# DIVERSIFIED VALUE FUND
## Commentary
Calendar Year 2018

Hotchkis & Wiley

## Manager Review and Economic Outlook

### Market Commentary

The S&P 500 Index was up more than +10% through the first nine months of the year before posting its worst calendar quarter in 7 years, falling -13.5% in Q4. The end result was a -4.4% return for calendar year 2018. Until the most recent quarter, robust corporate earnings growth had overcome political unrest across the globe. In the fourth quarter, however, ongoing trade tensions came to the forefront. Markets began pricing in slowing economic growth in several major economies that are important trading partners with the US. In contrast to this however, real GDP growth in the US was a healthy +3.4% in the most recent quarter and the unemployment rate remains below 4%. Both the Federal Reserve and the European Central Bank implemented and spoke of future restrictive monetary policy. This appears to have added to equity investor apprehension. The forward P/E ratio for the S&P 500 declined from 20.0x at the beginning of the year to 15.4x at the end of the year. The index's median P/E since 1990 is 16.4x, so it went from well above average to comfortably below average over the course of the year.

Fears that slowing economic growth would weaken demand weighed heavily on oil prices. West Texas Intermediate crude closed the year at $45/barrel, down 25% from the beginning of the year ($60) and more than 40% from its early October high ($76). Commodity securities were among the worst-performers of the year, with the energy (-18%) and materials sectors (-15%) leading the decline. Industrials and financials, also cyclical sectors, each declined -13% and lagged the market by a wide margin. The non-cyclical healthcare and utilities sectors performed best, returning +6% and +4% during the year, respectively. The performance dispersion and resulting valuation differentials among stocks that are economically sensitive compared to those that are not suggests the market has begun to price in a recession scenario. Economic metrics do not yet verify a meaningful change from positive economic growth. At present, while acknowledging the uncertain economic outlook, we view the valuation support of cyclical stocks as vastly superior to non-cyclicals. We believe this valuation discrepancy provides a "margin of safety" in the long run almost irrespective of near term economic growth.

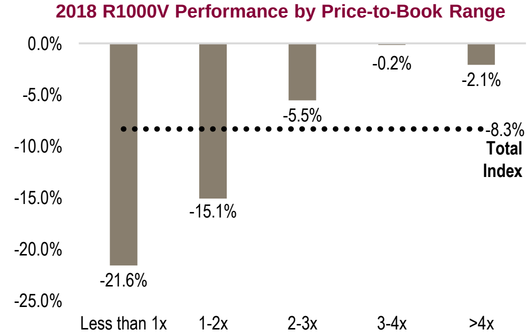
To illustrate the stark contrast in valuation between sectors, consider banks relative to utilities. Five years ago, S&P 500 banks traded at 12.5x consensus earnings while S&P 500 utilities traded at 15.5x. Since then, bank earnings have grown 53% compared to 36% for utilities, but bank stocks have lagged utility stocks. Utilities' total return outpaced its earnings growth considerably, while banks' total return lagged its earnings growth substantially. As a result, bank P/Es compressed while utility P/Es expanded. Today, S&P 500 banks trade at just 9.9x consensus earnings while S&P 500 utilities trade at 17.1x. This translates into an earnings yield of more than 10% for banks and just 5.8% for utilities—a rich valuation for an industry with modest growth prospects.

The valuation disparities among sectors has led to the portfolio's largest sector deviations from the benchmark since the financial crisis. Accordingly, the portfolio trades at a substantial valuation discount to the index, which makes us optimistic about its prospects irrespective of market direction or temperament. The portfolio trades at 7.3x normal earnings compared to 13.1x for the Russell 1000 Value and 16.1x for the S&P 500. The portfolio's price-to-book ratio is 1.3x compared to 1.8x and 2.9x for the Russell 1000 Value and the S&P 500, respectively.

### Attribution: 2018

The Hotchkis & Wiley Diversified Value Fund underperformed the Russell 1000 Value Index in 2018. The portfolio's valuation multiples are lower than that of the index, which hurt relative performance over the course of the year as value lagged growth. For example, 61% of the portfolio was invested in stocks with a price-to-book ratio of less than 2x compared to about 41% for the Russell 1000 Value. This overweight, and corresponding underweight to more richly-valued securities, caused about 60% of the underperformance in the year. Stock selection in financials and consumer discretionary, along with the underweight position in healthcare also detracted from performance. The overweight position and positive stock selection in technology, along with positive stock selection in consumer staples helped relative performance. The largest detractors to relative performance were AIG, Adient, Apache, Vodafone, and Citigroup; the largest positive contributors were Ericsson, Microsoft, Discovery, Hewlett Packard Enterprise, and GlaxoSmithKline.

**2018 R1000V Performance by Price-to-Book Range**



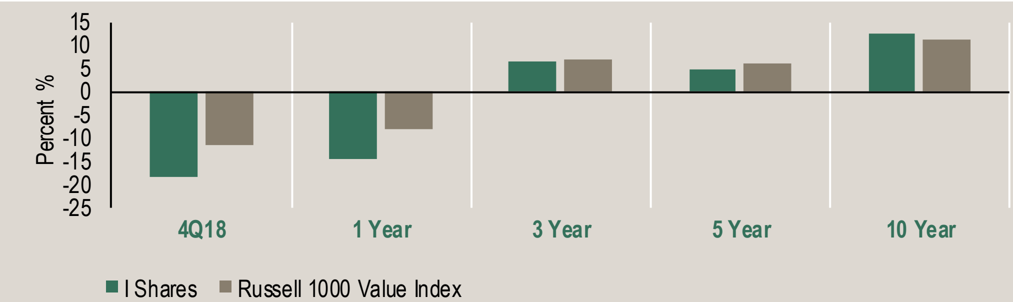

### Largest New Purchases: 2018

AXA Equitable Holdings is a large domestic life insurance company that underwrites and distributes annuities, retirement products, life insurance, and asset management services. It owns a 65% economic interest in AllianceBernstein, a full service, global asset manager that serves both retail and institutional clients. As one of the largest sellers of variable annuities in the US, annuities account for more than 50% of the company's earnings. AXA is well capitalized and is expected to return a significant amount of its earnings to shareholders. Further, the company trades at a very low level of normalized earnings, both on an absolute basis and relative to peers.

General Electric has leading positions in power turbines, jet engines, diesel locomotives, and diagnostic imaging systems. In our opinion, the stock trades at an attractive valuation considering it has a high quality set of businesses with interesting future prospects. Shares have underperformed due to disappointing earnings in its power business, weak corporate cash flow, and concerns about its balance sheet. While the power business is earning returns below normal and it will face ongoing challenges in the near term, its earnings decline is more than reflected in its current share price. The market also misses that GE has great market positions in its aviation, healthcare, and other businesses, with a dominant installed base to service and sell equipment. Concerns about its balance sheet are overblown because the company has great assets well in excess of the company's debt levels.

Halliburton Company, headquartered in Houston, is the second largest global provider of oilfield services. The downturn in energy prices has reduced oilfield activity below sustainable levels, hurting its sales and profitability. As activity rebounds, the majority of Halliburton's product lines should experience significant increases in volumes and pricing. The company is modestly under earning but we have a line of site to normalization that should be more rapid than for competitors given its strength in U.S.-centric completions businesses.

## Performance as of December 31, 2018




| | 4Q18 | 1 Year | 3 Year | 5 Year | 10 Year | Since 8/30/04 |
|---|---|---|---|---|---|---|
| I Shares | -18.54% | -14.74% | 6.58% | 4.68% | 12.28% | 5.95% |
| A Shares without sales charge | -18.59 | -14.93 | 6.32 | 4.42 | 12.00 | 5.69 |
| A Shares | -22.85 | -19.41 | 4.42 | 3.31 | 11.40 | 5.29 |
| C Shares without CDSC | -18.76 | -15.64 | 5.49 | 3.63 | 11.18 | 4.91 |
| C Shares | -19.76 | -16.64 | 5.49 | 3.63 | 11.18 | 4.91 |
| Russell 1000 Value Index | -11.72 | -8.27 | 6.95 | 5.95 | 11.18 | 7.14 |

**The Fund's total annual operating gross expense ratio as of the most current prospectus is 0.97% for I Shares, 1.22% for A Shares and 1.97% for C Shares. The net expense ratio is 0.80% for I Shares, 1.05% for A Shares and 1.80% for C Shares. The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 29, 2019.**

**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.**

**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.**

**(Inception date: I , A and C Shares-8/30/04). Returns shown for A Shares and C Shares without sales charge do not reflect the maximum sales load of 5.25% or the Contingent Deferred Sales Charge (CDSC) of 1.00% for the first year; if reflected, performance would be lower than shown. Returns for A and C shares reflect the deduction of the current maximum initial sales charges of 5.25% and 1.00% CDSC. C Shares convert automatically to A Shares approximately eight years after purchase. A Shares are subject to lower annual expenses than C Shares.** Class 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.

The Russell 1000® Value Index measures the performance of those Russell 1000® 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. The Fund's value disciplines may prevent or restrict investment in major stocks in the benchmark indices. It is not possible to invest directly in an index. The Fund's returns may not correlate with the returns of their benchmark indices. Margin of safety is a principle of investing in which an investor only purchases securities when the market price is significantly below its intrinsic value; when market price is significantly below your estimation of the intrinsic value, the difference is the margin of safety. Price-to-book value is the price of a stock divided by its book value. Forward P/E (Price/Earnings) ratio is a stock's price over its predicted earnings per share. Earnings growth is the annual rate of growth of earnings from investments. Top ten holdings as of 12/31/18 as a % of the Fund's net assets: American Int'l Group Inc. 5.4%, Wells Fargo & Co. 3.7%, Citigroup Inc. 3.7%, Hewlett Packard Enterprise 3.6%, General Electric Co. 3.4%, Oracle Corp. 3.0%, General Motors Co. 2.9%, Microsoft Corp. 2.7%, Discovery Inc. 2.6% and Marathon Oil Corp. 2.5%. Fund holdings are subject to change and are not recommendations to buy or sell any security.

*Mutual fund investing involves risk. Principal loss is possible. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. The Fund may invest in American Depository Receipts ("ADRs") and Global Depository Receipts ("GDRs") which may be subject to some of the same risks as direct investment in foreign companies.*

### Contributors to Performance

| Top Five | % of Total Portfolio[1] |
|---|---|
| Ericsson | 1.2% |
| Microsoft Corp. | 2.7 |
| Andeavor | 0.0 |
| Discovery Inc. | 2.6 |
| Anthem Inc. | 0.8 |

| Bottom Five | % of Total Portfolio[1] |
|---|---|
| Apache Corp. | 2.3% |
| Adient PLC | 0.5 |
| Citigroup Inc. | 3.7 |
| General Electric Co. | 3.4 |
| American International Group Inc. | 5.4 |

### Classes & Tickers

| | |
|---|---|
| I Shares | HWCIX |
| A Shares | HWCAX |
| C Shares | HWCCX |

[1]% of total portfolio includes total investments, cash and cash equivalents, and accrued investment income on a trade date basis.

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. Specific securities identified are the largest contributors (or detractors) on a relative basis to the Russell 1000 Value Index. Securities' absolute performance may reflect different results. The Fund may not continue to hold the securities mentioned and the Advisor has no obligation to disclose purchases or sales of these securities. Attribution is an analysis of the portfolio's return relative to a selected benchmark, is calculated using daily holding information and does not reflect the payment of transaction costs, fees and expenses of the Fund. The "Largest New Purchases" section includes the three largest new security positions during the year based on the security's year-end weight adjusted for its relative return contribution; does not include any security received as a result of a corporate action; if fewer than three new security positions during the year, all new security positions are included.

**NOT FDIC INSURED**
**NO BANK GUARANTEE**
**MAY LOSE VALUE**

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