FOCUSED GLOBAL VALUE

MARKET COMMENTARY

The MSCI World Index increased 8.9% in the first quarter of 2024. The MSCI World Growth Index increased 10.2% while the MSCI World Value Index increased 7.5%. The continued outperformance of growth stocks has resulted in the further widening of value spreads. The MSCI World Value trades at 14x forward P/E (consensus FY1) compared to the MSCI World Growth at 27x.

Global inflation trends show signs of moderation. In the US, the Consumer Price Index (CPI) declined to 3.2% year-over-year, marginally lower than the 3.4% recorded at the close of 2023. Similarly, Eurozone CPI decreased to 2.6%, while the United Kingdom saw a drop to 3.4%. However, key benchmark interest rates worldwide rose modestly in Q1 as expectations for the timing and magnitude of interest rate cuts by the US Federal Reserve have moved further into 2024 on the back of resilient economic data.

GDP in the US remains robust, with the final Q4 2023 estimate standing at 3.4%. In comparison, Japan's Q4 GDP grew by 0.1%, the Eurozone's remained flat at 0.0%, and the United Kingdom experienced a slight decline of -0.3%. While concerns about a global recession have diminished recently, the possibility of a broad economic slowdown remains on the horizon, particularly if inflationary pressures persist.

Today’s equity market has drawn a lot of comparisons to that internet bubble period, not only due to elevated valuations but also its high concentration, large valuation disparities, and enthusiasm about revolutionary technology. The comparisons have merit, but the impressive growth, profitability, and free cash flow generation of the market’s largest stocks make today’s elevated valuations more rational than 25 years ago. The sustainability of this growth/profitability/cash flow, at least in some instances, represents our primary concern. Regardless, once we move away from large cap tech we can find value, including in health care and financials.

ATTRIBUTION ANALYSIS – 1Q24

The Hotchkis & Wiley Focused Global Value portfolio outperformed both the MSCI World Index and MSCI World Value Index in the first quarter of 2024 (gross and net of management fees). Relative to the primary benchmark, the portfolio’s exposure in financials was the largest positive contributor to performance. Stock selection in industrials and consumer discretionary also worked well, as did the portfolio’s underweight positions in consumer staples, real estate, and utilities. Conversely, stock selection in information technology was the largest detractor. Stock selection in communication services and energy also detracted.

LARGEST INDIVIDUAL CONTRIBUTORS – 1Q24

General Electric is in the later stages of its long transformation from an underperforming conglomerate into three focused, high quality, industry-leading businesses. Following the spin of its power business (GE Vernova) in early April, what remains is an aerospace that we have long believed to be the “crown jewel” of the company. The stock has done well as management has delivered on its commitment to split the company into three and dramatically improve the underlying performance of each asset.

Accor SA is an asset light hotel management and franchise company encompasses nearly 5,600 hotels across 110 countries. Accor is the largest branded hotel company outside the US with over 800k rooms in its system and 95% of their rooms are outside the US. FY2023 saw a dramatic turnaround in the international travel market with the company achieving a record €1B in EBITDA. There may be continued upside as travel to many geographies, especially APAC, are still below pre-pandemic levels. Shares increased over the quarter and are trading at 16.1x our estimate of normal earnings.

Cummins manufactures diesel, natural gas, electric and hydrogen propulsion systems, along with related components for on- and off-road, marine, and related industries. The company operates on two legs: the well-established legacy diesel engine business and the alternative energy business. We believe the legacy internal combustion engine business will continue to grow until the end of the decade. By that time, we believe the economics of the alternative segment will be viable and relevant. During the quarter, Cummins launched their exchange offer for the separation of Atmus Filtration Technologies, which reduced Cummins’ debt and share count. Investors reacted positively to this exchange.

(continued)

LARGEST INDIVIDUAL DETRACTORS – 1Q24

Ericsson is a vendor of hardware and software needed to operate wireless networks. This business is effectively an oligopoly, and we believe margins should be better than they have been historically. Ericsson's stock underperformed following weak 2023 results and 2024 outlook. This is a cyclical business, and we believe that the weakness in network operators' capex is temporary, and that network equipment spending will recover to more normalized levels.

APA Corp. (formerly known as Apache) is an independent E&P operating offshore in the North Sea, onshore in Egypt, and in the Midland and Delaware basins in the Permian. Recent exploration success in Suriname and Egypt has allowed APA to de-emphasize spending on lower returning assets in the US and North Sea. Given APA's production sharing contracts and relatively modest corporate production decline rate, the company can maintain its dividend and fund its growth capex plans at $50 oil. APA posted an OK fourth quarter, with EBITDAX-capex of $841m beating consensus by 2% due to slightly higher-than-expected NGL production. The FY24 production guide was modestly disappointing, which weighed on the stock price. In January, APA agreed to acquire Callon Petroleum, which we viewed as being modestly dilutive to existing APA shareholders compared to a share buyback.

Comcast's cable business is one of the largest wireline telecom service providers in the US. Comcast also owns the NBCU media conglomerate and Sky European Pay TV business. We believe that Comcast's price does not fully reflect the telecom business's growth from broadband pricing and share gain in the wireless market. The larger source of uncertainty is from NBCU, whose Parks businesses are thriving while its TV business is transitioning in a changing industry. Comcast's stock initially overperformed after reporting subscriber metrics that beat consensus estimates in January, but the stock has since then underperformed as competitors noted that weak subscriber growth appears likely to continue in 2024.

Net of fee composite performance as of 3/31/24: 31.77% and 26.66% for 1-year and Since Inception (4/1/20), respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees.

FOCUSED GLOBAL VALUE

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The MSCI World Index is a free float-adjusted weighted index capturing large and mid cap stocks. The MSCI World Value and MSCI World Growth Indices are free float-adjusted weighted indexes capturing large and mid cap stocks, exhibiting overall value or growth style characteristics, respectively. The MSCI indices represent stocks across 23 Developed Markets (DM) countries and include reinvestment of dividends, net foreign withholding taxes.

Equity securities may have greater risks and price volatility than U.S. Treasuries and bonds, where the price of these securities may decline due to various company, industry and market factors. The strategy invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. The strategy may be viewed as a non-diversified strategy, which may concentrate its assets in fewer individual holdings. The strategy may be exposed to more individual stock volatility than a more diversified strategy.

Style Risk: A value-oriented investment approach involves the risk that value stocks may remain undervalued or may not appreciate in value as anticipated. Value stocks can perform differently from the market as a whole or from other types of stocks and may be out of favor with investors and underperform growth stocks for varying periods of time.

Information contained in this material may represent or be based on forward-looking statements. Due to various risks and uncertainties, actual events/results or performance of the strategy may differ materially from those reflected or contemplated in such forward-looking statements. Information based on forecasts, proprietary or third-party estimates cannot be guaranteed and are subject to change. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness.

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Past performance is no guarantee of future results