFORMANCE (%) as of September 30, 2021

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 12/31/02
Value Opportunities Fund – I Shares	2.38	28.72	66.24	11.52	14.36	15.93	12.77
Russell 3000 Value	-0.93	16.58	36.64	9.94	10.94	13.48	9.52

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.

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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, 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 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 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 9/30/21 as a % of the Fund's net assets: F5 Networks Inc. 8.6%, General Electric Co. 5.3%, Range Resources Corp. 5.3%, Berkshire Hathaway Inc. 4.5%, Microsoft Corp. 4.0%, NOV Inc. 3.9%, Alphabet Inc. 3.9%, Credit Suisse Group AG 3.7%, Wells Fargo & Co. 3.6% and Philip Morris Int'l 3.1%.

Book value is the value of a company's assets less all liabilities. Duration is a measure of the price sensitivity of a bond to interest rate movements. Yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. **Extraordinary performance is attributable in part due to unusually favorable market conditions and may not be repeated or consistently achieved in the future.**

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