Hotchkis & Wiley

VALUE OPPORTUNITIES
Detailed Investment Strategy

Investment Philosophy

The Value Opportunities strategy seeks to invest in mispriced securities. The strategy has latitude to invest in all market capitalizations and all parts of the capital structure. It may hold concentrated positions. Typically, the portfolio will find value in one of three areas: 1) stocks selling for less than their intrinsic value, 2) bonds or preferred securities offering compelling risk/ reward profiles, 3) special situations such as risk arbitrage where probabilistic outcomes are mispriced. Given the portfolio's concentration, we expect significant deviations from the benchmark. Portfolio Manager David Green drives the process and utilizes the full resources of Hotchkis and Wiley.

Investment Process

The portfolio can be classified into three segments, whose proportions can vary significantly through time:

1. Value Stocks
2. Mispriced Bonds/Preferred Securities
3. Special Situations

Value Stocks

The strategy invests in companies whose future cash flows exceed the current market price. The approach exploits equity market inefficiencies created by irrational investor behavior.

Mispriced Bonds/Preferred Securities

These are circumstances where we view the bonds'/preferreds' pricing relative to its cash flow and/or asset coverage to be attractive. We may or may not find the underlying equity attractively valued.

Special Situations

Special situations can apply to a wide range of circumstances, but the most prevalent is risk arbitrage—a company being acquired that we believe trades at a larger-than-warranted discount to the deal price.

Financial Definitions

Cash flow: Measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income.