MID-CAP VALUE FUND

HWMIX
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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. 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 Russell Midcap Index performed similarly, returning +30.5%. The economy has been supportive with real GDP modestly positive, inflation range-bound around 2%, and unemployment at a 50-year low.

The Russell Midcap's forward P/E ratio went from 15.9x at the beginning of the year to 20.7x at the end of the year; the 30% multiple expansion explains nearly all of the market's performance. The mid cap market's average P/E over the past 25 years is 17.4x, so it went from about 9% below average to about 19% 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, returning +44% over the 12 months. Energy was the worst-performing mid cap sector for the third year in a row, returning +8%. All other mid cap sectors returned between +22% and +37%.

For the third consecutive year, the Russell Midcap Growth Index outperformed the Russell Midcap Value Index (+35.5% vs. 27.1%). Mid cap growth outperformed value over the last decade by more than 50% (+278% vs. +222%, or +14.2% vs. +12.4% 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 20 years, the average forward P/E for the Russell Midcap Growth has been 21.7x compared to 16.7x for the Russell Midcap Value, which represents an average valuation spread of 5.0x. As of 12/31/19, the forward P/E for the growth and value indices were 28.3x and 17.5x, respectively, or a spread of 10.8x. This valuation gap has only been wider 8% of the time, all of which came during the tech/internet bubble. Using price-to-book instead of price-to-earnings, the current valuation gap has been exceeded only 6% 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. 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 utilities has risen by more than 60% over the last decade; the forward P/E ratio for banks 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 5.6x normal earnings (historical average of 7.5x) compared to the Russell Midcap Value at 16.2x (historical average of 14.0x) and the Russell Midcap Growth at 27.1x (historical average of 21.1x). 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 Mid-Cap Value Fund underperformed the Russell Midcap Value Index in 2019. Over the course of the year, there was an unusually strong correlation between company size and performance within the mid cap market, as larger market cap companies outperformed smaller market cap companies. This had a large negative effect on relative performance. For example, Russell Midcap Value stocks that began the year with a market cap over $20 billion returned more than +40% while stocks that began the year with a market cap under $5 billion returned +3%. The portfolio's average weight in the larger cap group was 12% compared to 29% for the index, while the portfolio's average weight in the smaller group was 52% compared to 11% for the index—the smaller cap bias was an insurmountable headwind during the year. The overweight position and stock selection in energy, along with stock selection in industrials and technology also detracted from performance. The overweight and positive stock selection in financials helped relative performance. The largest detractors to relative performance were Whiting Petroleum, Mallinckrodt, Superior Energy Services, McDermott, and C&J Energy Services; the largest positive contributors were Ophir Energy, NexTier Oilfield Solutions, Bed Bath & Beyond, Citizens Financial, and Cairn Energy.

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LARGEST NEW PURCHASES - 2019

Arrow Electronics is one of the largest global distributors of electronic components and enterprise computing solutions to industrial and commercial customers, operating in a two or three player market in many parts of the world. The stock sold after management provided earnings per share guidance below consensus expectations, creating a compelling valuation. Longer-term, Arrow's positioning as a value-added distributor serves as a competitive differentiator.

Fluor Corp. is one of the largest engineering & construction 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.

Vistra Energy is a large integrated retail and power generation company with a portfolio of power generation plants paired with a competitive retail business. Vistra is favorably exposed to the Texas retail markets, operating the largest retail business in the state. The company plans to reduce debt in the next couple years combined with share repurchases of $500MM annually. In our opinion, the company is attractively valued.

PERFORMANCE (%) as of December 31, 2019

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 1/2/97
Mid-Cap Value Fund – I Shares	8.69	12.92	12.92	-0.59	0.78	10.35	10.73
Russell Midcap Value	6.36	27.06	27.06	8.10	7.62	12.41	10.30

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 1.03% for I Shares. 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.

Investing in small and medium-sized companies involves greater risks than those associated with investing in large company stocks. 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 Midcap 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 Midcap® Index, an unmanaged index, measures the performance of the 800 smallest companies in the Russell 1000® Index. The Russell Midcap® Value Index measures the performance of those Russell Midcap® companies with lower price-to-book value ratios and lower forecasted growth values. The Russell Midcap® Growth Index measures the performance of those Russell Midcap® 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 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.

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: Cairn Energy PLC 4.6%, Citizens Financial Group Inc. 4.2%, Kosmos Energy Ltd. 4.2%, Popular Inc. 3.5%, Goodyear Tire & Rubber 3.4%, CNO Financial Group Inc. 3.2%, CIT Group Inc. 2.9%, Royal Mail PLC 2.9%, Embraer SA 2.8% and Office Depot Inc. 2.6%.