

MID-CAP VALUE FUND

Commentary

Third Quarter 2017



Manager Review and Economic Outlook

Market Commentary

The Russell Midcap Index returned +3.5% in the third quarter; the Russell Midcap Growth and Russell Midcap Value Indexes returned +5.3% and +2.1%, respectively. The S&P 500 Index returned +4.5%, its 8th consecutive positive quarter. Dating back to 2013, the index has generated a positive return in 18 of the last 19 calendar quarters—a feat it had not previously accomplished in its 90+ year history. Part of the reason for this impressive run was the market's valuation at the outset of the period. At the beginning of 2013, the Russell Midcap Index traded at 13x consensus earnings and 2x book value; the financial crisis' mess had been largely cleaned up but valuations remained in check. Since then, corporate earnings have been strong and the economic environment supportive. Accordingly, we categorize most of the performance over this period as a reversion toward normal market valuations as opposed to a market that has overheated dramatically. Based on most valuation measures, the reversion appears to have overshot historical averages but not wildly so—we are not alarmed, we are guarded.

Thus far in 2017, mid cap growth stocks have outperformed mid cap value stocks by nearly 10 percentage points. This has led to a wide valuation discrepancy between the value and growth indexes: the Russell Midcap Value trades at 19x forward earnings and 2x book value

compared to the Russell Midcap Growth at 24x and 6x, respectively. We have continued to find value opportunities selectively, though it is more difficult today than it was 5 years ago. Energy, financials, and consumer discretionary represent the portfolio's largest weights; REITs and utilities represent the largest underweights. The former sectors not only trade at considerable valuation discounts but also have higher earnings growth expectations over the next two years compared to the latter sectors. We are always leery of paying high multiples for stocks, particularly when growth prospects are bleak.

While select market segments appear richly valued, others remain quite attractive. Given this dichotomy, our portfolio's composition and its characteristics are vastly different from the index. The valuation discount is particularly striking; the portfolio trades at 7x normal earnings compared to 16x for the Russell Midcap Value. The portfolio trades at 1.1x book value compared to 1.9x for the index.

Attribution: 3Q 2017

The Hotchkis & Wiley Mid-Cap Value Fund (Class I) outperformed the Russell Midcap Value Index in the third quarter. Overall stock selection was positive, with utilities and industrials leading the way. The overweight in energy and underweight in both healthcare and real

estate also helped. On the negative side, stock selection in real estate, consumer discretionary, and healthcare were the largest detractors. The largest individual contributors to relative performance were Navistar, NRG Energy, Kosmos Energy, Hewlett Packard Enterprise, and Calpine; the largest detractors were Popular, Ericsson, Bed Bath & Beyond, Office Depot, and Ophir Energy.

Portfolio Activity: 3Q 2017

We increased the weight in energy modestly by adding to the positions in Whiting Petroleum and C&J Energy Services, we believe both are among the most attractively-valued stocks in the portfolio. We also increased the technology weight by adding to Hewlett Packard Enterprise, which became the portfolio's largest position by quarter-end. After adjusting for the recent spinoff of its software business and the net cash on its balance sheet, the remaining enterprise trades at an attractive multiple of its operating income, in our opinion. We reduced the weight in utilities by trimming the position in Calpine, which is in the process of being acquired.

Mutual fund investing involves risk. Principal loss is possible. Investing in small and medium-sized companies involves greater risks than those associated with investing in large company stocks, such as business risk, significant stock price fluctuations and illiquidity. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

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. Portfolio managers' opinions and data included in this commentary are as of 9/30/17 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.

MID-CAP VALUE FUND

Performance as of September 30, 2017



	3Q17	1 Year	3 Year	5 Year	10 Year	Since 1/2/97
I Shares	3.53%	15.48%	4.55%	12.95%	8.40%	12.22%
A Shares without sales charge	3.47	15.20	4.29	12.67	8.13	11.95
A Shares	-1.97	9.14	2.43	11.46	7.55	11.66
C Shares without CDSC	3.29	14.35	3.51	11.83	7.39	11.14
C Shares	2.29	13.35	3.51	11.83	7.39	11.14
R Shares	3.39	14.88	4.03	12.38	7.86	11.74
Russell Midcap Value Index	2.14	13.37	9.19	14.33	7.85	10.62

The Fund's total annual operating expense ratio as of the most current prospectus is 1.03% for I Shares, 1.28% for A Shares, 2.03% for C Shares and 1.53% for R shares. Expense ratios shown are gross of any fee waivers or expense reimbursements.

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.

Returns shown for A, C and R Shares for the periods prior to their inception are derived from the historical performance of I Shares of the Fund during such periods and have been adjusted to reflect the higher total annual operating expenses of each specific Share class (Inception date: I Shares-1/2/97, A and C Shares-1/2/01, R Shares-8/28/03). 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 Midcap® Index, an unmanaged index, measures the performance of the 800 smallest companies in the Russell 1000® Index. The Russell Midcap® Value Index measures the performance of those Russell Midcap® companies with lower price-to-book value ratios and lower forecasted growth values. The Russell Midcap® Growth Index measures the performance of those Russell Midcap® Index companies with higher price-to-book ratios and higher 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. Real Estate Investment Trusts (REITs). Book value is the net asset value of a company, calculated by subtracting total liabilities from total assets. Earnings growth is the annual rate of growth of earnings from investments. Top ten holdings as of 9/30/17 as a % of the Fund's net assets: Hewlett Packard Enterprise 4.9%, Popular Inc. 4.2%, ARRIS International PLC 4.0%, Kosmos Energy Ltd. 3.8%, Citizens Fin'l Group Inc. 3.6%, Goodyear Tire & Rubber 3.5%, Whiting Petroleum Corp. 3.3%, Ericsson 3.2%, CIT Group Inc. 3.0%, and Cairn Energy PLC 3.0%. Fund holdings are subject to change and are not recommendations to buy or sell any security.

Contributors to Performance

Top Five	% of Total Portfolio ¹
Navistar International Corp.	2.4%
NRG Energy Inc.	2.5
Kosmos Energy Ltd.	3.8
Hewlett Packard Enterprise	4.9
Cairn Energy PLC	3.0

Bottom Five	% of Total Portfolio ¹
Office Depot Inc.	2.3%
Discovery Communications	2.4
Popular Inc.	4.2
Ericsson	3.2
Bed Bath & Beyond Inc.	2.3

Classes & Tickers

I Shares	HWMIX
A Shares	HWMAX
C Shares	HWMCX
R Shares	HWMRX

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 periods. 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 Midcap 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.

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

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