HIGH YIELD

MARKET COMMENTARY

The ICE BofA US High Yield Index generated a modest 1.5% total return in the first quarter as spread compression offset by higher interest rates. The U.S. economic data points and high yield issuer earnings continued to track above expectation. Inflation has remained above 3% for the past 9 months, with the latest reading +3.5% year-over-year. While inflation has slowed dramatically from the 9.1% peak in mid-2022, it remains higher than the Federal Reserve's long-term 2% target. At the March Federal Open Market Committee (FOMC) meeting, the committee held the Fed Funds rate at 5.50% (upper bound) for the fifth consecutive meeting. The Fed has been increasingly reluctant to cut rates considering improving economic growth expectations and a strong labor market. The market's expectations for the Fed Funds rate in the coming year are about a full percentage point higher than those same expectations 12 months ago.

Within the high yield market, yield-to-worst was flat at 7.6% in the first quarter while spreads tightened 22 basis points (bps) to close the quarter at 312 bps. The last twelve-month high yield default rate, including the impact of distressed exchanges, decreased 20 bps to 2.6% during the first quarter, 180 bps below the market's long-term average. The post default recovery rate held steady at 33.0% of par value during the quarter, 700 bps below its long-term average. High yield primary market issuance totaled a robust $90 billion in the quarter a 90% increase over the same period last year. Forty percent of the high yield bonds maturing between 2024 and 2026 at year end were refinanced with the new issue market open to all but the most distressed issuers. Fund flows into the high yield asset class were positive $2.6 billion in the first quarter, a material improvement over the prior year's first quarter negative $14 billion fund flows.

Turning to performance, the ICE BofA US High Yield Constrained Index generated a 1.5% total return in the quarter, outperforming US Treasuries and Investment Grade corporates while underperforming leveraged loans. Small and midcap ("SMID") and lower quality issues outperformed the broad market. From a sector perspective, the telecommunications and media sectors underperformed, generating negative total returns in the quarter. The retail, energy, healthcare, transportation, and automotive sectors outperformed the broad high yield market with each generating a +2.0% total return in the quarter.

Our overall assessment of the high yield market remains average relative to its history and attractive relative to other fixed income alternatives. High yield bonds offers higher carry and lower duration compared with investment grade in a stable to improving economic environment and a neutral to accommodative FOMC policy stance. We assess the high yield market across three vectors, Fundamentals, Technicals and Valuation, using a 1.0 to 5.0 scale, with 1.0 being bullish and 5.0 being cautious. Fundamentals (2.5) are solid with below average leverage ratios and default activity and above average interest coverage ratios and EBITDA margins. Technicals (2.5) are strong given the FOMC's bias toward lowering the fed funds rate, the strong primary market issuance activity and improved asset class fund flows. Valuation (3.5) is below average with the high yield market's attractive dollar price and current yield offset by tight credit spreads. We look for opportunities to add carry to our clients' portfolios and manage credit risk by re-underwriting portfolio holdings that underperform our expectations.

ATTRIBUTION ANALYSIS – 1Q24

The Hotchkis & Wiley High Yield portfolio outperformed the ICE BofA BB-B US High Yield Constrained Index in the first quarter of 2024 (gross and net of management fees). Credit selection was positive across fourteen of the nineteen high yield market sectors, most notably in services, leisure, and capital goods, more than offsetting negative selection within retail and healthcare. Our overall allocation to SMID credits was additive to relative performance while our overweight to nonrated securities detracted from relative performance.

Unless otherwise noted, the "high yield" market refers to the ICE BofA US High Yield Index

Net of fee composite performance as of 3/31/24: 10.74%, 3.81% and 3.88% for 1-, 5-, and 10-year, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees. **Past performance is no guarantee of future results.**

HIGH YIELD

All investments contain risk and may lose value. This commentary is for general information only and should not be relied on for investment advice or recommendation of any particular security, strategy, or investment product.

Portfolio characteristics and attribution are based on a representative High Yield portfolio. Attribution is an analysis of the portfolio's return relative to the index, is calculated using daily holdings information and does not reflect management fees and other transaction costs and expenses; interaction effect is combined with stock selection. Returns can differ from certain client portfolio(s) due to data differences, cash flows, trading, and other activity. Absolute performance for the portfolio may reflect different results. No assurance is made that holdings, or all investment decisions by H&W were or will be profitable.

The discipline used in managing accounts in the High Yield strategy may prevent or limit investment in major bonds in the ICE BofA US High Yield and ICE BofA BB-B US High Yield Constrained, and returns may not be correlated to the indexes. Composite performance is available at www.hwcm.com, located on the strategy's Performance tab along with important disclosures included in the strategy's GIPS Report; quarterly characteristics and portfolio holdings are located on the Portfolio and Literature tabs. Portfolio information is subject to the firm's portfolio holdings disclosure policy.

The ICE BofA BB-B US High Yield Constrained Index contains all securities in the ICE BofA 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 ICE BofA US High Yield Index tracks the performance of below investment grade, but not in default, US dollar-denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

The ICE BofA index data referenced is the property of ICE Data Indices, LLC ("ICE BofA") and/or its licensors and has been licensed for use by Hotchkis & Wiley. ICE BofA and its licensors accept no liability in connection with its use. See www.hwcm.com for full disclaimer.

Investing in high yield securities is subject to certain risks, including market, credit, liquidity, issuer, interest-rate, inflation, and derivatives risks. Lower-rated and non-rated securities involve greater risk than higher-rated securities. High yield bonds and other asset classes have different risk-return profiles, which should be considered when investing.

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.

Portfolio managers' opinions and data included in this commentary are as of March 31, 2024. Any discussion or view of a security, an asset class/segment, industry/sector and/or investment type are not investment recommendations, should not be assumed to be profitable, and are subject to change without notice.

Past performance is no guarantee of future results