SMALL CAP VALUE FUND

HWSIX
HWSAX
HWSCX
HWSZX

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. Small caps were slightly less heroic, as the Russell 2000 Index returned a respectable +25.5%. The economy has been supportive with real GDP modestly positive, inflation range-bound around 2%, and unemployment at a 50-year low.

Technology was the top-performing sector by a large margin, returning more than +40% over the 12 months. Energy was the worst-performing sector for the third year in a row, returning -7%. All other Russell 2000 sectors returned between +15% and +30%. Over the past 3 years, energy was the index's worst-performing sector, returning -54% compared to the overall index return of +28%, cumulatively. The second-worst performing sector returned +7% (materials).

For the third consecutive year, the Russell 2000 Growth Index outperformed the Russell 2000 Value Index (+28.4% vs. 22.4%). Small cap growth outperformed small cap value in 8 of the last 10 calendar years with cumulative outperformance of more than 60% (+239% vs. +173%, or +13.0% vs. +10.6% 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 decade, the average price-to-normal earnings ratio for the Russell 2000 Growth has been 21.4x compared to 13.9x for the Russell 2000 Value, which represents an average valuation spread of 7.5x. As of 12/31/19, the price-to-normal earnings ratio for the small cap growth and value indices were 23.0x and 13.6x, respectively, or a spread of 9.4x. This valuation gap has only been wider 1% of the time over the last decade.

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 small cap utilities has more than doubled over the last decade while the forward P/E ratio for small cap banks has declined by 20%. 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 7.0x normal earnings (10 year average of 8.0x) compared to the Russell 2000 Value at 13.6x (10 year average of 13.9x) and the Russell 2000 Growth at 23.0x (10 year average of 21.4x). 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 Small Cap Value Fund underperformed the Russell 2000 Value Index in 2019. Value lagged growth, and the portfolio exhibits valuation characteristics at a discount to the value index—this was a stylistic headwind and hurt relative performance in the year. To illustrate the strength of this headwind, consider that Russell 2000 Value stocks that began the year with a price-to-book ratio of less than 1.0x had a negative return for the year despite the overall index return of +22%. While heavily discounted stocks in the portfolio outperformed similar stocks in the benchmark, by a wide margin, the portfolio's average exposure to this cohort was 26% compared to 14% for the index—an insurmountable hurdle. The overweight position and stock selection in energy also detracted from performance. Positive stock selection in consumer discretionary, healthcare, and financials helped relative performance in the year. The under-weight positions in communication services and consumer staples were modestly helpful. The largest individual detractors to relative performance were Whiting Petroleum, Embraer, C&J Energy Services, Resideo Technologies, and Global Indemnity; the largest positive contributors were Sonic Automotive, WestJet Airlines, Masonite International, KBR, and Hanger.

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PERFORMANCE (%) as of December 31, 2019

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 9/20/85
Small Cap Value Fund – I Shares	8.67	20.40	20.40	3.35	3.85	11.97	11.06
Russell 2000 Value	8.49	22.39	22.39	4.77	6.99	10.56	n/a

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 1.04% 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 smaller and/or newer companies involves greater risks than those associated with investing in larger companies. 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. Attribution is an analysis of the portfolio's return relative to a selected benchmark, is calculated using daily holdings information and does not reflect the payment of transaction costs, fees and expenses of the Fund.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Russell 2000® Value Index measures the performance of those Russell 2000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000® Growth Index measures the performance of those Russell 2000® Index companies 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-Normal Earnings is the current market price per share divided by normalized earnings per share. 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. Top ten holdings as of 12/31/19 as a % of the Fund's net assets: Enstar Group Ltd. 6.0%, Seritage Growth Properties 5.5%, Bank of NT Butterfield & Son 4.7%, First Hawaiian Inc. 4.5%, Popular Inc. 4.3%, Arrow Electronics Inc. 3.4%, Hanger Inc. 3.3%, Office Depot Inc. 3.3% and Frank's International 3.2%, and Evercore Inc. 3.0%.