DIVERSIFIED VALUE FUND

MANAGER REVIEW & ECONOMIC OUTLOOK

HWCIX
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MARCH 31, 2020

MARKET COMMENTARY

The S&P 500 Index declined -20% in the first quarter of 2020 as investors contemplated the economic impact of the COVID-19 pandemic. Shelter-in-place orders, travel bans, layoffs, etc. will have material and widespread effects on global economic activity. In an attempt to combat these effects, governments have taken swift and unprecedented action. Monetary policy responses included the Federal Reserve cutting its Fed Funds rate to near zero and injecting massive amounts of liquidity into an array of government, corporate, and money market credit facilities. Fiscal policy responses included a $2.2 trillion package intended to stimulate the economy, and to provide relief for companies and individuals most affected by the economic consequences of the pandemic. As equities sold off, treasuries rallied—the yield on the 10-year Treasury note declined from 1.9% at the beginning of the year to less than 0.7% at the end of the quarter, reaching an all-time low of 0.5% in early March.

All S&P 500 sectors declined by double digits. Technology, healthcare, consumer staples, and utilities declined the least while energy, financials, and industrials declined the most. Energy was the largest laggard, with the sector falling -50% in the three-month period. Government-imposed efforts to mitigate the COVID-19 pandemic, particularly travel/transportation bans, have decreased the global demand for oil. Meanwhile, negotiations between Saudi Arabia and Russia designed to limit oil production reached an impasse. Increased supply of oil, which coupled with the aforementioned decreased demand, sent West Texas Intermediate (WTI) oil prices plummeting -66%, closing the quarter at close to $20/barrel. Financials was the second worst-performing sector, declining -32%. Banks declined disproportionately, falling more than -40% as interest rates collapsed and investors became concerned with the potential for increased credit defaults.

In light of both the prevailing and potential adverse economic developments of the quarter, we stress-tested the liquidity and cost structure of every holding in our portfolio—essentially an in depth evaluation of both financial and operating leverage. The first objective was to evaluate each business' ability to survive an economic downturn more severe than what seemed conceivable just a few weeks ago. The second objective was to reevaluate weight changes that would result in an improved risk/return profile for the overall portfolio. While the cyclical tilt in portfolio holdings has hurt near-term earnings prospects, it is still, in our judgment, far too costly to shift to non-cyclical sectors given historic disparities in valuation. Fortunately, more than 97% of the portfolio has investment grade balance sheets going into a period of recession. These companies will survive a difficult economy in the weeks and months ahead, and their stock price declines have created enormous opportunity. We have gradually and modestly increased turnover during this quarter, emphasizing high quality companies at extremely attractive prices.

The Russell 1000 Growth Index trades at 17.8x consensus earnings and 6.5x book value, which are above historical averages (17.5x and 5.1x, respectively). The Russell 1000 Value Index, however, trades at 11.3x consensus earnings (FY2) and 1.5x book value, both of which fall in the lowest quintile of its own history (i.e. the index traded at higher multiples more than 80% of the time). Historically, when the Russell 1000 Value Index's valuation falls into the lowest quintile, as it does today, its subsequent 3-year annualized return has averaged +13 to +15% compared to +9.0% over all periods. The portfolio trades at 5.6x normal earnings, 8.1x consensus earnings (FY2), and 0.96x book value, which not only falls in the lowest quintile of its own history but close to all-time lows. Therefore, despite the value index trading at valuations well below average, the portfolio's valuation relative to the index is at/near an all-time discount. Historically, when the portfolio's valuation discount to the market falls into the lowest quintile, it has outperformed the index by a considerable margin in the subsequent three years. So while the portfolio is composed of companies with business models and balance sheets, which we believe are able to withstand a draconian environment, the valuation potential is highly compelling in both absolute and relative terms.

A stable investment team is an irreplaceable luxury during challenging periods. We have not encountered a global pandemic the likes of which we face today, but we have certainly encountered challenging environments before. While we do not discount the human toll the virus has taken, our clients have charged our team with managing their assets through various investment environments. We take that responsibility in earnest. We speak to experts daily and read research constantly to try and understand COVID-19's potential ramifications on the economy, capital markets, and most importantly, the portfolio. Despite the unusually opaque nature of today's environment, we are confident that the current portfolio can exceed client expectations in the long-term notwithstanding economic activity or market direction in the near-term.

ATTRIBUTION – 1Q20

The Hotchkis & Wiley Diversified Value Fund underperformed the Russell 1000 Value Index in the first quarter of 2020. Two stylistic factors combined to detract from performance in a major way: size and valuation. Mega cap stocks held up better than other areas of the market. The portfolio's average weight to stocks over $200 billion in market cap was 11% compared to 25% for the index; the lack of exposure to this market segment detracted from relative performance. The portfolio had nearly double the benchmark exposure to stocks that began the year trading at less than 10x consensus earnings (20% vs. 11%) and triple the benchmark exposure to stocks that began the year trading at a discount to book value (27% vs. 9%). The outsized exposure to these deeply discounted stocks was a considerable detractor. Financials, energy, and healthcare detracted from performance which was partially offset by the overweight and positive stock selection in technology. The largest individual detractors to relative performance in the period were AIG, Apache, Wells Fargo, Marathon Oil, and Halliburton; the largest positive contributors were Microsoft, Oracle, Alphabet, Unilever, and Ericsson.

(continued)

Portfolio managers' opinions and data included in this commentary are as of 3/31/20 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 – 1Q20

Boeing was added after the stock price declined in half over the previous month due to concerns regarding COVID-19 related delays in new aircraft purchases and a general worry about economic activity. Issues regarding its 737 MAX software also continue to linger. Boeing is the world's largest aerospace company with well-established commercial and defense businesses. While near-term concerns for the business are merited, Boeing has a great business with excellent long term prospects, a good balance sheet, and a longstanding commitment to return capital to shareholders. It is rare we have the opportunity to invest in Boeing at such an attractive valuation, though near-term issues have caused us to keep the position size small.

The Hartford Financial Services Group is a U.S. based provider of personal and commercial insurance. The Company is well diversified by line of business and end-market exposure, but the crown jewel is its small business insurance franchise, where we believe it possesses strong distribution relationships and earns attractive margins. The Hartford also generated good returns in its group benefits business, where they are the #2 writer of group disability insurance. We believe its current stock price represents an attractive valuation for this high quality insurer.

Schlumberger is the world's leading diversified provider of oilfield services. In highly technical areas, from reservoir understanding to subsea boosting, Schlumberger's capabilities are unmatched. In our opinion, the business should generate free cash flow despite the near term volatility in oil markets and should earn attractive returns on capital as the market normalizes.

PERFORMANCE (%) as of March 31, 2020

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 8/30/04
Diversified Value Fund – I Shares	-36.40	-36.40	-28.15	-7.31	-1.80	5.64	4.14
Russell 1000 Value	-26.73	-26.73	-17.17	-2.18	1.90	7.67	6.03

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.

Market Disruption: The recent global coronavirus pandemic has caused and continues to cause disruption in the global economy, unprecedented business and travel disruption and extreme fluctuations in global capital and financial markets. H&W is unable to predict the consequences of the upheaval caused by coronavirus pandemic, which, depending on the severity and the length of the outbreak, has the potential to negatively impact the firm's investment strategies and reduce available investment opportunities.

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 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-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. Price-to-Book (P/B) is the price of a stock divided by its book value. Book value is the net asset value of a company, calculated by subtracting total liabilities from total assets. Investment grade refers to the quality of a company's credit. Free cash flow is earnings before depreciation, amortization, and non-cash charges minus maintenance capital expenditures. Top ten holdings as of 3/31/20 as a % of the Fund's net assets: General Electric 5.2%, Wells Fargo & Co. 4.9%, Microsoft Corp. 4.1%, American Int'l Group 4.0%, Oracle Corp. 3.8%, Cummins 2.8%, Goldman Sachs Group 2.8%, Citigroup Inc. 2.8%, General Motors 2.6% and Anthem Inc. 2.3%.

Mutual fund investing involves risk. Principal loss is possible.
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