

# Hotchkis & Wiley Mid-Cap Value Webinar Replay

March 2017



## Identifying Mid Cap Opportunities

***Despite equity market levels near all-time highs, we believe ample opportunities continue to exist for active, bottom-up, value investors. Listen in to a recent conference call featuring Portfolio Managers Stan Majcher and Hunter Doble.***

▶ Full Audio Replay

### Audio Highlights:

- ▶ What Makes H&W Unique
- ▶ Overvaluation of Staples, REITS and Regulated Utilities
- ▶ Current Outlook for Banks
- ▶ Our View on Energy and Oil Prices
- ▶ Volatility – Risk or Opportunity



### Hotchkis & Wiley Mid-Cap Value Fund - Average Annual Returns as of September 30, 2017

	Class I	Class A	(w/ sales charge) Class A	Class C	(w/ cdsc) Class C	Class R	Russell Midcap Value Index®	Russell Midcap Index®
1 Year	15.48%	15.20%	9.14%	14.35%	13.35%	14.88%	13.37%	15.32%
3 Year	4.55	4.29	2.43	3.51	3.51	4.03	9.19	9.54
5 Year	12.95	12.67	11.46	11.83	11.83	12.38	14.33	14.26
10 Year	8.40	8.13	7.55	7.39	7.39	7.86	7.85	8.08
Since 1/2/97	12.22	11.95	11.66	11.14	11.14	11.74	10.62	10.25

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](http://www.hwcm.com).

### Transcript

**Operator:** Greetings and welcome to the Hotchkis & Wiley Mid-Cap Value Webinar for Investment Professionals. At this time, all participants are in a listen-only mode. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded, and I'd now like to turn the conference over to your host, Chris Roller, of Hotchkis & Wiley Capital Management. Please go ahead, Chris.

**Chris Roller:** Thank you, operator, and thank you to all those that have dialed in today to join us on the Hotchkis & Wiley Mid-Cap Value Webinar call. We'll be focusing on a review of the portfolio's 2016 calendar year performance, the current positioning of the portfolio, and our expectations for 2017. We're excited to share our past results as well as our outlook for the future with all of you. I would also like to add that we appreciate your loyalty to this investment strategy, and we're enthused to see our clients rewarded with such a strong result in 2016.

Joining us today is Stan Majcher, a Portfolio Manager on the Mid-Cap Value strategy, and Hunter Doble, another Portfolio Manager and member of our investment team here at Hotchkis & Wiley. We are incorporating a new, more interactive format for today's call. Hunter will interview Stan on a variety of issues related to the Mid-Cap Value portfolio. They will also touch on some of the recent questions we have heard from our clients, advisers, and consultants. Our hope is that this new format will facilitate a meaningful exchange of ideas and lead to a productive call. At this point I'm going to turn the call over to Hunter.

**Hunter Doble:** Great. Thanks, Chris, and good afternoon to everyone. As Chris mentioned, the purpose of today's call is to cover our performance in 2016 and to provide some context for the opportunity set we see today. We thought it would make sense to start off by asking Stan to provide an overview of our process and what makes Hotchkis & Wiley unique. Go ahead, Stan.

**Stan Majcher:** Sure. Thanks, Hunter. So, just as a refresher to those of you that are less familiar with Hotchkis & Wiley I generally start off every conversation about any of our strategies with an overview of our firm, what our competitive advantages are, so in order, we think, to beat the market over time. You can either be lucky or be competitively advantaged. We think our competitive advantages, which are very difficult for most firms to replicate, are low turnover of personnel – so, people are our most valuable assets.

Typically with a financial services firm, you'll see high levels of turnover. That's very disruptive to just the efficiency of an organization, especially for an organization like ourselves where we focus on research. So, people – we think stability of staff is very important and is a competitive advantage that most financial services firms don't have.

The second would be our philosophy. So, we're value investors; we think, over time, the strategies have worked well. One of them is value investing, looking for things that are out of favor or undiscovered. Why is that a competitive advantage? It's really not. Any firm, in some respects, could do what we do looking for things that are out of favor. It is a competitive advantage because typically investors abandon a philosophy during periods of underperformance.

So, I have been at the firm for 20 years during the Internet bubble, during the financial crisis, and most recently with the bubble we've seen in bond surrogates – low-vol investing. People have abandoned the philosophy of value investing, and that's what creates the opportunities; so, second competitive advantage. It's not necessarily the philosophy but sticking with it and taking it advantage of the opportunities that it provides, especially during periods of underperformance.

And then, lastly, we limit our assets under management. So, if you look at our performance in Mid-Cap Value, it's one of the strongest track records around<sup>1</sup>, yet we don't manage the most in terms of assets, and we don't want to. We want to have the flexibility to generate the performance that we did in the past. So, I would say those are our three competitive advantages, philosophy, people, and limiting our assets under management.

**Hunter:** That's great, Stan. Thanks. So, looking back at 2016, obviously the Mid-Cap Value Fund outperformed its benchmark<sup>2</sup>. But, could you give us some details into how the year played out and the main drivers of that outperformance?

**Stan:** Sure. So, if you look at 2016, it was a crazy year. I wouldn't have expected in June to say at the end of the year that we outperformed the market<sup>3</sup> by over 200 basis points. So, if we rewound back to June 30th of last year, we were in a significantly different situation. We were well below our benchmark, and we were getting a lot of questions, one of which was low interest rate environment. Assume that low interest rates stay here forever, that they never go up, how could you possibly outperform? We would get that question a lot. So, financials obviously benefit from higher interest rates and the steeper yield curve. What was really benefiting in the market, however, was staples, REITs, utilities, anything with low volatility, low variation in earnings, things

<sup>1</sup>The Hotchkis & Wiley Mid-Cap Value Fund (Class I) ranks #1 among 32 funds in the Morningstar Mid-Cap Value category for the 20-year period ended 1/31/17.

<sup>2</sup>The Hotchkis & Wiley Mid-Cap Value Fund (Class I) outperformed the Russell Midcap Value Index

<sup>3</sup>Russell Midcap Index

that people associate with high-quality businesses. Those stocks have really been bid up to extreme levels, so we'll show some charts later in the presentation that show just how extreme the valuations were; but when you think about that, we're pretty much benchmark agnostic. But, what we are benchmarked to is the Russell Midcap Value. About 35% of that benchmark is in staples, REITs, utilities. I would say on average those stocks traded in June of last year at about 25x earnings. They had actually relatively small dividend yields because the valuations were so high – maybe about 3½%. They were buying back a little bit of stock.

Additionally, probably those stocks are the slowest growing parts of the market. So, unlike past periods where values underperformed, typically you get expensive stocks that are growing very rapidly with extreme valuations that go to even more extreme levels. In this case what was getting some of the highest multiples were really some of the slowest growing parts of the market, which is atypical. And then, we could contrast that with the setup for financials, which Hunter, you're the financials analyst here; the bank analyst. In June 30 the setup versus staples, REITs, and utilities that, which were 25x, what was the valuation like back then in terms of retail banks?

**Hunter:** Yeah, sure. So, for the banks it really was – 2016 was very much a story of two halves. As Stan pointed out, the first half of the year they underperformed. There became this very entrenched belief that rates would never go higher. Why would you want to own a bank? Low rates were obviously hurting the earnings power of the banking – banks that we owned.

So – but to Stan's point, when we looked at them and said, "Okay, well, what are the valuations of these companies," if we looked at the regional banks that we held around June 30th, they were, broadly speaking, trading for 12-12½x the estimated earnings of 2016. And because they had recently been approved for substantially increased payouts during the Fed's CCAR process, which is the annual capital review the Fed goes through, the stress test, basically they had been approved to pay out basically 100% of their earnings.

So, they were able to offer 2% to 2½% dividend yields while at the same time repurchasing 5% to 7% of the shares outstanding. So, we had a situation where, as Stan said, if rates remained permanently low, the earnings power of the banks were going to remain at what we felt were depressed levels, we could buy these securities and pick up high single-digit total return. If you look at the dividend plus the growth and per share value of the business, just through the repurchase of shares. So, even if rates hadn't gone up, we would have had a return that was probably double what we felt was on offer from the bond surrogates, such as staples, utilities, REITs.

Now, as we went through the second half of the year, the interest environment, interest rate environment, changed quite a bit, as obviously expectations for higher inflation, potentially stimulative, fiscal policies, a range of things. The 10-year Treasury went from 150 to 250. All of a sudden, people started to imagine, "Well, what would these businesses do with the benefit of higher rates," which is again, a key part of what our belief was around the normal earnings power of the institutions.

That translated into obviously much higher stock prices for the sector and substantial outperformance. So, we did benefit from what we hoped would happen, which would be – would move toward an environment where people were anticipating more normal interest rates. And as a result of that again, we benefited substantially from that in the financial sector. As a result, we've obviously trimmed back a number of the regional banks that moved from, let's say, 7½-8x normal in our normal valuation framework, to something like 11½-12x.

So, we've trimmed some back. We still feel like it's a relatively attractive part of the market. And in many ways the benefit of rising rates and potentially faster economic growth has really only just begun so still an interesting place. When we kind of – Stan, when we go down the list of sectors that contributed positively to Mid-Cap Value last year, right behind financials is industrials, where again, while we were underweight that sector, we had 63% return to our holdings in the industrial sector. Can you talk a little bit about that?

**Stan:** Sure. So, in industrials we don't have a large weight there; we did have a couple stocks one of which was a company that we initially started buying in the low \$30s to take a small position. The stock fell all the way to \$8 on belief that their own markets were very weak. Nothing we felt had really changed about the quality of the business. It was very strategic probably to a strategic partner or another company. They had good distribution, they had brands, yet the stock went from \$30 to \$8. It allowed us the opportunity to buy more stock, make it a larger position.

And then, low and behold a financial; excuse me, a strategic partner did make an investment at just under \$19 a share. And that gave people comfort that this business is going to be around. It is very viable, and it is very strong, strategically for other people. And so now, the stock trade is in the low \$20s, which allowed us again, to – as something goes up in price to reduce our position there. We still think it's attractively priced, but it's those types of market inefficiencies, where one day something is in the \$30s, the next it's at \$8, the next it's strategic buyers buying at \$18. Fortunately, we were able to add significantly to our position at the low levels that the stock traded at. So, that's pretty helpful for us when we get those opportunities.

**Hunter:** Sure, that's great. So, just moving on then, energy is an area of interest to a lot of people. It's obviously been kind of a wild ride the last few years, going from \$100 down to \$25, or a little below \$30, back up to \$50, in terms of the price of oil. Can you just talk a little about your views on the normal price of oil and then also put it in context. What kind of opportunity do you see in the sector today, given that, again, obviously it's easy for people to look back to last year and see that some of these names have bounced quite a lot? So, I'd be curious – thoughts on those two topics.

**Stan:** Sure. So, in general we like to invest in areas that are out of favor, where we can see earnings revert back to what we consider more normal levels. The nice thing about energy is that it tends to revert fairly quickly. So, if you're not spending enough money on energy – in energy, in oil and gas wells, production will decline. The pressure decreases and the production declines.

So, if companies aren't spending enough, you'll see production decline and demand grows a small amount over time. So, the market tends to balance fairly quickly relative to a lot of other industries. So, we like energy because people make the mistakes that they usually do, which are when things are good, they assume they will be good forever. So, it was difficult to convince people prior to 2014 that oil prices could be below \$100, so not a great time to invest prior to that.

Today, it's very difficult for people to assume a significantly higher price for oil. So, we use the normal price of \$70 to \$80 a barrel. We think today people are not spending enough money. We think people focus too much on the U.S. and the statistics here. So, just to put the U.S. in perspective, U.S. unconventionals, the shales in the United States, the Permian, the Niobrara, the Eagle Ford, etc., are less than 5% of world production.

So, they are relatively small in the grand scheme of things, but they will – we think they are needed to grow relatively quickly, but we don't think that they are big enough or will be big enough to really satisfy all of the world demand growth. So, just back of the envelope numbers, if world demand grows 1% and you've got a subset that's 5%, they need to be growing at about 20% a year. And that assumes that the rest of the world is flat and we think that will be somewhat difficult to do.

So, we think there are a lot of opportunities. We can buy stocks that are – as the chart that hopefully you have on your screen shows – this is a chart that shows the differences in valuations. So, the lower this line goes, the greater the spread between a stock in energy and something else also in energy. So, we think there are actually a lot of expensive stocks in energy, but there are a lot of inexpensive stocks and this is a gauge for determining that. It's not perfect, but usually when the line is low, it means that valuation spreads are very wide, and there are opportunities for securities selection within energy.

So, we think it's actually a very good time to be picking stocks here. When that line is much higher, it means that there aren't much differences between stocks in energy, and it's actually a pretty bad time. And you would want to stick with the higher quality stocks because the lower quality stocks are relatively expensive. So, I would say what we're finding in energy are companies with good balance sheets with a lot of assets, many of which are undervalued, if they are even valued at all, in the market. So, we think energy is a very attractive place right now. It's not an area where we've had a lot of exposure prior to say 2014 and prior, and now we think there's a lot of opportunities.

**Hunter:** Yeah. So, I mean, today we hold about 16½% of the portfolio in energy. Just roughly, what was the exposure to energy, let's say if we went back to 2014 when spreads were not as wide and when the prices of the commodity were higher?

**Stan:** I would say, thinking back, in general it was about half that, if not less. And, remember, given that valuations are very low, having the amount that we do today in energy is significantly greater.

**Hunter:** Yeah.

**Stan:** So, prior to that when we had half the weight, the stocks were significantly more expensive. So, the opportunity for absolute performance we think is higher.

**Hunter:** Yeah, great. Real estate is a sector that we kind of briefly touched on earlier when talking about the financials and some of the bond surrogates. It's been an area that is heavily underweight in mid-cap values – still are underweight, despite the fact that they've underperformed a bit. Just – what are your thoughts on why it's still being so underweight that group?

**Stan:** Yeah. So, if you look at REITs, combine that with staples and utilities, we show a chart up on your screens. We think these are all fairly analogous, which is businesses like this, as you have seen money flow into ETFs that are low vol or actually staple, REIT, or utility, as people try to get yield, they have pushed the valuations of these areas up significantly. And, remember, when you invest in an ETF, you're really taking what the ETF weights are, whether it's market cap weighted or equal weighted, etc., and you're not really basing that investment on the valuation.

So, what is underlying it and when we look at all those businesses together, and I would group REITs in with staples and utilities, investors are paying fairly high prices for very limited growth. And in the case of REITs, which is even more extremist, some of that REIT dividend yield is a return of your capital, not just on your capital. So, your real dividend yields are actually fairly low.

**Hunter:** So, it is still an area that seems like it's got a little ways to go to be attractive to a value investor.

**Stan:** Yeah, we keep looking, but there's not a lot of opportunities there.

**Hunter:** Yeah. So, we touched on some sectors that were positive contributors last year. One that stood out a little bit as a negative contributor, and it's a little bit of a surprise given what we were talking about earlier in terms of our avoidance of some of these bond proxies, but utilities. So, last year in utilities that was a bit of a detractor to the mid-cap value's portfolio. Can you just talk about what we hold in utilities and compare that to what the benchmark holds?

**Stan:** Sure. So, we don't own anything in the way of regulated utilities. We do own some independent power producers, so people that produce electricity. They're grouped into utilities, even though in reality they're not. They produce the same product, which is electricity, but they're not actually regulated. We think those stocks are interesting. They trade at very low multiples of free cash flow. We think they are significantly undervalued, particularly relative to utilities. Those stocks were weak last year. They have actually been very strong this year. So, we think it's a better investment than the regulated utilities.

**Hunter:** Okay. Just kind of moving a little bit towards looking out at 2017, one of the questions we get a lot is just around how the portfolio might perform in a rising interest rate environment, how you think the equity market overall might perform in a rising interest rate environment. What do you answer to that?

**Stan:** I think you're probably the best suited to answer that in terms of financials. We have still a relatively significant part in financials, and maybe you can describe what goes on with the stocks as interest rates rise.

**Hunter:** Yeah, sure. So, I mean, it has been a sector that we've had significant exposure to over time, and where I think we have felt very strongly that they were under-earning what they would earn in a more normal environment. And a big driver of the profitability of the typical regional bank, deposit-taking franchise, is in interest spreads and the level of rates. And so, at a minimum, that part of the portfolio should actually be an outright beneficiary in terms of rising earnings and better operating results as rates go up. So, at least that part of the market should outright have a tailwind to its earnings growth and profitability.

**Stan:** Yeah. And we also do have some things that are correlated with inflation that should do fairly well also. So, if that's the reason for rising interest rates, we think we should also have some pretty good performance there.

**Hunter:** Yeah. How about in terms of just the way equities might be valued generally speaking in terms of the impact of rising rates?

**Stan:** Sure. So, on the charts in front of you, we show a couple of things. We show on page six, in general, just the opportunities that we have today. We think that the opportunity to invest relative to the market is pretty good. So, when you look at the markets, our impression, and we don't predict the markets, but when you look at the markets overall, they look relatively pricey. So, maybe at best they are fairly valued. But, I would argue that maybe they are a little on the expensive side. If we can buy stocks that are significantly different from the rest of the market, we can create a portfolio that is in itself, on an absolute basis, inexpensive in a relatively expensive market.

So, to think about it another way, how are we able to do that? The mid-cap market is about 800 or so stocks. If we own 60 to 80, which is less than 10% of those stocks, we can create something if value spreads are very wide – significantly different than that. So, we think there's a lot of opportunities out there. We're continually working on a variety of areas. We tend to speak a lot – there's another chart that shows the relative discount to the market on price-to-book and price-to-normal earnings. So, we think it is relatively wide. So, on an absolute basis, I think we have an inexpensive portfolio in what I think of as a pretty expensive part of the market. We tend to spend a lot of time discussing financials and energy because they are controversial. But, the majority of the portfolio is actually not in those areas. And so, we are finding a lot of opportunities in companies - very good balance sheets, trading at inexpensive valuations, where earnings are good. And we think they can actually be better in the future.

It's just – the key thing to remember is investing is not only investing in inexpensive parts of the market but making sure the portfolio doesn't have the expensive parts of the market. And so, there's a lot of distortions today, whether that's because of the path of investing or low-vol investing, etc. It creates more opportunities for that. If you think about it, if the marginal buyer is insensitive to valuation, which would be an ETF buyer, that distorts the market more or a hedge fund that might be a shorter time frame or a different long only investor that has a much shorter time frame. All those things create a lot of distortions in terms of long-term value that allows us to pick up on that.

**Hunter:** Yeah. It is interesting how an increasing amount of money being allocated toward investments with no concept of what their price they're paying has helped people like us.

**Stan:** Yeah.

**Hunter:** Yeah.

**Stan:** People will often ask us about the active, passive. The benefit to us is the more money that goes to passive.

**Hunter:** Yeah

**Stan:** The more inefficient the markets get, and we should be able to take advantage of that.

**Hunter:** Yeah. So, just kind of the last topic I wanted to touch on. It's a topic that we hear from people a fair amount about. It's just the volatility of the strategy over time. Obviously, it has produced very, very strong returns over time, created a lot of value when compared to the benchmark, but it has been volatile. And so, just wanted to get your thoughts on how you think about volatility, how you think about risk, and the role that the volatility might play in the ultimate generation of these great returns that we've seen over really long periods of time.

**Stan:** Sure. So, if you look at the performance since inception, the outperformance has been pretty impressive and it's probably one of the better track records around<sup>4</sup>. And the nice thing is the team for the majority of that is really kind of only new hires. It's our track record, but we do get periods of underperformance. I mean, sometimes the market zags when we're zigging, meaning you get these distortions in the market. And I would describe the recent one, the bond surrogate-type reach for yield. That has been similar actually to our first period of underperformance just after I started, which was the Internet bubble. People didn't care about valuations. That created a lot of opportunity and that opportunity set can last for a very long period of time.

So, obviously another period where we underperformed was the financial crisis. We were getting similar absolute valuations then but with a lot more risk. So, I would describe the opportunity set today as very good. It is very important for us to avoid expensive parts of the market. When you think about that, just mathematically, if there are expensive parts of the market, and the market overall looks expensive, it means they are very expensive. And that means that the returns there should be low. If we can find opportunities on an absolute basis that are similar to our history, that is extremely beneficial.

So, I like to think that we make a lot of sense as a part of people's portfolio. What we find generally when we look at the market people are generally, as opposed to our firm which is benchmark agnostic, people will often hug benchmarks. And we see a lot of the benchmarks out there as having a lot of very expensive securities, which can be very dangerous for performance.

**Hunter:** Yeah. Well, great. Well, thanks.

**Chris:** Great. Thanks, Stan, thanks, Hunter – appreciate all your insights. I think after listening to your remarks I'll just add a closing comment or two. Stan, I've heard you state on many occasions that at Hotchkis & Wiley the catalyst for owning a security is always its underlying valuation. And you often emphasize that the concept of valuation driving our security selection is timeless. You have also explained markets will experience periods of dislocation or irrationality, but over the longer term valuation constantly wins out.

So, when I look at the Russell Midcap Index currently trading at somewhere around 18x future normal earnings, and then I look at your portfolio, which is priced at roughly 7x to 8x normal, it appears to me that the market just hasn't yet recognized the future earnings potential of your portfolio, despite the recent run up in performance. And I think that's why you have a loyal following of investors in this strategy. I think your clients see the unlocked value in the portfolio, and I believe today you helped everyone understand exactly where that value exists.

So, with that said, thanks again for sharing all of your observations about the fund and the overall market. For all of you that dialed in to join our call today, thank you for your interest in our firm, and we look forward to our next call with you. Operator, that concludes today's discussion.

**Operator:** Thank you, ladies and gentlemen. You may disconnect your lines at this time, and we thank you for your time and participation. Have a wonderful rest of the day.

<sup>4</sup>The Hotchkis & Wiley Mid-Cap Value Fund (Class I) ranks #1 among 32 funds in the Morningstar Mid-Cap Value category for the 20-year period ended 1/31/17.

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.

*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](http://www.hwcm.com). Read carefully before you invest.*

*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.*

For the one-, five- and ten-year periods ending 1/31/17, Morningstar ranked the Hotchkis and Wiley Mid-Cap Value Fund (Class I) 38, 18, and 75 out of 395, 300 and 207 funds in the Morningstar Mid-Cap Value Category, respectively. 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 Rankings represent a fund's total-return rank relative to all funds that have the same Morningstar Category. The highest rank is 1 and the lowest is based on the total number of funds ranked in the category. Ranking is for the share class indicated only. Other share classes will have different rankings. ©2017 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.

Stocks are generally perceived to have more financial risk than bonds in that bond holders have a claim on firm operations or assets that is senior to that of equity holders. In addition, stock prices are generally more volatile than bond prices. Equities, bonds, and other asset classes/ sectors have different risk profiles, which should be considered when investing. All investments contain risk and may lose value.

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. Certain information presented based on proprietary or third-party estimates are subject to change and cannot be guaranteed. 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. Free cash flow is earnings before depreciation, amortization, and non-cash charges minus maintenance capital expenditures. Dividend yield is calculated by annualizing the last quarterly dividend paid and dividing it by the current share price. The dividend yield is that of the securities held in the portfolio; it is not reflective of the yield distributed to shareholders. Price-to-Normal earnings is the current market price per share divided by normalized earnings per share. Price-to-book is the price of a stock divided by its book value. Market cap-weighted weights the companies within the portfolio based upon their market capitalization; equal-weighted gives each company an equal weight in the portfolio. Basis point is a unit equal to 1/100th of 1% and is used to denote the change in a financial instrument. ETF: Exchanged-traded fund; REITS: Real Estate Investment Trusts. CCAR: Comprehensive Capital Analysis and Review. **Diversification does not assure a profit or protect against loss in a declining market.**

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® Index, an unmanaged index, measures the performance of the 800 smallest companies in the Russell 1000® Index. The indexes do 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.

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

The Hotchkis & Wiley Funds are distributed by Quasar Distributors, LLC  
725 S. Figueroa St., 39th Flr • Los Angeles, CA 90017 • 1-800-796-5606 • [www.hwcm.com](http://www.hwcm.com)  
HWMCV-WebReplay 2/17