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MORNINGSTAR®

Hotchkis & Wiley High Yield I HWHIX

A solid team and strong security selection has given this relatively small high-yield fund an edge.

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	3.69	1.16
2016	16.02	2.72
2015	-4.30	-0.29
2014	1.09	-0.01
2013	8.71	1.81

Data through 2-28-17

2-27-17 | by Eric Jacobson

Hotchkis & Wiley High Yield has distinguished itself with strong security selection, a relatively compact portfolio, and a focus on small- and mid-cap issuers. That edge supports the fund's Morningstar Analyst Rating of Bronze.

High-yield veterans Ray Kennedy and Mark Hudoff run a fairly plain-vanilla portfolio, with an approach that's designed to be driven by security selection rather than big shifts in credit quality or macro positioning. The pair sticks to domestic high-yield bonds, eschewing emerging-markets debt and common stock, and the portfolio typically runs at 125-135 issuers, smaller than many competitors. The team pays particularly close attention to small- and mid-cap names, which, it argues, aren't as widely followed and offer particularly attractive opportunities: As of late 2016, roughly 30% of the portfolio was in issues of between $250 million and $500 million, and 8% in those less than $250 million. Smaller issues can be less liquid, and the team carefully manages liquidity, keeping a stash of the portfolio in a mix of cash, baskets of credit default swaps, and more-liquid names while forecasting portfolio cash inflows and outflows.

The results here have been impressive. Kennedy and Hudoff credit the firm's small-cap analysts (who also focus on stocks) with many of the fund's best picks and, indeed, bond-by-bond selection has driven much of its success. After a relatively lackluster 2009, during which the recently launched fund struggled to put cash to work, it has had several strong years. In 2016, for example, most of its success was driven by security selection in autos, energy, and capital goods.

The fund’s focus on small caps does come with additional risk, and it has struggled some in recent high-yield sell-offs. After holding up relatively well through much of 2015, thanks in part to strong security selection in energy, the fund had a rough fourth quarter and early 2016 as many of its smaller-cap names were hit hard, including troubled retailer Quiksilver. Encouragingly, these periods haven’t been enough to take a significant toll on the fund's long-term record, and this remains a solid choice.

Process Pillar Positive | Eric Jacobson 02/27/2017

Managers Ray Kennedy and Mark Hudoff stick with high-yield issues; they don't buy emerging-markets debt and avoid leverage. They 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 BofA Merrill Lynch 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 stands out. 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 names 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 late February 2017), and the firm's intent to close the strategy at $5 billion (subject to market conditions) support this fund's Positive Process Pillar rating.

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

The fund's target universe overlaps with that of most competitors--an arena dominated by large issuers--but Kennedy and Hudoff skew toward mid- and smaller-cap debt and bonds with more capital-structure seniority and asset security than those of their rivals. As of December 2016, roughly 40% the portfolio was invested in issues of less than $500 million. The fund's stake in riskier CCC credits (roughly 6% as of December) tends to run lower than that of many of its peers.

The fund's focus on smaller-cap names and preference for asset-rich companies can leave it looking quite a bit different than its BofA Merrill Lynch BB-B U.S. High Yield Constrained Index benchmark. As of December 2016, for example, the fund featured a roughly 6% overweighting in energy. While the fund's allocation to the struggling sector hurt it in 2015, security selection within that stake was a positive as the team avoided some of the larger exploration and production companies that were hit particularly hard by plunging energy prices. Both bond-picking and the sector's overweighting helped when energy rebounded in 2016.

Performance Pillar ⊕ Positive | Eric Jacobson 02/27/2017

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 significant 2008 losses. Since then, it has impressed and earns a Positive Performance rating. From January 2010 through January 2017, the fund's 8.6% annualized gain outpaced more than 85% of its (distinct) high-yield peers. Strong bond-picking deserves much of the credit. In 2010, for example, opportunistic bets in the auto and industrials sectors and media names such as Interpublic Group IPG and Valassis helped drive returns. Both 2012 and 2013 were impressive, too: Picks in the auto and industrials sectors did particularly well in 2013.

Despite the fund's relatively high-quality tilt, it has sometimes struggled in weaker credit markets. Trouble came in 2011 courtesy of an otherwise modest exposure to the preferred debt of banks, which took a hit during a late-summer sell-off that year: Global recession fears and worry over mortgage portfolios proved especially painful for banks. More recently, the fund held up reasonably well through the first part of 2015, avoiding some of the worst-hit names in the energy sector. Some of the fund's smaller-cap names, including retailer Quiksilver, were hit particularly hard in late 2015 and early 2016. The good news is that security selection in autos, energy, and capital goods saved that year and the fund finished near the top of its peers.

People Pillar ⊕ Positive | Eric Jacobson 02/27/2017

Managers Ray Kennedy and Mark Hudoff, who joined Hotchkis & Wiley from PIMCO in 2008 and 2009, respectively, head up this fund. Both have deep experience as credit analysts and as 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 its continued integration and interaction with the firm's formerly equity-focused analyst group. Kennedy and Hudoff have been working to train and tap the group for bond research since setting up shop at the firm. Twenty-one analysts and five research associates support this team.

Kennedy and Hudoff have gradually built the team's capacity as this fund has grown. 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 02/03/2017

Hotchkis & Wiley is a value-oriented boutique that boasts high manager retention, a team-oriented, collaborative 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. Twenty of the 21 members of the investment team (who average 14 years at Hotchkis & Wiley) are owners of the firm, and manager ownership of fund shares is high across the board. The firm has faced no regulatory issues. Hotchkis & Wiley rolled out a few global equity offerings in recent years, but that wasn't unreasonable for the structure, size, and tenure of the investment team. Plus, the firm has shown a willingness to close strategies that reach capacity limits, such as Hotchkis & Wiley Small Cap Value.

Above-average fees are the main drawback: 63% of assets are in share classes priced above-average or high relative to peers. Plus, the equity funds' 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're 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 02/27/2017

More than three fourths of this fund's assets are in its Institutional share class; its 70-basis-point expense ratio has a Morningstar Fee Level of Below Average relative to similarly distributed share classes. At 95 basis points, expenses on the fund's A shares (20% of assets) rank as Low relative to other front-load options. Competitive fees support this fund's Positive Price Pillar rating. Investors who redeem their shares within 90 days of purchase are subject to a 2% redemption fee.

Hotchkis & Wiley

Morningstar's Take as of March 6, 2017
Hotchkis & Wiley High Yield Fund

Average Annual Returns as of December 31, 2017

	1 Year	3 Year	5 Year	Since 3/31/09	Expense Ratio Gross	Expense Ratio Net
Class I	8.24%	6.32%	5.72%	11.16%	0.74%	0.70%
Class A (w/o sales charge)	7.99	6.03	5.45	10.79	0.99	0.95
Class A	3.98	4.68	4.65	10.31	0.99	0.95
Class C (w/o CDSC)	7.17	5.29	4.65	10.05	1.74	1.70
Class C	6.17	5.29	4.65	10.05	1.74	1.70
ICE BofAML BB-B US High Yield Const. Index	8.24	6.32	5.72	11.16		
Morningstar High Yield Bond Category Average	6.47	4.91	4.63	n/a		

The Advisor has contractually agreed to waive advisory fees and/or reimburse expenses through October 31, 2018.

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 and C 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). 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 12/31/17 as a % of the Fund's net assets: American Zinc Recycling 1.2%, CCO Holdings LLC 1.0%, Momentive Performance Mat'ls 1.0%, Rain CII Carbon LLC 1.0%, Weekley Homes LP 0.9%, Kosmos Energy Ltd. 0.9%, Rayonier A.M. Products Inc. 0.9%, McDermott Int'l Inc. 0.9%, AMAG Pharmaceuticals 0.9% and Zachry Holdings Inc. 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.

The Hotchkis and Wiley High Yield Fund (HWHIX) received a 4-Star Overall Morningstar Rating among 609 High Yield Bond Funds for the period ending 12/31/17 (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 4 stars for the three-year and 4 stars for the five-year time periods ended 12/31/17 among 609 and 501 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 top 14% and 15% out of 609 and 501 High Yield Bond funds for the one- and five-year periods ending December 31, 2017, respectively. Ranking is for the share class indicated only. Other share classes will have different rankings. 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/AnalystRatingforFundsethodology.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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