

MARKET COMMENTARY

The Russell 2000 Index rose +12.7% 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 equity markets. The acceleration of vaccine availability prompted investor optimism 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, as more than two-thirds of Russell 2000 companies exceeded 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.

Small cap value stocks outperformed small cap growth stocks for the second consecutive quarter; the Russell 2000 Value Index returned +21.2% while the Russell 2000 Growth Index returned +4.9%. In a trend we believe likely to endure, the continued reopening of the economy and the prospect for higher inflation and interest rates has benefited value stocks relative to growth stocks. Despite value's recent outperformance, the valuation gap between small growth and small value remains considerably wider than historical norms based on any common valuation metric, which highlights the extreme levels reached in 2020.

Price-to-normal earnings ("P/NE") is one of our preferred metrics because it adjusts for the peaks and troughs of business cycles. The P/NE of the Russell 2000 Value is higher than its long-term average (15x vs. 13x) while the P/NE of the Russell 2000 Growth is significantly higher than its long-term average (28x vs. 21x). At less than 12x normal earnings, however, the portfolio trades at a discount to the indices. This highlights that despite some richly valued publicly traded stocks, we have been able to identify interesting risk-adjusted opportunities trading at attractive

valuations not only on a relative basis but also on an absolute basis. The portfolio exhibits somewhat of a cyclical tilt—this is where value opportunities disproportionately reside—but this is offset by investing in good businesses that are well-capitalized and prudently managed, i.e., companies that can endure cyclical downturns. As we look forward, we believe our clients can continue to benefit from this simple and time-tested combination.

ATTRIBUTION – 1Q21

The Hotchkis & Wiley Small Cap Diversified Value Fund outperformed the Russell 2000 Value Index by a wide margin. Positive stock selection drove most of the quarter's outperformance. Stock selection in financials was significantly positive, while industrials, utilities, and consumer staples were more modestly beneficial. The overweight exposure to energy and underweight exposure to real estate also helped. Stock selection in consumer discretionary, energy, and materials detracted from performance. Not owning GameStop was a detractor of nearly 1 percentage point as the Russell 2000 Value constituent rose more than +900% in the quarter.

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. Diversification does not assure a profit nor protect against loss in a declining market.**



SMALL CAP DIVERSIFIED VALUE FUND

HWVIX
HWVAX
HWVZX

MANAGER REVIEW & ECONOMIC OUTLOOK

MARCH 31, 2021

PERFORMANCE (%) as of March 31, 2021

	QTR	YTD	1 Yr	3 Yr	5 Yr	Since 6/30/14
Small Cap Diversified Value Fund – I Shares	24.72	24.72	112.84	10.27	14.35	9.76
Russell 2000 Value	21.17	21.17	97.05	11.57	13.56	8.89

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 0.92% for I Shares; 0.80% 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.

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. 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.

Style Risk: A value-oriented investment approach involves the risk that value stocks may remain undervalued or may not appreciate in value as anticipated. Value stocks can perform differently from the market as a whole or from other types of stocks and may be out of favor with investors and underperform growth stocks for varying periods of time. Growth investing tends to work well during speculative, momentum-driven markets, while value investing tends to work well following recessionary periods. Value stocks following a recession may start from a lower market value than growth stocks which can contribute to their outperformance. Past recessions and recoveries cannot predict future performance due to different factors and circumstances.

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.

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.

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 with 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.

Mutual fund investing involves risk. Principal loss is possible.
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