DIVERSIFIED VALUE FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

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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. US equity markets shrugged off the tumultuous political environment and the S&P 500 Index returned an impressive +31.5%; there have been only 16 calendar years since 1926 that have been better. The economy has been supportive with real GDP modestly positive, inflation range-bound around 2%, and unemployment at a 50-year low.

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 1000 Growth Index outperformed the Russell 1000 Value Index (+36.4% vs. 26.5%). Growth outperformed value in 7 of the last 10 calendar years with cumulative outperformance of more than 100% (+312% vs. +205%, or +15.2% vs. +11.8% 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 1000 Growth has been 20.2x compared to 15.0x for the Russell 1000 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 25.6x and 16.6x, respectively, or a spread of 9.0x. 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 1% of the time historically, with the tech/internet bubble again representing the lone exception.

Investors' increasing preference for low stock price volatility explains at least a portion of the valuation gap's widening. The S&P 500 Low Volatility Index is composed of the 100 index stocks that exhibited the lowest volatility in the previous 12 months (i.e. the least volatile quintile of the S&P 500). Over the last decade, the low volatility index's forward P/E averaged about 1.0x multiple points higher than the broad index (18.8x vs. 17.8x). The average premium over the first 8 years was 0.4x multiple points, however, while the average premium over the last 2 years was 3.1x multiple points (the spread as of 12/31/19 was also 3.1x). This has caused a substantial divergence between certain industries whereby many non-cyclicals exhibit rich risk-adjusted valuations relative to their cyclical counterparts. As an example, the forward P/E ratio for S&P 500 Utilities Index has risen by more than 60% over the last decade; the forward P/E ratio for S&P 500 Banks Index has fallen by 5% over the same period. We have nothing against utilities, consumer staples, or REITs, other than the seemingly high prices currently required to purchase them.

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 8.9x normal earnings (historical average of 9.1x) compared to the Russell 1000 Value at 15.4x (historical average of 13.4x) and the Russell 1000 Growth at 26.6x (historical average of 19.5x). The considerable valuation advantage combined with good underlying businesses and healthy balance sheets leaves us confident about the portfolio's prospects.

ATTRIBUTION - 2019

The Hotchkis & Wiley Diversified Value Fund outperformed the Russell 1000 Value Index in 2019. Positive stock selection across a broad array of sectors caused the outperformance in the year; stock selection in financials, healthcare, utilities, and energy each contributed in a meaningful way. The overweight exposure to technology and the underweight exposure to healthcare also helped. Negative stock selection in technology, communication services, and consumer discretionary along with the overweight position in energy were the largest performance detractors in the year. The largest positive contributors to relative performance over the year were Microsoft, Hess, General Electric, Citigroup, and AIG; the largest detractors were Marathon Oil, Corning, Apache, Goodyear Tire, and Vodafone.

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.**

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LARGEST NEW PURCHASES - 2019

Alphabet is the parent of Google, which dominates many of the most important services Internet users rely on. Current valuation is near the market multiple in spite of better growth prospects, an overcapitalized balance sheet, and significant options in Cloud services and new advertising.

FedEx delivers packages and freight globally to more than 99% of the world's GDP, including 220 countries and every address in the United States. A mix shift toward business-to-consumer packages is pressuring margins in its Ground business, while global trade tensions and softening industrial production are pressuring international express pricing and volumes. This has led to FedEx trading down to compelling valuation levels and, in our opinion, creating an attractive entry point for a strong business with sustainable competitive advantages.

Fluor Corp. is one of the largest E&C companies in the world, with global scale in engineering, construction, and fabrication. More than half of its normal revenue is in the relatively cyclical Energy, Chemicals, & Mining (ECM) segment, while ~30% of normal revenue is from the stable Government and Services businesses. Fluor is a high-quality professional services company with a medium-risk business model that grew with no reinvested capital in an industry with few threats of disruption. Valuation is good on cyclically depressed earnings that should improve with spending cycles in Oil & Gas and mining. We believe volatility from recent projects' execution has depressed current margins and created an attractive entry point.

PERFORMANCE (%) as of December 31, 2019

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 8/30/04
Diversified Value Fund – I Shares	9.06	29.26	29.26	9.27	7.58	11.60	7.33
Russell 1000 Value	7.41	26.54	26.54	9.68	8.29	11.80	8.31

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 0.98% for I Shares; 0.80% 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 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 Russell 1000 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.

The Russell 1000® Value Index measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 1000® Growth Index measures the performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. 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 S&P 500® Utilities Index comprises those companies included in the S&P 500 that are classified as members of the GICS® (Global Industry Classification Standard) utilities sector. The S&P 500® Banks Index comprises those companies included in the S&P 500 that are classified as members at the industry level of the GICS® financials sector. 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. Top ten holdings as of 12/31/19 as a % of the Fund's net assets: General Electric 4.9%, Wells Fargo & Co. 4.5%, American Int'l Group 4.3%, Microsoft Corp. 3.9%, Citigroup 3.4%, Oracle Corp. 3.0%, Goldman Sachs Group 2.9%, General Motors 2.7%, Corning Inc. 2.2% and PPL Corp. 2.2%.

Mutual fund investing involves risk. Principal loss is possible.
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