

## Strategy Description

The Capital Income strategy is focused on maximizing current income while maintaining the capacity for capital appreciation by investing in dividend-paying equities and high yield bonds. Our investment approach is based on the conviction that a security's market price does not always accurately reflect its fundamental value. When investor sentiment, emotions, or short-term trends cause the price of a security to deviate from its intrinsic worth, we see opportunity.



## Strategy Information

- Asset Class: Hybrid
- Style Benchmarks: S&P 500 Index  
ICE BofAML US Corp/Govt/Mtg Index
- Strategy Assets: \$39 mm
- Inception Date: 2010
- Number of Stocks: 40 – 60
- Number of Bond Issuers: 100 – 125
- Capitalization Range: >\$1 billion (stocks)
- Open to new investors
- Separate Account Minimum: \$25 million

## Equity Portfolio Characteristics

	Portfolio	S&P 500
Projected P/E (FY2)	9.2x	17.8x
Price/Normal Earnings	6.9x	18.6x
Price/Book	1.1x	3.2x
Dividend Yield	2.3%	1.9%
Wtd Avg Market Capitalization (millions)	\$51,460	\$193,642
Median Market Capitalization (millions)	\$7,330	\$22,269
Number of Holdings	65	500

## Top Five Equity Holdings<sup>1</sup>

	Portfolio
Hewlett Packard Enterprise	2.7%
American International Group Inc.	2.7
Popular Inc.	2.4
Whiting Petroleum Corp.	2.1
Royal Mail PLC	2.0

## Bond Portfolio Characteristics

	Portfolio	ICE BofAML US Corp/Govt/Mtg
Yield-to-Worst	6.6%	2.7%
Modified Duration	3.2 years	6.2 years
Spread over Treasuries	473 bps	37 bps
Average Coupon Rate	7.1%	3.3%
# of Active Issuers	122	1,678

## Top Five Bond Holdings<sup>1</sup>

	Coupon Rate / Maturity Date	Portfolio
Kosmos Energy Ltd.	7.875%, due 8/1/2021	1.0%
Cobalt International Energy	10.750%, due 12/1/2021	0.9
American Zinc Recycling	--	0.9
McDermott International Inc.	8.000%, due 5/1/2021	0.6
Weekley Homes LP	6.000%, due 2/1/2023	0.6

<sup>1</sup> % of Total Portfolio

Data source: H&W, FactSet, Bloomberg

Informational purposes and should not be considered as investment recommendations. Information provided is based on representative portfolio of the Capital Income strategy. Statistics and holdings may vary due to different restrictions, cash flows, and other relevant considerations. Holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients, and may not be indicative of current or future holdings or trading activity. No assumptions should be made that companies identified, or all investment decisions were, or will be profitable. A complete list of portfolio holdings is available upon request. Statistics presented may be based on proprietary or third-party estimates, which are subject to change and cannot be guaranteed. # of Active Issuers excludes calls, tenders, and restructured issuers that are being liquidated (125 total issuers). 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. Investing in value stocks presents the risk that value stocks may fall out of favor with investors and underperform growth stocks during given periods. Information supplemental to strategy's composite presentation provided in accompanying performance schedule.

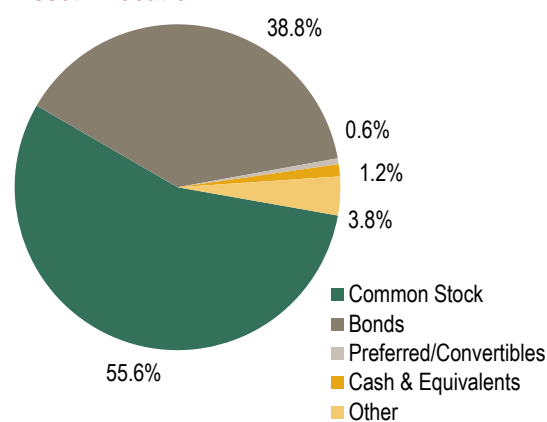
## What to Expect

- ▶ Income focus
- ▶ Diligent research
- ▶ Flexible asset allocation
- ▶ Nimble asset base

## Firm Facts

- ▶ Founded in 1980
- ▶ \$32 billion in assets under management
- ▶ Majority-owned by employees
- ▶ Bottom-up, research-driven approach

## Asset Allocation<sup>1</sup>

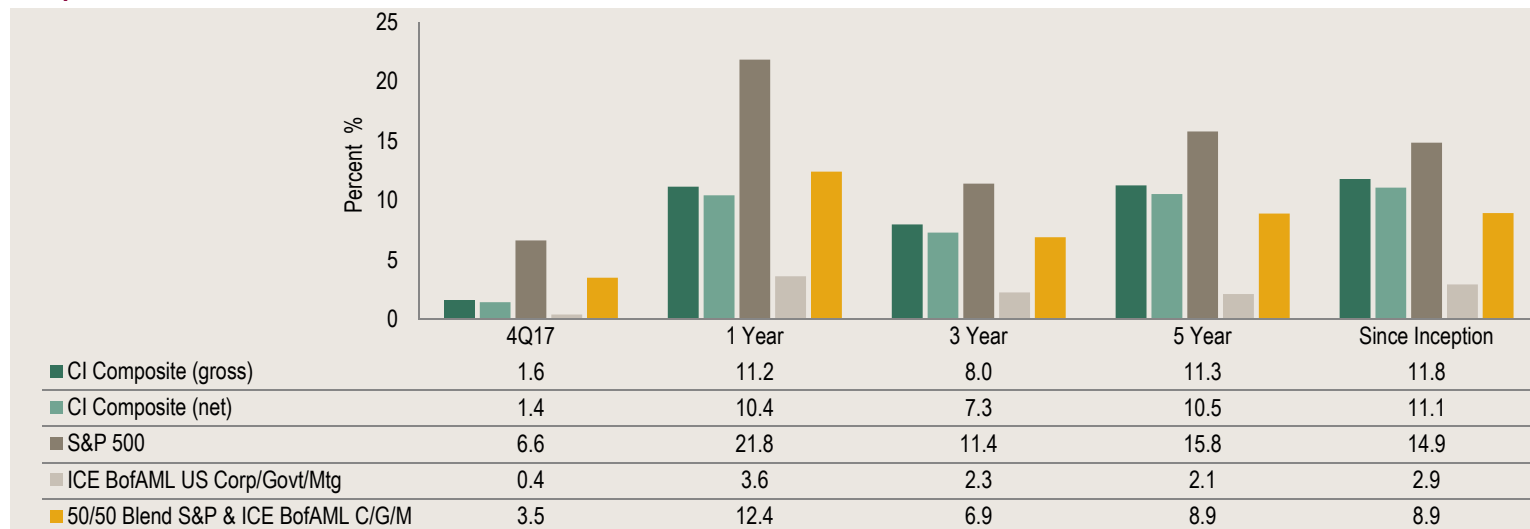


## Bond Credit Quality

	Portfolio
Cash & Equivalents	3.6%
Investment Grade	1.9
BB	35.4
B	45.1
CCC+ or lower	8.9
Non-Rated	6.7
Credit Default Swap Index	-1.6

# CAPITAL INCOME

## Composite Performance as of December 31, 2017



Commencement of Capital Income (CI) Composite: 10/1/10. Periods over one year are average annual total returns.

Hotchkis and Wiley Capital Management, LLC (the "Firm" or "H&W") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. H&W has been independently verified for the periods October 9, 2001 through December 31, 2016. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Capital Income Composite has been examined for the periods October 1, 2010 through December 31, 2016. The verification and performance examination reports are available upon request.

H&W is an independent investment management firm registered with the U.S. Securities and Exchange Commission and manages value equity and high yield assets for institutional and mutual fund investors. Its predecessor firm was established in 1980. The equity team of the predecessor firm established H&W in October 2001.

H&W refers to itself as a "registered investment adviser" in materials distributed to current and prospective clients. As a registered investment adviser with the SEC, H&W is subject to the rules and regulations adopted by the SEC under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Registration as an investment adviser is not an indication that H&W or its directors, officers, employees or representatives have attained a particular level of skill or ability.

Valuations and returns are stated in U.S. dollars. Investment returns include reinvestment of dividends, interest, and capital gains. Gross performance results are presented before management and custodial fees but after all trading expenses. Net performance results are presented after actual management fees and all trading expenses but before custodial fees. Prior to January 1, 2011 a model net return was calculated using the highest applicable fee of 65 basis points. H&W's management fees are described in Part 2A of its Form ADV. The standard Capital Income management fee schedule is 60 basis points on the first \$25 million, 50 basis points on the next \$75 million and 40 basis points thereafter. Internal dispersion is calculated using the equal-weighted standard deviation of all portfolios that were included in the Composite for the entire year. A list of composite descriptions and policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Past performance is no guarantee of future performance.

Composite: The Composite includes all Capital Income discretionary accounts. The Capital Income investment strategy seeks high current income and long-term growth of income, as well as capital appreciation, primarily through investments in a diversified portfolio of debt and equity securities. The typical market cap range for stocks is over \$1 billion. There was a non-fee paying account in the Composite which represented 100% of the Composite assets as of 12/31/10. (Composite creation: 2010)

	% Total Return Gross of Fees	% Total Return Net of Fees	% Total Return ICE BofAML Cp/Gv/Mtg	% Total Return S&P	% Total Return 50/50 Blend	# of Accts	Internal Dispersion (%)	Comp. Assets (\$mm)	Total Firm Assets (\$mm)
2017	11.2	10.4	3.6	21.8	12.4	<6	n/m	39	32,037
2016	22.5	21.7	2.6	12.0	7.4	<6	n/m	36	29,952
2015	-7.5	-8.1	0.6	1.4	1.2	<6	n/m	48	28,367
2014	9.0	8.3	6.4	13.7	10.1	<6	n/m	75	32,190
2013	24.2	23.4	-2.3	32.4	13.9	<6	n/m	25	25,962
2012	15.4	14.7	4.4	16.0	10.2	<6	n/m	18	18,781
2011	6.9	6.2	7.9	2.1	5.3	<6	n/m	8	16,171
2010 <sup>(1)</sup>	6.8	6.6	-1.4	10.8	4.6	<6	n/a	1	18,148

<sup>(1)</sup> Period from October 1, 2010 (composite inception) through December 31, 2010.

n/a – not applicable for periods less than one year.

n/m – not considered meaningful for composites with five accounts or less for the full year.

Indexes: The S&P 500® Index ("S&P") is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The ICE BofAML U.S. Corporate, Government & Mortgage Index ("ICE BofAML Cp/Gv/Mtg") is a broad-based measure of the total rate of return performance of the U.S. investment grade bond markets. The Index is a capitalization weighted aggregation of outstanding U.S. treasury, agency and supranational, mortgage pass-through, and investment grade corporate bonds meeting specified selection criteria. The 50/50 benchmark is an average, equal weighted blend of the S&P 500® Index and ICE BofAML U.S. Corporate, Government & Mortgage Index ("50/50 Blend") and is rebalanced monthly. The 50/50 Blend was added to the presentation effective December 2013 to provide a comparable blended index to the balanced strategy. These indexes assume reinvestment of dividends and capital gains, and assume no management, custody, transaction or other expenses. The strategy used in managing the accounts in the Composite may prevent or limit investment in major bonds or stocks in the S&P and ICE BofAML Cp/Gv/Mtg and returns may not be correlated to the indexes. The ICE BofAML Indices were known as the BofA Merrill Lynch Indices prior to October 23, 2017. Benchmark returns are not covered by the report of independent verifiers.

The 3-year annualized standard deviation measures the variability of the composite (using gross returns) and the benchmark(s) returns over the preceding 36-month period. As of December 31, 2012, the Composite did not have a 3-year track record.

	3-Year Annualized Standard Deviation (%)			
	Composite	ICE BofAML Cp/Gv/Mtg	S&P	50/50 Blend
2017	9.5	2.9	9.9	4.9
2016	9.9	3.1	10.6	5.3
2015	8.2	3.1	10.5	5.4
2014	6.5	2.8	9.0	4.7
2013	8.3	2.8	11.9	5.8

