HIGH YIELD FUND

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MANAGER REVIEW & ECONOMIC OUTLOOK

DECEMBER 31, 2019

MARKET COMMENTARY

For much of calendar year 2019, the United States engaged in a trade war with its largest global trading partner. Near the end of the year, the House of Representatives impeached the President for just the third time in history. High yield credit markets seemed to shrug off the tumultuous political landscape. After posting a negative return in calendar year 2018 (-2.3%), the ICE BofAML US High Yield Index returned +14.4% in 2019. The economy has been supportive with real GDP modestly positive, inflation range-bound around 2%, and unemployment at a 50-year low. Higher rated credits outperformed lower rated credits, large credits outperformed small/mid credits, and the energy sector was a notable laggard.

The Federal Open Market Committee lowered the Fed Funds target rate by 75 basis points in 2019 via three separate 25 basis point rate cuts during the second half of the year, which decreased the important benchmark rate from 2.50% to 1.75%. Despite a slight and brief inversion of the 10/2 year yield curve in August, short term treasury yields fell more than long term yields over the course of the year, actually steepening the yield curve ever so slightly. 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 small/mid cap credits than for large 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, returning +5.6% in 2019—all other sectors returned between +13% and +22%.

Total new issuance in 2019 was $277 billion. This represents a 48% increase from 2018's sluggish pace but remains lower than recent history (excluding 2018). More than two-thirds of all issuance was used for refinancing with just 20% earmarked for acquisition financing. Only 6% of new issuance was CCC-rated, which is well below the 16% historical average—60% of this low rated issuance in 2019 was used for refinancing. The primary market continues to exhibit a level of conservatism/discipline that we favor. Nonetheless, rating agencies have become increasingly cautious as downgrades have outpaced upgrades. In 2019, $316 billion (par) worth of high yield bonds were updated compared to $395 billion that were downgraded—the most lopsided in that direction in three years.

Overall, high yield valuations appear about average considering the risks at hand. There seems to be a wide valuation dispersion within the market, which we believe provides a conducive environment for active, bottom-up credit research. The research has facilitated a portfolio with a considerable spread advantage relative to the market, in part due to our proclivity for small/mid cap credits where spreads widened in 2019 relative to large cap credits. Accordingly, we remain optimistic about the portfolio's prospects and look forward to 2020.

ATTRIBUTION - 2019

The Hotchkis & Wiley High Yield Fund underperformed the ICE BofAML US High Yield Index and ICE BofAML BB-B US High Yield Constrained Index in 2019. Credit selection in energy was the largest detractor to relative performance in the period, accounting for roughly half of the underperformance. Exposure in exploration & production as well as oil services credits hurt performance. The portfolio's penchant for small and mid cap credits worked against it during the year as large credits outperformed small/mid credits by a considerable margin. The portfolio's small/mid cap bias explains a little more than one-third of the underperformance in the year. Higher rated credits are more rate sensitive (i.e. higher duration) and outperformed as interest rates declined. Positive credit selection in capital goods, leisure, automotive, and technology sectors helped relative performance.

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OUTLOOK (SCORING SCALE: 1=VERY NEGATIVE...5=VERY POSITIVE)

Fundamentals (2)
No change. Growth remains slow but leverage remains flat. The default rate has been ticking up modestly but remains below average. Earnings have weakened somewhat and the trade dispute injects volatility into the market.

Technicals (3)
No change. Net flows remain decent. There is strong call and tender activity across the market. Market liquidity favors higher quality and larger issues.

Valuation (3)
Wide valuation dispersion creates opportunities for active managers, which is conducive for our investment style. Yields are below average but the low default environment results in excess spreads that are average. Spreads are average considering the low rate environment and benign defaults. The higher quality/duration trade is crowded.

PERFORMANCE (%) as of December 31, 2019

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 3/31/09
High Yield Fund – I Shares	2.28	9.57	9.57	4.63	4.93	7.22	9.57
ICE BofAML BB-B US HY Constrained	2.58	15.10	15.10	6.45	6.11	7.40	10.06
ICE BofAML U.S. High Yield	2.61	14.41	14.41	6.32	6.13	7.50	11.06

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 0.74% for I Shares; 0.70% 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.

Investments in debt securities involve credit risk and typically decrease in value when interest rates rise. Investments in lower rated and non rated 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. High yield bonds and other asset classes have different risk-return profiles, which should be considered when investing. All investments contain risk and may lose value. Attribution is an analysis of the portfolio's return relative to a selected benchmark, is calculated using trade information and does not reflect the payment of transaction costs, fees and expenses of the Fund.

Credit quality weights by rating were derived from the highest bond rating as determined by S&P, Moody's or Fitch. Bond ratings are grades given to bonds that indicate their credit quality as determined by private independent rating services such as Standard & Poor's, Moody's and Fitch. These firms evaluate a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. In limited situations when none of the three rating agencies have issued a formal rating, the Advisor will classify the security as nonrated.

The ICE BofAML BB-B US High Yield Constrained Index contains all securities in the ICE BofAML US High Yield Index rated BB+ through B- by S&P (or equivalent as rated by Moody's or Fitch), but caps issuer exposure at 2%. Index constituents are capitalization weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. 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 indices do not reflect the payment of transaction costs, fees and expenses associated with an investment in the Fund. It is not possible to invest directly in an index.

The ICE BofAML index data referenced is the property of ICE Data Indices, LLC ("ICE BofAML") and/or its licensors and has been licensed for use by Hotchkis & Wiley. ICE BofAML and its licensors accept no liability in connection with its use. See www.hwcm.com/definitions for full disclaimer.

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. Spread is the percentage point difference between yields of various classes of bonds compared to treasury bonds.