

Hotchkis & Wiley High Yield I HWHIX

There have been periods of exception, but bond-picking is usually the root of this fund's success.

Morningstar's Take HWHIX

Morningstar Rating ★★★

Morningstar Analyst Rating Bronze

Morningstar Pillars

Process	+	Positive
Performance	+	Positive
People	+	Positive
Parent	+	Positive
Price	+	Positive

Role In Portfolio

Supporting

Fund Performance HWHIX

Year	Total Return (%)	+/- Category
YTD	6.01	-0.34
2018	-3.41	-0.82
2017	8.24	1.77
2016	16.02	2.72
2015	-4.30	-0.29

Data through 3-31-19

3-06-19 | by Eric Jacobson

Hotchkis & Wiley High Yield is likely to stumble now and then, but its deep research, veteran management, and focus on small- and mid-cap issuers have led to a strong record and a Morningstar Analyst Rating of Bronze.

The fund launched during a white-hot postcrisis rally, so while its since-inception record looks good, its 8.3%-per-year gains from the end of 2009 through January 2019 placed just outside the best decile of unique high-yield funds. Its managers credit their small-cap analysts (who also focus on stocks) with great bond-by-bond research. In 2016, for example, Hotchkis reported that most of its index outperformance was driven by security selection in autos, energy, and capital goods, while bond picks (or avoidance) among metals, energy, and telecom names were crucial in 2017. There have been some misses, including a handful of poorly performing names in 2018, but the fund has otherwise delivered good results.

The managers target a portfolio of 125 issuers and emphasize small- and mid-cap names whose lower profiles leave them looking cheap. And while the fund doesn't generally make deliberate sector bets, its picks can drive large weightings. At the end of 2017, for example, that meant a 22% exposure to energy, versus roughly 14% in its BB-B rating focused benchmark.

Smaller issues often trade lightly and that's an issue both critical to this fund's profile and deserving of investor vigilance. That said, the team looks to carefully manage liquidity, typically keeping a stash of assets in a mix of cash, credit default swaps, and more-liquid names while forecasting portfolio cash inflows and outflows. Its style can definitely cause volatility, though, and the fund has struggled some in sell-offs. In addition to a few name-specific hits in 2018 that included deep losses among energy issuers such as Sanchez and Ultra Resources, the fund was pulled down by disproportionate pain among smaller issuers during the year's fourth-quarter sell-off, according to the fund's managers.

Encouragingly, these periods haven't been enough to take a significant toll on the record of this fund, which remains an appealing choice.

Process Pillar + Positive | Eric Jacobson
03/06/2019

Managers Ray Kennedy and Mark Hudoff prefer the undervalued bonds of hard-asset borrowers over the leveraged-buyout debt that often dominates the high-yield market. The fund, which is run against the ICE BofAML BB-B U.S. High Yield Constrained Index, typically carries a higher-quality bent and holds fewer CCC bonds than the broader market (less than 10%).

The team's focus on smaller-cap issues is notable. These names constitute a modest portion of the high-yield market's issuance but account for nearly three fourths of issuers. Hotchkis & Wiley is staffed to find

values in this space. The firm fields a sizable research team focused on small-cap names that provides input to both equity and fixed-income teams.

Smaller-cap issues can be less liquid, and the team employs a number of tools to manage liquidity. Exposure to individual issuers tops out at a little more than 1% of assets, and the team maintains a stash of more-liquid instruments, including cash, credit default swap baskets, and yield-to-call bonds. It also carefully forecasts cash inflows and outflows.

Skillful security selection, a modest asset base (\$2.6 billion as of February 2019), and the firm's intent to close the overall strategy (including institutional accounts) at somewhere between \$5 billion and \$7 billion support this fund's Positive Process Pillar rating.

Ray Kennedy and Mark Hudoff typically keep less than 10% in short-term special situations and trading opportunities, 25% to 40% in medium-term bets with high return potential from turnarounds or rapidly improving situations, and 50% to 75% in core holdings with defensive and improving credit profiles.

The fund's target universe overlaps with most competitors', but the team skews toward mid- and smaller-cap debt and bonds with more capital-structure seniority and asset security. In concert with a modest 5.5% out-of-index CCC rated bond allocation, those exposures helped the fund to a 150-basis-point yield advantage over its benchmark at the end of 2018. Combined with its CCC holdings, a 12.6-percentage-point overweight in B rated and nonrated debt offset an underweight in BB and investment-grade fare.

The fund's focus on smaller-cap names and asset-rich companies can leave it looking quite different than its BofAML BB-B U.S. High Yield Constrained Index benchmark. As of January 2019, for example,

the fund featured a near 10-percentage-point overweight in a mix of basic industries (including building and construction and chemicals, for example). By contrast, an 8-percentage-point overweight in energy at the end of 2017 drifted down during 2018, ultimately scaling back to 1% by January, while the fund maintained meaningful underweights to telecom and financial services and banking.

Performance Pillar + Positive | Eric Jacobson
03/06/2019

This fund got off to a slow start in 2009 as manager Ray Kennedy struggled to buy big enough blocks of bonds while high yield roared back from giant 2008 losses. Since then, it has impressed and earns a Positive Performance rating. From January 2010 through January 2019, the fund's 7.4% annualized gain outpaced nearly 90% of its (unique) high-yield peers. Although stumbles in 2018 went against the trend, strong bond-picking otherwise deserves much of the credit, and that was true in 2017, according to Hotchkis & Wiley data: Among the five sectors making the strongest contributions to the fund's outperformance versus its benchmark, bond-picking accounted for roughly 80% to 100% of the boost in four of them.

Despite the fund's tilt toward higher-tier junk, though, it has sometimes struggled in weaker credit markets. The fund held up reasonably well through the first part of 2015, avoiding some of the worst-hit names in the energy sector, but some of the fund's smaller-cap names, including retailer Quiksilver, were hit particularly hard in late 2015 and early 2016. To management's credit, security selection in autos, energy, and capital goods saved that year, and the fund finished near the top of its peers. After strong 2016 and 2017 showings, meanwhile, the fund's small-cap focus and a handful of individual credit problems put the fund 76 basis points behind its (unique) peers' median return for 2018.

People Pillar + Positive | Eric Jacobson
03/06/2019

Managers Ray Kennedy and Mark Hudoff joined Hotchkis & Wiley from PIMCO in 2008 and 2009, respectively. Both have deep experience as credit analysts and high-yield portfolio managers, supporting this fund's Positive People Pillar rating. Prior to arriving at PIMCO, Kennedy managed

portfolios of privately placed investment-grade and high-yield debt at Prudential. Hudoff started at PIMCO as a credit analyst for the high-yield team and moved to Europe in 2000 to build and manage the firm's European credit business. He later managed U.S. high-yield strategies. Each was mentored by former PIMCO High Yield PHIYX manager Ben Trosky during his years at that firm, and Hudoff succeeded Kennedy as head of the high-yield desk when the latter departed PIMCO in April 2007.

Crucial to the team's success have been integration and interaction with the firm's formerly equity-focused analyst group. Kennedy and Hudoff have helped train that group for bond research over the years and 22 analysts (including a late 2017 hire) and six research associates support them.

Kennedy and Hudoff have built their team as the fund has grown, including the addition of a dedicated junior high-yield analyst in 2018. Patrick Meegan, who joined the firm in 1998 as an analyst, was named a portfolio manager here in 2012. In 2013, Richard Mak joined from PIMCO and leads the fund's trading activities.

Parent Pillar + Positive | Eric Jacobson
03/06/2019

Hotchkis & Wiley is a value-oriented, institutional-focused boutique that boasts high manager retention, a team-oriented culture, and a stable of 10 funds that have not ventured beyond the firm's core competencies. Key-person risk is low given the team approach, and analyst turnover has been close to zero for the past decade. Most of the investment team members (who average 15 years at Hotchkis & Wiley) are owners of the firm, and manager ownership of fund shares is solid. Plus, the firm has shown a willingness to close strategies that reach capacity limits, as it closed all of its strategies in 2006. Today, Hotchkis & Wiley Small Cap Value is closed.

Fees are less of a drawback than they used to be, but they're still too high overall. More than a third of assets are in share classes priced above-average or high relative to peers, despite the fact that the firm has close to \$30 billion in assets under management. Plus, the equity funds' aggressive, often deep-value nature means performance can be boom-or-bust,

which can affect risk-adjusted performance, investor returns, and asset flows. But patient investors who understand what they are buying can benefit. The firm offers true active management and sticks with its discipline through thick and thin. Hotchkis & Wiley's culture is investor-friendly in most respects, earning a Positive Parent rating.

Price Pillar + Positive | Eric Jacobson
03/06/2019

At 95 basis points, expenses on the fund's A shares (17% of assets) ranked as below average relative to other front-load options, and the 15% in its Z class pay fees that landed in its fee comparison group's cheapest quintile. But nearly 70% of this fund's assets are in its institutional share class, and its 70-basis-point expense ratio (excluding some investment-related expenses) ranks as average relative to similarly distributed share classes. Overall, the fund earns a Positive Price Pillar rating. Investors who redeem their shares within 90 days of purchase are subject to a 2% redemption fee.

Morningstar's Take as of April 18, 2019
Hotchkis & Wiley High Yield Fund

Average Annual Returns as of September 30, 2019

	1 Year	3 Year	5 Year	10 Year	Since 3/31/09	Expense Ratio	
						Gross	Net
Class I	1.43%	4.61%	4.07%	7.74%	9.57%	0.74%	0.70%
Class A (w/o sales charge)	1.15	4.37	3.82	7.44	9.23	1.02	0.95
Class A	-2.61	3.06	3.03	7.03	8.83	1.02	0.95
Class C (w/o CDSC)	0.35	3.55	3.04	6.66	8.47	1.68	1.65
Class C	-0.60	3.55	3.04	6.66	8.47	1.68	1.65
Class Z	1.54	4.68	4.12	7.76	9.59	0.63	0.60
ICE BofAML BB-B US High Yield Const. Index	7.87	5.99	5.49	7.62	10.05		
Morningstar High Yield Bond Category Average	5.27	5.10	4.09	6.75	n/a		

The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through August 29, 2020.

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 Z 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-3/31/09, A Shares-5/29/09, C Shares-12/31/12, Z Shares-3/29/18). Returns shown for A Shares and C Shares without sales charge do not reflect the maximum sales load of 3.75% 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 3.75% 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.

Mutual fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment by the fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. The Fund may invest in derivative securities, which derive their performance from the performance of an underlying asset, index, interest rate or currency exchange rate. Derivatives can be volatile and involve various types and degrees of risks. Depending on the characteristics of the particular derivative, it could become illiquid. Investment in Asset Backed and Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund may invest in foreign as well as emerging markets which involve greater volatility and political, economic and currency risks and differences in accounting methods. Investing in smaller and/or newer companies involves greater risks than those associated with investing in larger companies, such as business risk, significant stock price fluctuations and illiquidity.

Bond quality ratings are grades given to bonds that indicate their credit quality as determined by private independent rating services such as Standard & Poor's, Moody's or Fitch. These firms evaluate a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. In limited situations when none of the three rating agencies have issued a formal rating, the Advisor will classify the security as nonrated.

Top 10 holdings as of 9/30/19 as a % of the Fund's net assets: HCA Inc. 1.4%, General Electric Co. 1.4%, CCO Holdings LLC 1.2%, American Zinc Recycling 1.1%, Rain CII Carbon LLC 1.0%, Rayonier A.M. Products Inc. 0.9%, Enviva Partners LP 0.9%, CSC Hldgs LLC 0.9%, Schweitzer-Mauduit Int'l Inc. 0.9%, and Matthews Int'l Corp. 0.9%. 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. 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. Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument. Investment grade indicates that a municipal or corporate bond has a relatively low risk of default.

The ICE BofA ML BB-B US High Yield Constrained Index contains all securities in the ICE BofAML US High Yield Index rated BB+ through B- by S&P (or equivalent as rated by Moody's or Fitch), but caps issuer exposure at 2%. Index constituents are capitalization weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. The index does 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. The Fund's returns may not correlate with the returns of their benchmark index. References to other products should not be interpreted as an offer of these securities.

Unique High Yield Funds referenced in the article is defined by Morningstar as: A subset of each category for which Morningstar selects only one share class as a representative for each fund. Multiple share classes—as well as expense differentials among them—can have a big impact on category statistics, particularly for fixed-income funds. For the time period referenced, (1/1/2010 through 1/31/2019), there were 120 distinct funds in the high yield category. The Hotchkis and Wiley High Yield Fund (HWHIX) received a 3-Star Overall Morningstar Rating among 613 High Yield Bond Funds for the period ending 9/30/19 (derived from a weighted average of the Fund's three-, five- and ten-year risk adjusted return measure, if applicable).

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating™ for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating™ metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months

of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. HWHIX received 2 stars for the three-year, 3 stars for the five-year and 4 stars for the ten-year time periods ended 9/30/19 among 613, 532 and 344 High Yield Bond Funds, respectively. Ratings for other share classes may vary.

Morningstar Rankings represent a fund's total-return percentile rank relative to all funds that have the same Morningstar Category. The highest percentile rank is 1 and the lowest is 100. It is based on Morningstar total return, which includes both income and capital gains or losses and is not adjusted for sales charges or redemption fees. Morningstar ranked the Hotchkis and Wiley High Yield Fund Class I in the 96%, 54% and 10% out of 711, 532 and 344 High Yield Bond funds for the one-, five- and ten-year periods ending September 30, 2019, respectively. Ranking is for the share class indicated only. Other share classes will have different rankings. ©2019 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance is no guarantee of future results.**

Each Morningstar Category Average represents a universe of funds with similar investment objectives. The Morningstar Analyst Rating™ for funds is the summary expression of Morningstar's forward-looking analysis of a fund. Morningstar analysts assign the ratings on a five-tier scale with three positive ratings of Gold, Silver, and Bronze, a Neutral rating, and a Negative rating. Morningstar evaluates funds based on five key pillars—Process, Performance, People, Parent, and Price—which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis. Morningstar Analyst Rating is not a credit or risk rating. It is a subjective evaluation performed by the mutual fund analysts of Morningstar, Inc. Morningstar evaluates funds based on five key pillars, which are process, performance, people, parent, and price. Morningstar's analysts use this five pillar evaluation to identify funds they believe are more likely to outperform over the long term on a risk-adjusted basis. Analysts consider quantitative and qualitative factors in their research, and the weighting of each pillar may vary. The Analyst Rating ultimately reflects the analyst's overall assessment and is overseen by Morningstar's Analyst Rating Committee. The approach serves not as a formula but as a framework to ensure consistency across Morningstar's global coverage universe.

The Analyst Rating scale ranges from Gold to Negative, with Gold being the highest rating and Negative being the lowest rating. A fund with a "Gold" rating distinguishes itself across the five pillars and has garnered the analysts' highest level of conviction. A fund with a "Silver" rating has notable advantages across several, but perhaps not all, of the five pillars—strengths that give the analysts a high level of conviction. A "Bronze"- rated fund has advantages that outweigh the disadvantages across the five pillars, with sufficient level of analyst conviction to warrant a positive rating. A fund with a "Neutral" rating isn't seriously flawed across the five pillars, nor does it distinguish itself very positively. A "Negative" rated fund is flawed in at least one if not more pillars and is considered an inferior offering to its peers. Analyst Ratings are reevaluated at least every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to <http://corporate.morningstar.com/us/documents/MethodologyDocuments/AnalystRatingforFundsethology.pdf>.

The Morningstar Analyst Rating should not be used as the sole basis in evaluating a mutual fund. Morningstar Analyst Ratings are based on Morningstar's current expectations about future events; therefore, in no way does Morningstar represent ratings as a guarantee nor should they be viewed by an investor as such. Morningstar Analyst Ratings involve unknown risks and uncertainties which may cause Morningstar's expectations not to occur or to differ significantly from what we expected.

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