Value Investor INSIGHT

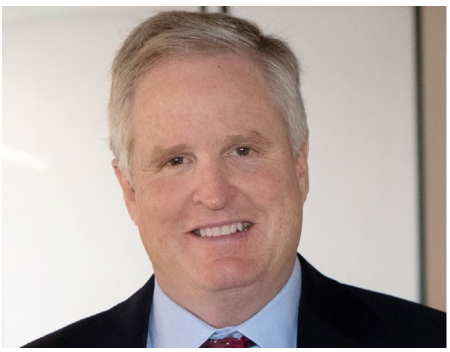
November 30, 2022

The Leading Authority on Value Investing

What's Normal

Jim Miles of Hotchkis & Wiley Capital Management explains the consistent market inefficiency he tries to exploit, how his firm over time has updated its processes around risk assessment and the reweighting of portfolio positions that go against them, and what he thinks the market is missing today in F5, Adtalem Global Education, Stagwell and Flowserve.

INVESTOR INSIGHT



Jim Miles
Hotchkis & Wiley

Investment Focus: Seeks financially and competitively sound businesses when their shares are trading at unusually low multiples of estimated normalized earnings.

It says something about Jim Miles' approach that he often starts the discussion of any particular investment idea by addressing what people don't like about the company. "Generally for value investors you don't find high-quality companies trading at attractive prices unless they're at an awkward point in their earnings cycle," he says.

His ability to see beyond that awkwardness has served investors in the small-cap value strategy he co-manages with David Green well. Now with $2 billion in assets, the strategy since Miles joined it in 1996 has earned a net annualized 10.7%, vs. 9.2% for the Russell 2000 Value Index. Today he sees opportunity in such diverse areas as marketing services, network software, for-profit education and industrial equipment.

Central to Hotchkis & Wiley's strategy is the belief that investors often rely in valuing companies on what just happened or is happening now – which isn't always the best indicator of what comes next. Is that a fair basic summary of your approach?

Jim Miles: If you think about what investors want, they want to own companies that compound capital at a higher rate than their cost of capital and that can grow faster than the overall economy. Who doesn't want to own that? For those companies to be attractively priced, however, there are usually issues impacting near-term earnings. Investors are more likely to focus on near-term earnings and extrapolate negative trends, so we can find opportunity when we determine the issues are transitory rather than structural and that a return to a more normal level of earnings should translate into a significantly higher stock price than what's quoted today. That dynamic of misjudging the long term by overly focusing on the short term repeats itself over and over again.

Any number of things can cause near-term earnings to differ from what could be considered normal. Maybe there's a product transition underway. Maybe there's a strategic or operational misstep that's being corrected. Maybe it's a more capital-intensive business going through a natural industry cycle that will mean-revert. Today, some high-quality economically sensitive businesses are trading at low multiples of normal earnings because investors are more focused on the near-term economic outlook. Our job as analysts is to take what's relevant from history and update that to reflect any permanent fundamental changes impacting earnings power. Wall Street pays less attention to small caps – the median number of analysts covering an S&P 500 company is 20, versus five for one in the Russell 2000 – so we think having an experienced, dedicated research staff is a competitive advantage in exploiting that lack of Street research.

One area we want to understand better than most is the balance sheet. When you're buying cyclical businesses trading at low multiples of normal earnings, that only works if the company has a balance sheet that allows it to weather whatever storm may be at hand and get back to normal. Roughly 60% of our portfolio today has very low leverage, meaning the companies have no debt at all, cover their annual interest expense 10x or more, or have an investment-grade credit rating. Only 6% of our portfolio has high leverage – meaning the companies' interest coverage is less than 3x – which compares to more than 20% of the firms in the Russell 2000 index. Companies with more leverage can find a place in the portfolio, but only when we have the highest conviction they can meet their debt-service obligations and the potential return is unusually high.

Expanding on that a bit, we believe insight into credit markets is an important skill set for what we do. Small-cap companies need access to capital on commercially feasible terms, and the cheapest form of capital is typically either bank debt or selling fixed-income securities to the public. Knowing if a company has the credit profile to have that access is a key element of risk control. If it's forced to sell equity at an awkward moment in its earnings cycle – the period when we'd most likely be interested – the resulting dilution would permanently reduce per-share earnings power. Hotchkis & Wiley runs a high-yield bond strategy and all our sector analysts cover credit as well as equity. We think that knowledge of credit markets and what a company can or cannot do with its balance sheet helps us as stock pickers as well.

Small-cap value is one of the least-expensive parts of the U.S. market today. How would you describe your opportunity set?

JM: What's inexpensive in the market are businesses sensitive to the economic cycle. People are afraid of an impending recession, so we are generally finding a lot of high-quality companies that earn good returns through the cycle but are priced today as if they'll never earn good returns again. Our opportunity set in economically sensitive sectors is pretty robust.

Right now the average ratio of price to normal earnings in our portfolio is 6.5x. That's not the lowest it's ever been, but it's very much in the attractive range. Using our own methodology to calculate normal earnings, the Russell 2000 Value Index on the same measure trades at about 11x and the Russell 2000 is around 12.5x. The S&P 500 would be closer to 19.5x.

You've done well over the past year in being overweight energy. Is that still a focus?

JM: It is. We don't think it's generally recognized how massive the underinvestment has been for several years now in oil and gas projects. These projects take years to result in production, so even if investment ramps up we appear poised for a supply shortage in fossil fuels for some time. This should keep upward pressure on energy commodity prices and benefit earnings and cash flow for companies in the sector. Eventually demand and supply will balance, but this could be well into the future.

The risk profile in the sector has improved significantly from a few years ago. With higher oil prices most companies are generating excellent cash flow, deleveraging their balance sheets, and even buying back shares at value-accretive prices. Capital spending budgets are tight, still limiting growth in oil supply. You also have companies merging, increasing oil reserves per share through M&A as opposed to drilling, which doesn't add to supply.

The market doesn't seem to believe that current oil prices are as indicative of the future as we do, so share prices on current earnings are heavily discounted. Oil prices could come down significantly from where they are and companies would still be generating good earnings and their stocks would trade at attractive multiples. In general, we favor E&P companies with long reserve lives such as Murphy Oil [MUR] that will benefit disproportionately if oil prices stay at or above current levels.

ON CYCLICALS:

Companies that earn good through-the-cycle returns are priced as if they'll never earn good returns again.

To get a sense of what's attracting your interest today, we wanted to ask about a couple of recent purchases. What attracted your attention to WEX Inc. [WEX]?

JM: We're in a part of the market cycle where we're starting to see higher-quality companies become more value priced. In many cases it isn't because something's fundamentally wrong with the business, but it's more tied to concerns about a looming recession or just multiple contraction for companies perceived to have higher growth prospects.

WEX provides payment processing and information management systems, with historical strength in providing solutions for those managing commercial and government fleets. It's one of two market leaders in the fleet-card business – allowing customers to manage expenses associated with vehicles they own and operate – and also competes in other niche payments' use cases where its technology, network and expertise seem to provide reasonable barriers to entry. The fleet business's earnings can go up or down tied more to the fuel cycle than for most similar businesses. That volatility tends to wash itself out over time, and we also don't think the market recognizes the extent to which WEX has gotten traction expanding into adjacent travel and other related markets. In our view the stock price today [at a recent $164] isn't fully recognizing the company's normalized earnings power.

What was the impetus for your fairly recent purchase of Herbalife [HLF]?

JM: This is still a small position, but the stock is statistically very inexpensive. The important question here is the extent to which the company's strong performance during the pandemic was transitory or more structural. EBITDA spiked in 2021 to around $840 million, from $660-670 million prior to Covid. Consensus estimates for 2023 EBITDA are about $630 million, which on today's share price [of $17.50] means you're paying around 6x EV/EBITDA for a business that arguably is just returning to normal and can start growing again. That kind of multiple seems to imply another fairly sharp step down in earnings from here. We haven't seen tangible evidence that we're at the bottom and the inflection point for earnings is here, but with the valuation as low as it is the stock earned some weight in the portfolio.

We see that Hotchkis & Wiley runs two different small-cap value strategies – each with about $2 billion in assets – one typically holding 50 to 70 names and the other with 300 to 400. Why is that?

JM: Clients have different opinions about what is right for them. Some want a broader portfolio that has less stock-specific risk and essentially provides value exposure in the way we identify value. Others want the same exposure but desire more concentration. Both strategies perform well, and we offer both because that's what clients want.

Turning to some more specific ideas, would you say networking software firm F5 [FFIV] has one of those growthier stocks that has gotten more value priced?

JM: It's a very good example of that. The company's business is built around what are known as Application Delivery Controllers, or ADCs. Say you have an on-premise server farm with 100 servers. When a request is made of any kind to that network of servers, F5's software determines the best way to balance and optimize the use of the available capacity in delivering on the request. It's a mission-critical function and F5 is the market leader in the field. Customer renewal rates are in the high-90s, three-quarters of all profits come from recurring revenue, and gross margins typically are around 85%, versus other networking peers that are closer to 65%.

One concern about the company is that while it has a dominant position in on-premises computing, it's perceived to be less well-positioned to serve customers as they move to the cloud. We believe that has largely been addressed with the acquisition in 2019 of a company called NGINX, which jump-started F5's business in tailoring what it does on-premise to the cloud. The traditional business still grows, but the cloud business is growing much faster and the company has established itself as a market leader there as well.

Another argument on the bear side has been related to supply-chain disruptions. The company's software is embedded in hardware that is then screwed into racks in the server farm. Getting all of the chips necessary for that hardware has been a challenge, which has meant the company has fallen short in recent quarters in meeting product demand. We consider something like that a classic short-term issue.

There are also concerns about the impact of an economic slowdown on capital spending. In Europe in particular the economic outlook appears to have made some clients put expansion and upgrade projects on hold, sweating their existing infrastructure harder. This also strikes us as a short-term issue, as upgrades in information technology and migration to the cloud may be put off for a time, but are likely only that, to be put off for a time. In the meantime, it's helped send investors in companies like F5 to the sidelines.

At a recent price of just under $150, how inexpensive do you consider the shares?

JM: The company is still reinvesting to grow, but if we assume the steady-state operating margins pushing 40% that companies like this can earn, the business today would trade for a less than 10x forward P/E multiple. That's for a recurring-revenue business with 85% gross margins that is still growing its top line at 8-10% annually. If they deliver the goods as we believe they will, you as a shareholder should benefit both from that growth and what would likely be a re-rated multiple more in line with the underlying stable, growing cashflow stream.

Normally we hope to buy companies when they're close to the bottom of an earnings cycle and when multiples on our view of normalized earnings are com-

INVESTMENT SNAPSHOT

F5
(Nasdaq: FFIV)

Business: Develops, markets and sells software services that help optimize the performance, availability and security of network applications, servers and storage systems.

Share Information (@11/29/22):

Price	**149.82**
52-Week Range	133.67 – 249.00
Dividend Yield	0.0%
Market Cap	$9.04 billion

Financials (TTM):

Revenue	$2.70 billion
Operating Profit Margin	15.5%
Net Profit Margin	11.9%

Valuation Metrics
(@11/29/22):

	FFIV	S&P 500
P/E (TTM)	27.1	19.1
Forward P/E (Est.)	13.0	17.8

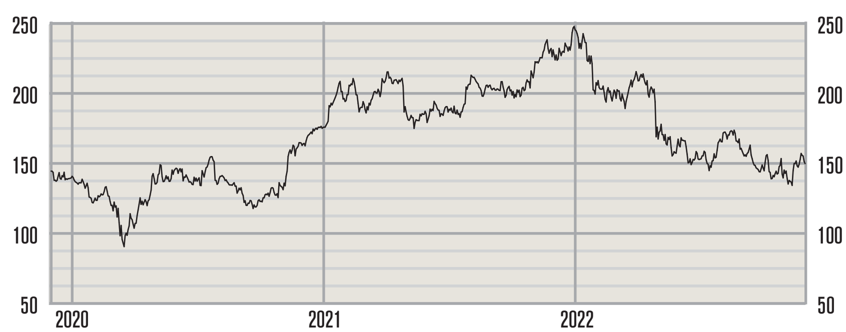
Largest Institutional Owners
(@9/30/22 or latest filing):

Company	% Owned
Vanguard Group	11.4%
BlackRock	9.0%
Wellington Mgmt	8.6%
Hotchkis & Wiley	7.9%
State Street	4.6%

Short Interest (as of 11/15/22):

Shares Short/Float	3.5%

FFIV PRICE HISTORY



THE BOTTOM LINE

Market sentiment on its stock appears inordinately subdued relative the company's prospects for continued secular-driven growth and improved profitability, says Jim Miles. Based on his estimates for revenue growth and steady-state operating margins, he sees significant upside in the stock from both higher earnings power and a re-rated valuation.

Sources: Company reports, other publicly available information

pressed. As they come up off the bottom earnings growth and multiple expansion can drive the stock higher. Here we expect an earnings recovery, but the underlying growth profile and profitability also happens to be better than usual.

What attracted your attention to Adtalem Global Education [ATGE]?

JM: This came about as we were in the process of researching the healthcare-services sector, where we've invested often in the past but haven't been finding much to own today because the defensive premium currently built into most of the stocks seems high to us.

In looking at hospital stocks we kept hearing about the challenges they were facing from the well-documented shortage of nurses in the U.S. Even if they could find enough nurses, the costs to hire them were increasing rapidly and hurting the hospitals' bottom lines. That eventually brought us to Adtalem, which derives roughly 75% of its business from nursing programs and is the largest provider of nursing degrees in the U.S.

Say "for-profit education" and most investors don't want to hear anything more. It's a pariah industry, for good reason given how so many companies for so long saddled their students with unmanageable debt to pursue degrees that did very little to improve their earnings power.

Adtalem over the past five years has completely shifted its business mix away from where all the controversy and bad behavior was and is now essentially a pure-play medical education company, with the primary emphasis on nursing. Attending nursing school delivers a positive ROI, with average starting salaries of about $75,000 per year offering a roughly two-year payback in incremental earnings on the cost of getting an initial two-year nursing degree from an Adtalem program. Many hospitals and other providers require an additional two years of training as well, and the ROI on that incremental training is also significantly positive.

Adtalem's overall student graduation rate is about 68%, which is somewhat lower than the 78% rate in comparable not-for-profit programs, but far above the 38% rate for for-profit schools overall. Its students are better able to service their debts – loan-default rates are low, at 3%, versus a 10% national average that includes non-profit schools.

How is the supply/demand balance in nursing education today?

JM: One competitive disadvantage for Adtalem is that their nursing degrees are quite a bit more expensive than those offered by not-for-profit schools. But state institutions have been very reluctant to add nursing-program capacity even when there's high student demand, mainly because the programs are much more costly to administer than most alternatives the schools can offer. That makes state-school programs difficult to get into in general, and even if you do get in there's often a one- to two-year wait to start. Adtalem programs can offer a viable alternative right now, which many students find worth the added cost.

Another dynamic at play is that enrollments through the pandemic have actually been weaker than usual. An important

INVESTMENT SNAPSHOT

Adtalem Global Education
(NYSE: ATGE)

Business: Provider of for-profit educational services offering degree and non-degree programs in such areas as nursing, medicine, education, public health and social work.

Share Information (@11/29/22):

Price	**40.71**
52-Week Range	19.14 – 44.39
Dividend Yield	0.0%
Market Cap	$1.85 billion

Financials (TTM):

Revenue	$1.45 billion
Operating Profit Margin	13.2%
Net Profit Margin	26.0%

Valuation Metrics
(@11/29/22):

	ATGE	S&P 500
P/E (TTM)	37.0	19.1
Forward P/E (Est.)	9.8	17.8

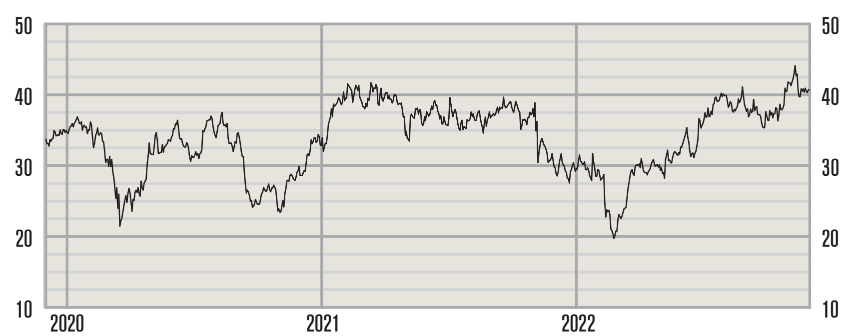
Largest Institutional Owners
(@9/30/22 or latest filing):

Company	% Owned
BlackRock	15.8%
Fidelity Mgmt & Research	14.8%
Vanguard Group	10.8%
Ariel Investments	9.4%
Dimensional Fund Adv	7.9%

Short Interest (as of 11/15/22):

Shares Short/Float	3.3%

ATGE PRICE HISTORY



THE BOTTOM LINE

While he doesn't have a particularly variant view on its expected profit outlook, Jim Miles believes that as investors get comfortable that the company is providing good outcomes for students in nursing and medical fields with high ongoing demand, that its earnings stream should be worth more than the current 10x forward P/E – say 15x, for example.

Sources: Company reports, other publicly available information

part of demand comes from licensed nurses going back while working to complete the additional two years of training that can give them access to better-paying jobs. The pandemic severely restricted demand for those types of programs because working nurses were so busy they just didn't have time to go back to school. Recent enrollment data for first-time nurses is showing signs that it might be at an inflection point. Post-licensure enrollments don't yet appear to be turning, but when they do, the company's normalized earnings power should be higher due to the 2020 acquisition of Laureate Education's healthcare business targeting that market.

How are you looking at valuation from today's share price of $40.70?

JM: The stock today trades at less than 10x estimated forward earnings and at about 6x EV/EBITDA. Here we're less making the argument that normal earnings are well above Street estimates, but do believe as investors get comfortable that this is a for-profit education company providing good outcomes for students in nursing and medical fields with high ongoing demand, that the earnings stream is worth more than a 10x P/E multiple. We don't see why this wouldn't deserve at least a 15x P/E, for example.

It's also worth mentioning that this tends to be a recession-resistant or even countercyclical business. If the economy turns down and high-paying jobs aren't as plentiful, that's often when more people go back to get credentials that will benefit them in the market going forward.

From for-profit education to advertising, describe your interest in Stagwell [STGW].

JM: We came to this after initially looking at a predecessor company called MDC Partners, which was a roll-up of traditional advertising agencies that grew too fast, with too much leverage, and without integrating the businesses it owned well at all. The stock had gone from as high as $28 to less than $10 and we thought there might be something there of interest.

We took an initial position in MDC Partners at the time, but management struggled to right the ship in a reasonable time frame. Eventually the company was taken over by Mark Penn, who had built a private digital marketing services business called Stagwell Group after leaving Microsoft, where he had been the Chief Strategy Officer. He thought MDC had a number of high-quality ad-agency businesses but terrible management. In relatively short order he stabilized the company and then proposed to reverse merge his private company into it, combining the traditional ad business with Stagwell's digital and data-focused marketing services franchises. The deal closed in August of last year and the company started trading under the Stagwell name.

So what do people not like about the company? Part of it may be the original history as a roll-up blow-up. Part of it may be that Mark Penn has 55% voting control while owning only 20% of the shares. There's probably some neglect, given that no analysts covered the company until fairly recently, and only four firms have picked up coverage so far. Finally, there's likely also just general concern about owning an advertising and marketing business

INVESTMENT SNAPSHOT

Stagwell
(Nasdaq: STGW)

Business: Holding company whose subsidiaries provide marketing, advertising, research, and public relations services to help clients "transform for a digital-driven economy."

Share Information (@11/29/22):

Price	**7.18**
52-Week Range	4.80 – 9.61
Dividend Yield	0.0%
Market Cap	$939.1 million

Financials (TTM):

Revenue	$2.59 billion
Operating Profit Margin	10.4%
Net Profit Margin	1.3%

Valuation Metrics
(@11/29/22):

	STGW	S&P 500
P/E (TTM)	35.1	19.1
Forward P/E (Est.)	14.2	17.8

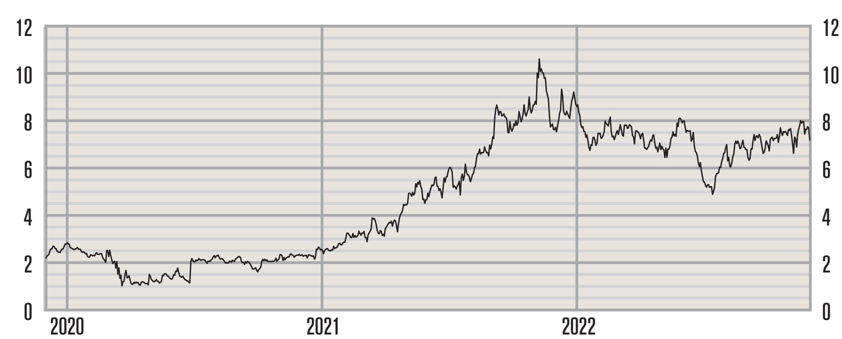
Largest Institutional Owners
(@9/30/22 or latest filing):

Company	% Owned
Goldman Sachs	16.0%
Hotchkis & Wiley	13.3%
Madison Ave. Partners	4.9%
Select Equity Group	4.7%
American Beacon Adv	4.3%

Short Interest (as of 11/15/22):

Shares Short/Float	2.1%

STGW PRICE HISTORY



THE BOTTOM LINE
If the company continues to succeed in taking market share, expanding its share of wallet with existing customers, and taking advantage of operating leverage in a business with underlying secular growth, Jim Miles doesn't believe its shares will deserve the adjusted 9x P/E multiple of today. "On the order of twice that wouldn't be unreasonable," he says.

Sources: Company reports, other publicly available information

at what may be a precarious point in the economic cycle.

Based on his behavior in turning around MDC and in combining the two companies, we see Mark Penn as a talented, economically motivated leader who's acting in all shareholders' interest. If you're going to cede control to someone, we think this is the kind of person you'd want.

We also think the combination of traditional agencies with technology-focused ones – each side is now about half of the total business – positions Stagwell very well to compete in an advertising and marketing environment that has become increasingly diffuse, fragmented and complex. The company does business with 79 of the top 100 global marketers, but the vast majority of those current relationships have annual billings of less than $5 million. Management thinks they can double the size of the company just by cross-selling services to marketers that increasingly want and need more-integrated solutions. If they continue to execute against that, Wall Street should eventually pay much more attention.

As for the near-term economic outlook, a recession would certainly impact overall advertising and marketing spending, but we don't expect that to commensurately impact Stagwell. The digital side of the business is growing at a mid-teens annual rate and we think that can still grow solidly through the cycle. Gains in market share would also mitigate the impact of overall near-term weakness in client spending.

The stock at a recent $7.20 has more than tripled since it started trading under its new name in 2021. How are you looking at upside from here?

JM: When you look at Bloomberg it says the shares trade today at about 15x current earnings, but that doesn't reflect the economic earnings of the company due to merger-related amortization of intangibles like customer lists and other items that aren't cash expenses needed to sustain the business. When we adjust for those and for stock-based compensation, the P/E is close to 9x.

If the company is as successful as we expect in taking share, expanding its share of wallet with customers and taking advantage of operating leverage in a business with underlying secular growth, this is not a stock that should trade at 9x earnings. Something on the order of twice that wouldn't be unreasonable.

Turning our attention to industrial pumps, why are you high on the investment prospects for Flowserve [FLS]?

JM: Flowserve is the only global player in the industrial pump, valve and seals market. Their products are highly engineered to custom specifications of end users. In most cases the operating environment for their equipment is challenging – involving high speeds, high pressure and high heat – and equipment failure would create significant safety and environmental risks.

Given the nature of the business, there's a high premium on quality and on minimizing maintenance and servicing downtime. That works to Flowserve's advantage as the market leader, with an established reputation for quality and with the global manufacturing, distribution and service network in place to back it up. Roughly

INVESTMENT SNAPSHOT

Flowserve
(NYSE: FLS)

Business: Manufactures, sells and services pumps and flow-control equipment mainly for energy, power generation, chemical, water management and pharmaceutical end markets.

Share Information (@11/29/22):

Price	**30.83**
52-Week Range	23.89 – 37.59
Dividend Yield	2.6%
Market Cap	$4.03 billion

Financials (TTM):

Revenue	$3.50 billion
Operating Profit Margin	4.9%
Net Profit Margin	2.4%

Valuation Metrics
(@11/29/22):

	FLS	S&P 500
P/E (TTM)	42.1	19.1
Forward P/E (Est.)	17.2	17.8

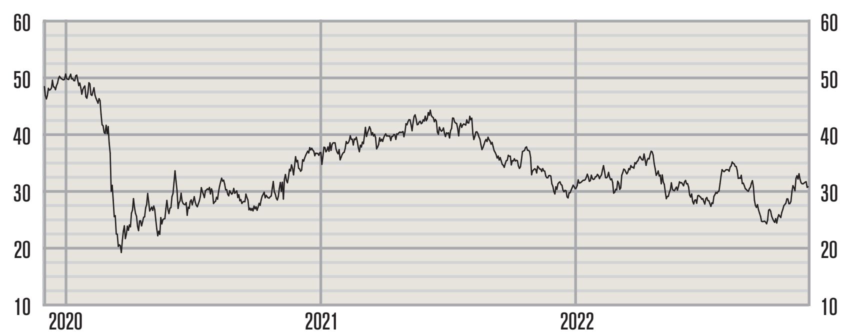
Largest Institutional Owners
(@9/30/22 or latest filing):

Company	% Owned
Vanguard Group	9.8%
Fidelity Mgmt & Research	8.3%
BlackRock	8.2%
First Eagle Inv Mgmt	8.2%
Wellington Mgmt	8.1%

Short Interest (as of 11/15/22):

Shares Short/Float	3.1%

FLS PRICE HISTORY



THE BOTTOM LINE

As energy-related end-market demand improves, Jim Miles believes the combination of revenue growth at high incremental margins and savings from a recently completed cost-reduction effort will translate into much higher profitably for the company. He expects shareholders to benefit significantly from both the higher profits and a re-rated valuation.

Sources: Company reports, other publicly available information

80% of its annual profits come from its installed base and customer relationships tend to be extremely long-lived. All this allows them to generate high returns on capital in a sustainable way.

Why is the stock cheap today? The big issue has been the depression in capital spending in traditional energy businesses, which typically accounts for more than 40% of the company's annual revenues. As we discussed earlier, we don't believe there's a permanent headwind for oil and natural gas-related capex, and Flowserve would clearly benefit from increased capacity investment in those areas. The company is having more success than we think is generally recognized in driving new bookings from a nascent recovery in its energy end markets.

Another issue recently is poor execution in implementing a new enterprise resource planning (ERP) system. They say the issues have largely been resolved, but certain facilities have been operating at below-normal capacity as a result and are just now getting back up to speed.

Flowserve's shares at a recent $30.80 are off nearly 40% from immediately pre-Covid levels. What does more "normal" look like going forward?

JM: The company over the past five years has gone through a pretty significant expense-reduction effort, so as customer demand turns around the combination of cost savings and high-incremental-margin revenue growth should translate into significantly higher operating margins than today. Historical operating margins prior to the restructuring period averaged 12.5%, with a peak of 16% in 2014. They have since eliminated costs that represent about 8% of revenue. This suggests that new normal margins are likely to be closer to 20% than the prior 12.5%. Management is targeting 15-17% EBIT margins, and if we assume 15.5% on today's base of business that translates into only a 10x P/E multiple on the stock.

The shares pre-Covid traded at around $50. Going back to the last positive energy cycle, the stock in late 2013 was as high as $80. We're not overly precise in setting price targets, but if we're right about being in a period of relatively high energy prices, there should be considerable upside in the shares from today's level.

ON MISTAKES:

One common mistake is to continue reweighting a position because you think you're right, when in fact you're not.

Give an example of something you've sold recently and what prompted the sale.

JM: One positive example would be KBR [KBR], which originally was a leading engineering and construction firm operating under the name Kellogg Brown & Root. That type of business generally had a lot of volatility, where strong performance could be punctuated from time to time by significant charges related to the mispricing of long-term projects that were encountering cost overruns. The company basically exited the engineering and construction business and started focusing more on providing technology services primarily to U.S. federal government agencies like the NSA, the CIA and NASA. That transition was originally met with a lot of skepticism by the market – which created the opportunity for us – but as the company started to deliver results, the valuation changed for the better, the stock in our estimation became more fully priced, and we found better uses for the capital.

Hotchkis & Wiley prior to the pandemic updated its process around assessing risk in its portfolios. Describe what you changed and why.

JM: As evidenced by our earlier discussion about balance sheets, we believe we've always been focused on assessing risk, but one change we made was to institute formal risk rankings for every stock we own, based primarily on balance-sheet leverage, business quality and governance. It can be easy in the research and analysis process and when analysts are advocating for a given stock to focus heavily on valuation and not balance the discussion as well as we should on the attendant risk factors. Forcing ourselves to explicitly rank companies on risk characteristics helps balance the analysis and allows us to better assess potential risk-adjusted returns.

Can you generalize at all about potential analytical or portfolio-management mistakes you've made?

JM: For managers with high conviction, one of the most common ways you can make a mistake is to continue reweighting a position as a stock declines because you think you're right, when in fact you're actually not. When we look back at mistakes that have been particularly painful, it often was in situations where the fundamentals of the business were deteriorating, but we thought the market was overreacting, the share price was down more than justified by the fundamentals, and so we reweighted the position accordingly. More often than we'd like, the market is right, the deterioration continues and concerns about financial distress kick in and everything gets worse.

To protect the portfolio against this destructive combination of declining fundamentals and even greater price declines, we have more generally limited the amount of portfolio capital available for reweighting in these cases. We can buy more, but it may be less than what we might otherwise have done. We think going a bit slower in those situations has been a positive.

You've been at this for a while now. Do you still enjoy it as much as ever?

JM: There's a lot to be said for a business that requires lifelong learning and where you're always meeting and speaking with interesting, engaged people. If you ever start to think you've figured it out, the market lets you know there's still plenty more to learn.

The rise of passive investing has taken a toll. I would argue the theoretical and factual underpinning for passive isn't at all as credible as many believe, but investors still seem to love it and I don't know if that turns around during my career. I believe it will one day – we'll see if we're at the very early stages of that right now. VII

PERFORMANCE (%) as of March 31, 2023

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since 9/20/85
H&W Small Cap Value Fund – I Shares	2.78	2.78	-2.94	35.32	8.67	9.31	11.11
Russell 2000 Value Index	-0.66	-0.66	-12.96	21.01	4.55	7.22	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 1.06% for I Shares; 0.97% net expense ratio. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 31, 2023. Expense ratio shown is 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..

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 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.

Top 10 holdings as of 3/31/23 as a % of the Small Cap Value Fund's net assets: F5 Inc. 6.8%, Stagwell Inc. 5.3%, Popular Inc. 4.1%, Kosmos Energy Ltd. 3.4%, Arrow Electronics Inc. 3.1%, Expro Grp Hldgs N.V. 3.0%, SLM Corp. 3.0%, Adient PLC 2.9%, Berry Petroleum Corp. 2.8%, and Korn Ferry 2.8%. Portfolio weightings, sector allocations, and/or fund holdings are subject to change and should not be considered a recommendation to buy or sell any security.

Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g., depreciation) and interest expense to pretax income; Dividend yield is a financial ratio that indicates the percentage of a company's share price that it pays out in dividends each year; Market capitalization of a company is calculated by multiplying the number of outstanding shares by the current market price of a 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; Forward P/E (Est.) represents the current market price per share divided by a company's estimated future earnings-per-share. Projected earnings are consensus analyst forecasts; actual P/E ratios may differ from projected P/E ratios; TTM (Trailing Twelve Months); E&P (Exploration & Production); M&A (Mergers & Acquisitions); EV/EBITDA is a ratio that compares a company's Enterprise Value (EV) to its Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA). **Diversification does not assure a profit or protect against loss in a declining market.**

Opinions expressed are those of the author and are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

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