INTERNATIONAL VALUE FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

HWNIX

DECEMBER 31, 2019

MARKET COMMENTARY

The uncertain path of Brexit was the major political story in Europe throughout the year, though the UK's Conservative party election victory removed a "worst case" economic scenario. For much of the year, the United States engaged in a trade war with China, its largest global trading partner. International equity markets largely shrugged off the tumultuous geopolitical landscape and the MSCI World ex-USA Index returned an impressive +22.5%; only one calendar year in the past decade has been better.

Multiple expansion explains essentially all of the market's performance as the MSCI World's forward P/E ratio (consensus estimates) increased from 12.7x to 15.7x during the year. The index now trades about 12% above its 15 year average P/E. Importantly, however, interest rates are considerably lower than they have been for most of that period. The 10-Year UK Gilt yield is 0.8% compared to its 20-year average of 3.3%; the 10-year German Bund yield is -0.2% compared to its 20-year average of 2.6%. The technology sector led the way, by a large margin, returning +40%, though most sectors delivered strong performance. Energy, communication services, and real estate were notable laggards.

For the third year in a row, the MSCI World ex-USA Growth Index outperformed the MSCI World ex-USA Value Index (+27.9% vs. +17.0%). International growth outperformed value in over the last 10 years with cumulative outperformance of more than 30% (+88% vs. +55%, or +6.5% vs. +4.1% annualized). Nearly all of this occurred in the last three years. The lopsided performance has resulted in a wider-than-normal valuation spread between growth and value. The historical average forward P/E for the MSCI World ex-USA Growth Index has been 4.6x above that of the MSCI World ex-USA Value Index. As of 12/31/19, the forward P/E for the growth and value indices were 22.5x and 12.0x, respectively, or a spread of 10.5x. This spread has not been wider since at least the mid 2000s (since we have reliable data). Using price-to-book instead of price-to-earnings, the current valuation gap is also the widest it has been since at least the mid 2000s. Investors' increasing preference for low stock price volatility explains at least a portion of the valuation gap's widening. This has caused a substantial divergence between certain industries with many non-cyclicals exhibit rich risk-adjusted valuations relative to their cyclical counterparts.

While the overall equity market appears fully valued compared to history, we believe the valuation disparities across the market create an investment environment highly conducive to long-term focused active management, particularly in relative terms. The spread between the growth and value indices is wide, suggesting a promising outlook for value. The spread between the portfolio and the value index is also wide, suggesting a promising outlook for the portfolio. The portfolio trades at 8.0x normal earnings compared to the MSCI World ex-USA at 14.6x normal earnings. The considerable valuation advantage combined with good underlying businesses and healthy balance sheets leaves us confident about the portfolio's prospects, particularly compared to passive alternatives.

ATTRIBUTION - 2019

The Hotchkis & Wiley International Value Fund underperformed the MSCI World ex-USA Index in 2019, though it outperformed the MSCI World ex-USA Value Index. Two stylistic headwinds explain all the underperformance relative to the broad benchmark. First, value lagged growth, so our value focused approach was a considerable headwind relative to the broad/core benchmark. Second, there was an unusually strong correlation between company size and performance, with larger market cap companies outperforming smaller market cap companies. MSCI World ex-USA stocks that began the year with a market cap under \$5 billion returned about -4% for the year, while stocks with a market cap over \$100 billion returned about +27%. The portfolio's average weight in the smaller cap group was 33% compared to 3% for the index, while the portfolio's average weight in the larger cap group was 10% compared to 20% for the index—the smaller cap bias was an insurmountable headwind during the year. From a sector perspective, stock selection in consumer discretionary, materials, and technology detracted from performance. Positive stock selection in financials and energy helped relative performance along with the overweight position in industrials. The largest detractors to relative performance in the year were Danieli, Embraer, Royal mail, Global Indemnity, and Frank's International; the largest positive contributors were WestJet Airlines, Ophir Energy, Hitachi, BAE Systems, and Taiwan Semiconductor.

LARGEST NEW PURCHASES - 2019

Bayer produces and markets healthcare and agricultural products. Its attractive valuation reflects a number of issues that concern investors, including a unique conglomerate structure, an unpopular Monsanto brand, high-profile glyphosate litigation, and a mixed capital allocation track record. We believe these concerns are reasonable but manageable, which creates an opportunity to purchase a portfolio of relatively high quality businesses at an inexpensive price. Bayer trades at an attractive multiple of normal earnings under reasonable forecasts and conservative asset value adjustments, and a sum-of-the-parts analysis leaves a healthy margin of safety. Bayer earns sustainably high margins and returns on its patent-protected pharma and agriculture businesses, has a generally shareholder friendly management team, generates healthy free cash flow, and offers diversification to the portfolio.

Hotchkis & Wiley

Siemens trades at a discount to the market and a significant discount to competitors but has an excellent balance sheet and well positioned businesses with good market shares. Shares have lagged the market due to fears of a German recession, earnings growth in a recession, and spin-offs that are taking longer than the market likes. Siemens is in the process of breaking apart its historic conglomerate structure where competitor businesses trade at significant premiums to Siemens's consolidated multiple. Overall, Siemens trades at an attractive multiple of current and normal earnings with a majority of businesses that earn high long-term returns on capital and shares have free optionality from the sale/spin of select businesses.

UniCredit is the largest bank headquartered in Italy. In addition to being the #2 Italian bank by market share, UniCredit also has significant banking operations in Germany, Austria and a number of Central and Eastern European countries. Shares in the bank have underperformed due to market concerns about the ongoing pressure on bank profitability from low rates and slow economic growth in Europe. As one of the largest banks in Italy, investment sentiment for UniCredit has also been negatively impacted by ongoing political instability and the resultant impact on Italian sovereign rates. Following a period of restructuring, the balance sheet is well capitalized, asset quality is improved, and profitability is recovering.

PERFORMANCE (%) as of December 31, 2019

	QTR	YTD	1 Yr	3 Yr	Since 12/31/15
International Value Fund – I Shares	10.85	19.96	19.96	4.83	6.38
MSCI World ex-USA	7.86	22.49	22.49	9.34	7.65
MSCI World ex-USA Value	7.56	17.02	17.02	6.36	6.62

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 5.93% for I Shares; 0.95% net expense ratio. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 29, 2020. 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 may invest in foreign and emerging markets securities. Please read the fund prospectus for a full list of fund risks.

Investing in value stocks presents the risk that value stocks may fall out of favor with investors and underperform other asset types during a given period. 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 MSCI World ex-USA 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.

The MSCI World ex-USA Index is a free float-adjusted weighted index capturing large and mid cap representation across 22 of 23 Developed Markets (DM) countries, excluding the United States. The MSCI World ex-USA Value Index is a free float-adjusted weighted index capturing large and mid cap representation, exhibiting overall value style characteristics, across 22 of 23 Developed Markets (DM) countries, excluding the United States. 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. Price/Normal Earnings is the current market price per share divided by normalized earnings per share. Book value is the net asset value of a company, calculated by subtracting total liabilities from total assets. Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument. Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. Dividend yield is the ratio of a company's annual dividend compared to its share price. Top ten holdings as of 12/31/19 as a % of the Fund's net assets: CNH Industrial NV 4.0%, BAE Systems PLC 3.9%, Tokio Marine Hldgs Inc. 3.9%, Royal Mail PLC 3.2%, Embraer SA 3.2%, Enstar Group Ltd. 3.1%, Magna Int'l Inc. 2.9%, Societe Generale SA 2.9%, Frank's Int'l 2.8% and Vodafone Group PLC 2.6%.