

MARKET COMMENTARY

The Russell 2000 Index declined -31% 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 impacts 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.

Small cap value was the worst performing segment of the US equity market. Owning inexpensive stocks was not a successful strategy in the first quarter. Small cap value index was down -36% in the first quarter and one point it was down nearly -45%. Prior to COVID-19, economically sensitive sectors were trading at significant discounts to traditionally stable sectors. Consequently, value indices and value managers were disproportionately exposed to sectors that were most affected by the sudden and severe contraction in economic activity. While all small cap sectors experienced double digit declines, value sectors such as financials, industrials, and energy felt the most pain. The energy sector was down -62%, almost double the small cap market decline.

In light of both the prevailing and potential adverse economic developments of the quarter, we reviewed portfolio holdings to opportunistically improve business quality and balance sheet strength without sacrificing return potential. We also looked to reduce or eliminate companies that may encounter financial difficulty in the current draconian economic environment. As a result of this review, we added new positions and exited others but ultimately the portfolio continues to maintain exposure to economically sensitive sectors—albeit with better quality businesses and better balance sheets. Also, we now own a handful of companies that were considered large cap just a few months ago. These companies have well established business franchises that are rarely found in the small cap market. While the recent portfolio price declines have been painful, our holdings now trade at values last seen during the 2008 financial crisis. For example, our portfolio trades at 4.2x normal earnings, 6.8 consensus earnings (FY2), and 0.74x book value. During times of extreme uncertainty, we believe past experience shows that low valuation is the beacon that best guides portfolios to future investment success.

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.**

An experienced investment team is a valuable asset during challenging periods. While we have not encountered a global pandemic the likes of which we face today, we have certainly encountered challenging environments before. We speak to experts daily and evaluate research from multiple disciplines to understand COVID-19's potential ramifications on the economy, capital markets, and most importantly, your 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 Small Cap Value Fund underperformed the Russell 2000 Value Index in the first quarter of 2020. The portfolio had outsized exposure to stocks that began the year trading at less than 10x consensus earnings (26% vs. 16% for the R2000V) and stocks that began the year trading at a discount to book value (34% vs. 23% for the R2000V). The overweight exposure to these deeply discounted stocks was a considerable detractor, as this group underperformed substantially. Real estate, energy, and industrials detracted from performance which was partially offset by the underweight exposure to materials and positive stock selection in financials. The largest individual detractors to relative performance in the period were Seritage Growth Properties, Kosmos Energy, Bank of N.T. Butterfield, Fluor, and Embraer; the largest positive contributors were Enstar, Avista, Portland General Electric, Global Indemnity, and Matson.

SMALL CAP VALUE FUND

HWSIX
HWSAX
HWSGX
HWSZX

MANAGER REVIEW & ECONOMIC OUTLOOK

MARCH 31, 2020

PERFORMANCE (%) as of March 31, 2020

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 9/20/85
Small Cap Value Fund – I Shares	-42.26	-42.26	-37.79	-14.24	-7.26	4.41	9.22
Russell 2000 Value	-35.66	-35.66	-29.64	-9.51	-2.42	4.79	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.

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 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 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. Book value is the net asset value of a company, calculated by subtracting total liabilities from total assets. Fiscal year two (FY2). Top ten holdings as of 3/31/20 as a % of the Fund's net assets: Enstar Group Ltd. 6.2%, Evercore Inc. 5.5%, Popular Inc. 4.5%, Bank of NT Butterfield & Son 4.3%, Frank's International 4.1%, Arrow Electronics Inc. 3.8%, Office Depot 3.6%, First Hawaiian Inc. 3.2%, Matson Inc. 3.0% and Portland General Electric 2.9%.

Mutual fund investing involves risk. Principal loss is possible.
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