CAPITAL INCOME FUND

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MANAGER REVIEW & ECONOMIC OUTLOOK

DECEMBER 31, 2019

INVESTMENT STRATEGY

The Hotchkis & Wiley Capital Income Fund invests in both value equity securities and high yielding fixed income securities with an emphasis on income generation. The long-term allocation target between value equities and high yielding fixed income securities is 50/50. The portfolio has two benchmarks, the S&P 500 Index ("the equity benchmark") and the ICE BofAML US Corporate, Government & Mortgage Index ("the fixed income benchmark"). These benchmarks are averaged, using the portfolio's long-term allocation targets, to produce a "50/50 blended benchmark" to help assess performance.

MARKET COMMENTARY

The S&P 500 Index returned an impressive +31.5% in 2019. There have been only 16 calendar years since 1926 that have been better. The ICE BofAML US High Yield Index also did well, returning +14.4% in 2019. The economy was strong with real GDP modestly positive, inflation range-bound around 2%, and unemployment at a 50-year low. These economic factors proved more consequential to the market than the contentious political environment which included a trade war between the US and China and a vote along party lines in the House of Representatives to impeach the President.

The S&P 500's forward P/E ratio went from 15.4x at the beginning of the year to 19.8x at the end of the year; the 28% multiple expansion explains nearly all of the market's performance. The market's average P/E over the past 30 years is 17.1x, so it went from about 10% below average to about 15% above average over the course of the year. Importantly, however, interest rates are considerably lower than they have been for most of that period—the 10-year treasury yield is just 1.9% compared to its 30-year average of 4.4%. Technology was the top-performing sector by a large margin, returning +50% over the 12 months. Energy was the worst-performing sector for the third year in a row, returning +12%. All other S&P 500 sectors returned between +20% and +33%.

For the third year in a row, the Russell 3000 Growth Index outperformed the Russell 3000 Value Index (+35.8% vs. 26.3%). Growth outperformed value in 7 of the last 10 calendar years with cumulative outperformance of +306% vs. +203%, or +15.0% vs. +11.7% annualized; nearly all of which occurred in the last three years. The lopsided performance has resulted in a wider-than-normal valuation spread between growth and value. Over the past 25 years, the average forward P/E for the Russell 3000 Growth has been 21.1x compared to 15.9x for the Russell 3000 Value, which represents an average valuation spread of 5.2x. As of 12/31/19, the forward P/E for the growth and value indices were 26.6x and 16.9x, respectively, or a spread of 9.7x. This valuation gap has only been wider 7% of the time, all of which came during the tech/internet bubble from 1999 to 2001. Using price-to-book instead of price-to-earnings, the current valuation gap has been exceeded only 3% of the time historically, with the tech/internet bubble again representing the lone exception.

Yields for the broad high yield market fell by 2.44% and spreads narrowed by 173 basis points. At year end, the yield-to-worst for the ICE BofAML US High Yield Index was 5.41%, which represented a spread over treasuries of 360 basis points. Yields and spreads declined less for lower rated issues than for higher rated issues, widening the valuation gap. Yields and spreads also declined less for large cap credits than for small/mid caps, further extending small/mid caps' yield/spread advantage. The high yield market's default rate, including distressed exchanges, was 2.86% in 2019, an increase of about one percentage point from 2018 but below the long-term average of 3.44%. The default rate would have been just 1.26% without the energy and metals & mining sectors, which comprised about half of all 2019 defaults by volume. The default rate for the energy sector was about 11% in 2019, by far the highest among all sectors. Unsurprisingly, energy was the worst-performing high yield sector by a large margin.

Overall, both equity and high yield valuations appear about average considering the risks at hand. There seems to be a wide valuation dispersion within both markets, which we believe provides a conducive environment for active, bottom-up research. The research has facilitated a portfolio with a considerable valuation/spread advantage relative to the market, in part due to our proclivity for small/mid cap equities and credits. Accordingly, we remain optimistic about the portfolio's prospects and look forward to 2020.

ATTRIBUTION AND MANAGEMENT DISCUSSION – 2019

The Hotchkis & Wiley Capital Income Fund underperformed the 50/50 blended benchmark in 2019. The average equity weight was 56% and the average high yield bond weight was 44% over the course of the quarter. The equity overweight helped relative performance effect as equities outperformed bonds performed in the year.

The equity portion of the portfolio underperformed the S&P 500 Index during the year. Value underperformed growth substantially, which hurt our value focused approach relative to the core benchmark. Smaller cap stocks underperformed larger cap stocks significantly, which was another stylistic headwind for the equity portion of the portfolio. From a sector perspective, stock selection in energy, technology, real estate, and communication services hurt relative performance.

Portfolio managers' opinions and data included in this commentary are as of 12/31/19 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. **Past performance is no guarantee of future results. Diversification does not assure a profit nor protect against loss in a declining market.**

Hotchkis & Wiley

Positive stock selection in financials, industrials, healthcare, and staples helped relative performance. The largest individual detractors to relative performance in the year were Whiting Petroleum, Danieli, GEO Group, Motors Liquidation Trust, and Royal mail; the largest positive contributors were WestJet Airlines, General Electric, Ophir Energy, Fifth Street Asset Management and Citigroup.

The high yield bond portion of the portfolio underperformed the ICE BofAML US Corporate, Government & Mortgage Index and the ICE BofAML US High Yield Index. Relative to the high yield index, the overweight position in small and mid cap credits hurt performance as larger cap credits outperformed considerably. The overweight position and credit selection in energy was a major detractor in the year, while credit selection in basic industry and consumer goods also hurt. Positive credit selection in healthcare, leisure, and capital goods helped relative performance.

PERFORMANCE (%) as of December 31, 2019

	QTR	YTD	1 Yr	3 Yr	5 Yr	Since 12/31/10
Capital Income Fund – Class I	5.87	16.26	16.26	4.54	4.96	8.36
S&P 500	9.07	31.49	31.49	15.27	11.70	13.39
ICE BofAML US Corp/Gov't/Mtg	0.11	8.96	8.96	4.14	3.11	3.51
ICE BofAML U.S. High Yield	2.61	14.41	14.41	6.32	6.13	6.67
50/50 Blend S&P & ICE BofAML C/G/M	4.53	20.03	20.03	9.80	7.55	8.56

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 Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 29, 2020 so the net expense ratio does not exceed 0.80% for I Shares. Over the past 12 months, the Fund invested in business development companies, which produced acquired fund fees and expenses ("AFFE") of 0.01%. The reported net expense ratio is the expense ratio cap plus AFFE, or 0.81% for I Shares. Net expense ratios were applicable to investors. The Fund's total annual operating gross expense ratio as of the most current prospectus is 1.34% for I Shares.

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.

Investments in debt securities involve credit risk and typically decrease in value when interest rates rise. Investments in lower rated and nonrated securities involve greater risk. The fund may invest in derivatives, asset backed and mortgage backed securities, and foreign securities. Please read the fund prospectus for a full list of fund risks.

Investing in high yield securities is subject to certain risks, including market, credit, liquidity, issuer, interest-rate, inflation, and derivatives risks Lower-rated and non-rated securities involve greater risk than higher-rated securities. 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 S&P 500 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 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 ICE BofAML US Corporate, Government & Mortgage Index is a broad-based measure of the total rate of return performance of the US investment grade bond markets. The Index is a capitalization weighted aggregation of outstanding US treasury, agency and supranational, mortgage pass-through, and investment grade corporate bonds meeting specified selection criteria. The ICE BofAML US High Yield Index tracks the performance of below investment grade, but not in default, US dollar-denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. 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 50/50 benchmark is an average, equal weighted blend of the S&P 500® Index and ICE BofAML US Corporate, Government & Mortgage Index. 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-to-Earnings (P/E) is calculated by dividing the current price of a stock by the company's trailing 12 months' earnings per share. Price-to-Book is the price of a stock divided by its book value. Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument. Yield-to-Worst is the lowest possible yield from owning a bond considering all potential call dates prior to maturity. Top ten equity holdings as of 12/31/19 as a % of the Fund's net assets: General Electric Co. 2.7%, American Int'l Group Inc. 2.4%, Wells Fargo & Co. 2.3%, Goldman Sachs Group Inc. 2.0%, Seritage Growth Properties 1.9%, Horsehead Holding Corp. 1.8%, Royal Mail PLC 1.8%, Office Depot Inc. 1.8%, BAE Systems PLC 1.8% and Magna Int'l Inc. 1.7%.

Mutual fund investing involves risk. Principal loss is possible.
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