HIGH YIELD FUND

HWHIX
HWHAX
HWHCX
HWHZX

MANAGER REVIEW & ECONOMIC OUTLOOK

MARCH 31, 2021

MARKET COMMENTARY

The ICE BofA US High Yield Index returned +0.9% in the first quarter of 2021. Another round of fiscal stimulus was signed and delivered. The $1.9 trillion bill raised the total COVID fiscal response to $5.3 trillion; this sum equates to about 25% of pre-COVID GDP or roughly $16,000 for every American. The bill's passage was widely anticipated and consequently sparked little reaction from the high yield bond market. The acceleration of vaccine availability prompted investor optimism; however, as it was announced that all Americans 16 and older should be eligible by May 1st. On the economic front, the labor market showed signs of improvement as initial jobless claims fell to the lowest level since the pandemic began. The housing market continued its upward trend and consumer confidence also hit its highest level in a year. WTI crude oil prices rose 22% in the quarter, closing the quarter at $59/barrel after peaking at $66 in early March. Corporate America performed well with most US companies exceeding consensus earnings expectations during the quarter. The signs of near-term recovery, coupled with the Fed's expanding balance sheet, seemingly point to increased inflation. The gap between the 10-year treasury note and 10-year TIPS, a proxy for expected inflation, finished the quarter at its highest level since mid-2013.

In response to increased growth and inflation expectations, interest rates rose with the 10-year treasury yield rising from 0.92% at the beginning of the quarter to 1.74% at its end. Short rates changed very little, which resulted in the yield curve steepening. The high yield market fully absorbed the rise in interest rates, as spreads tightened about 50 basis points while the yield-to-worst remained almost entirely unchanged (it moved from 4.24% to 4.27% over the course of the quarter). Three non-mutually exclusive segments of the high yield market were notable outperformers in the quarter: 1) lower rated credits; 2) small and mid cap credits; 3) energy. The portfolio benefited from the latter two, as it has an outsized exposure to small and mid cap credits and is also overweight the energy sector.

Defaults in the first quarter totaled $3.4 billion in par value, including one distressed exchange, which represented the third lowest quarter of the past five years. The trailing 12-month default rate now stands at 5.4%. While this is higher than the 3.5% long-term average, it is remarkably tolerable considering the 12-month period encompasses the most significant global pandemic in several generations. Excluding the energy sector, the default rate would be 3.1%, below the long-term average. The post default recovery rate remains near all time lows, however, at 22% compared to the 25-year average of about 40%.

Less than 0.5% of the high yield market trades at distressed levels, or less than 50% of par value. For perspective, this number exceeded 10% of the market one year ago (3/31/2020). This reflects the high yield market's strong fundamental backdrop, to which we assigned a rare "5" rating. During the first quarter, rating agency upgrades outpaced downgrades about 2 to 1 as measured by either par value or number of issues. The new issue calendar remains robust with about $160 billion in new issuance during the quarter. Annual new issuance has averaged about $300 billion over the past decade so this year's pace is well ahead of recent averages. Refinancing has dominated this new issuance; however, which reduces the supply burden on the market. More than 75% of the quarter's new issuance was used for refinancing, and only 10% was used for LBO activity.

We remain committed to our bottom-up credit picking process. Our penchant for small and mid cap credits effectively opens our investable universe beyond what many of our peers even consider. This often allowed the portfolio to exhibit a yield/spread advantage, but our focus on the more senior parts of the capital structure help us control risk. As we look forward, we believe our clients can continue to benefit from this simple and time-tested combination.

ATTRIBUTION – 1Q21

The Hotchkis & Wiley High Yield Fund outperformed the ICE BofA US High Yield Index and the ICE BofA BB-B US High Yield Constrained Index in the first quarter of 2021. Small and mid cap credits outperformed large cap credits, which helped relative performance considering our overweight to the former. More importantly, however, credit selection was positive in large, mid, and small cap credits. Credit selection was particularly helpful in energy, followed by media, healthcare and capital goods. The overweight exposure to energy and underweight exposure to telecom also benefited relative returns. Credit selection in basic industry, automotive, and services detracted from performance.

OUTLOOK (SCORING SCALE: 1=VERY NEGATIVE, 5=VERY POSITIVE)

Fundamentals (5)

We increased the score from 4 to 5. Everything is poised to improve with the massive stimulus and support by the Federal Reserve. Cash balances are at record levels and most economists see growth anywhere from 5% to 10% over the next 12 months. Default rates will likely go below 2% and stay there for a prolonged period. In the near-term, fundamentals are as good as they can get, though we will watch the Fed's resolve if/when inflation begins to emerge.

(continued)

Portfolio managers' opinions and data included in this commentary are as of March 31, 2021 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. **Past performance is no guarantee of future results.**

Hotchkis & Wiley

Technicals (4)
We left the score unchanged at 4. The only reason this is not a 5 is that we continue to see a large new issue calendar. Upgrades are outpacing downgrades. Most of the new issue calendar is focused on refinancing, limiting the supply impact on the market. Investors seem willing to embrace yields around 5% and durations around 3 when compared to investment grade corporate alternatives which exhibit half the yield and double the duration.

Valuation (3)
We left the score unchanged at 3. Despite spreads more than 300 basis points for an asset class that is higher in quality than it has been at any points in the past 20 years, the average coupon continues to drift lower with new issues regularly pricing in the 5% area.

PERFORMANCE (%) as of March 31, 2021

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 3/31/09
High Yield Fund – I Shares	2.01	2.01	27.88	4.08	6.70	5.61	9.05
ICE BofAML BB-B US HY Constrained	0.30	0.30	21.05	6.72	7.42	6.28	9.76
ICE BofAML U.S. High Yield	0.90	0.90	23.31	6.53	7.94	6.31	10.72

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 0.75% for I Shares; 0.70% net expense ratio. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 31, 2021. 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.

Investments in debt securities involve credit risk and typically decrease in value when interest rates rise. Investments in lower rated and nonrated securities involve greater risk. The fund may invest in derivatives, asset backed and mortgage backed securities, and foreign securities. Please read the fund prospectus for a full list of fund risks. Investing in high yield securities is subject to certain risks, including market, credit, liquidity, issuer, interest-rate, inflation, and derivatives risks Lower-rated and non-rated securities involve greater risk than higher-rated securities. High yield bonds and other asset classes have different risk-return 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 trade information and does not reflect the payment of transaction costs, fees and expenses of the Fund.

The ICE BofA BB-B US High Yield Constrained Index contains all securities in the ICE BofA US High Yield Index rated BB+ through B- by S&P (or equivalent as rated by Moody's or Fitch), but caps issuer exposure at 2%. Index constituents are capitalization weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. The ICE BofA US High Yield Index tracks the performance of below investment grade, but not in default, US dollar-denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. 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. The ICE BofA index data referenced is the property of ICE Data Indices, LLC ("ICE BofA") and/or its licensors and has been licensed for use by Hotchkis & Wiley. ICE BofA and its licensors accept no liability in connection with its use. See www.hwcm.com / *Index definitions* for full disclaimer.

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.

Market Disruption: The 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.

Credit quality weights by rating were derived from the highest bond rating as determined by S&P, Moody's or Fitch. Bond ratings are grades given to bonds that indicate their credit quality as determined by private independent rating services such as Standard & Poor's, Moody's and Fitch. These firms evaluate a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. In limited situations when none of the three rating agencies have issued a formal rating, the Advisor will classify the security as nonrated. Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument. Spread is the percentage point difference between yields of various classes of bonds compared to treasury bonds. Yield-to-Worst is the lowest possible yield from owning a bond considering all potential call dates prior to maturity. Upgrade/Downgrade ratio is the number of ratings upgrades divided by the number of ratings downgrades (by the major ratings agencies). Investment grade indicates that a municipal or corporate bond has a relatively low risk of default.

Mutual fund investing involves risk. Principal loss is possible.
NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE
The Hotchkis & Wiley Funds are distributed by Quasar Distributors, LLC