

# HIGH YIELD

## DESCRIPTION

Our High Yield strategy invests in undervalued debt securities of companies with durable business models, asset coverage and the ability and goal to delever over time. We combine our research team's expertise in small/mid-caps and fallen angels with a bias toward senior securities to maximize risk adjusted returns.

## ABOUT US

Since 1980, Hotchkis & Wiley has focused on discovering undervalued securities through extensive internal research. We manage \$30 billion in value equity and high yield assets for institutional and mutual fund investors. The firm is independently owned with a majority interest held by employees.

## COMPOSITE PERFORMANCE (%) ANNUALIZED

|                                           | QTR  | YTD  | 1 Yr  | 3 Yr | 5 Yr | 10 Yr | Inception |
|-------------------------------------------|------|------|-------|------|------|-------|-----------|
| H&W High Yield (gross)                    | 1.77 | 5.94 | 10.09 | 5.58 | 3.09 | 4.41  | 7.91      |
| H&W High Yield (net)                      | 1.66 | 5.72 | 9.63  | 5.12 | 2.63 | 3.91  | 7.40      |
| ICE BofA BB-B U.S. High Yield Constrained | 1.28 | 4.90 | 8.67  | 2.68 | 3.40 | 4.36  | 7.22      |
| ICE BofA U.S. High Yield                  | 1.66 | 5.45 | 8.97  | 3.24 | 3.20 | 4.35  | 7.82      |

Commencement of HY Composite: 5/1/09. Net performance results are presented after actual management fees and all trading expenses but before custodial fees. Past performance is no guarantee of future performance.

## PORTFOLIO CHARACTERISTICS

|                                       | H&W       | Index <sup>2</sup> |
|---------------------------------------|-----------|--------------------|
| Current Yield                         | 6.6%      | 6.2%               |
| Yield-to-Worst                        | 8.0%      | 7.8%               |
| Modified Duration                     | 3.8 years | 3.9 years          |
| Spread over Treasuries                | 385 bps   | 337 bps            |
| Average Coupon Rate                   | 5.8%      | 5.7%               |
| Number of Active Issuers <sup>3</sup> | 188       | 763                |

## CREDIT QUALITY (%)<sup>1</sup>

|                    | H&W  | Index <sup>2</sup> |
|--------------------|------|--------------------|
| Investment Grade   | 2.5  | 3.4                |
| BB                 | 46.3 | 60.4               |
| B                  | 37.6 | 35.4               |
| CCC+ or Lower      | 5.7  | 0.7                |
| Non-Rated          | 3.6  | 0.0                |
| Cash & Equivalents | 4.3  | 0.2                |

## SECTOR ALLOCATION (%)<sup>1</sup>

|                                 | H&W   | Compared to Index <sup>2</sup> |
|---------------------------------|-------|--------------------------------|
| Chemicals - Industries          | 4.72  | 2.4                            |
| Energy                          | 14.27 | 1.9                            |
| Consumer and Capital Goods      | 12.15 | 1.7                            |
| Materials & Const. - Industries | 4.69  | 1.5                            |
| Forestry & Paper - Industries   | 1.66  | 1.4                            |
| Retail                          | 6.55  | 1.1                            |
| Insurance                       | 1.95  | 1.0                            |
| Technology & Electronics        | 5.54  | 0.3                            |
| Metals & Mining - Industries    | 2.19  | -0.1                           |
| Leisure & Services              | 14.62 | -0.5                           |
| Healthcare                      | 7.12  | -0.5                           |
| Automotive                      | 3.23  | -0.5                           |
| Media                           | 8.00  | -0.8                           |
| Satellite & Wireless - Telecom  | 0.38  | -1.0                           |
| Transportation                  | 1.37  | -1.1                           |
| Wireline & Services - Telecom   | 2.02  | -2.3                           |
| Utility                         | 0.84  | -2.6                           |
| Banking & Finance               | 3.43  | -2.6                           |
| Real Estate                     | 1.02  | -3.3                           |

## Important Notes and GIPS Report:

<sup>1</sup>% of Total Portfolio (Basic Industry-Industries and Telecom sectors disclosed at industry level); <sup>2</sup>ICE BofA BB-B U.S. High Yield Constrained Index; <sup>3</sup>Number of Active Issuers excludes calls, tenders, and restructured issuers that are being liquidated (189 total issuers). Informational purposes and should not be considered as investment recommendations. Information provided is based on a representative portfolio of the High Yield (HY) Strategy. Sector allocation, characteristics and/or credit quality may vary due to different restrictions, cash flows, and other relevant considerations. Portfolio holdings are subject to change without notice; a complete list of holdings is available upon request, subject to the firm's portfolio holdings disclosure policy. Credit Quality weights by rating were derived from the highest bond rating as determined by S&P, Moody's or Fitch. In limited situations when none of the three rating agencies have issued a formal rating, the Advisor will determine an internal rating. 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. 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](http://www.hwcm.com) for full disclaimer. All investments contain risk and may lose value. Data source: H&W, ICE BofA, Bloomberg

**Market Disruption:** The global coronavirus pandemic has caused disruption in the global economy and extreme fluctuations in global capital and financial markets. H&W is unable to predict the impact caused by coronavirus pandemic, which has the potential to negatively impact the firm's investment strategies and investment opportunities.

Hotchkis and Wiley Capital Management, LLC (the "Firm" or "H&W") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. H&W has been independently verified for the periods October 9, 2001 through December 31, 2021. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The High Yield Composite has had a performance examination for the periods May 1, 2009 through December 31, 2021. The verification and performance examination reports are available upon request.

H&W is an independent investment management firm registered with the U.S. Securities and Exchange Commission and manages value equity and high yield assets for institutional and mutual fund investors. Its predecessor firm was established in 1980. The equity team of the predecessor firm established H&W in October 2001.

H&W refers to itself as a "registered investment adviser" in materials distributed to current and prospective clients. As a registered investment adviser with the SEC, H&W is subject to the rules and regulations adopted by the SEC under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Registration as an investment adviser is not an indication that H&W or its directors, officers, employees or representatives have attained a particular level of skill or ability.

Valuations and returns are stated in U.S. dollars. Investment returns include reinvestment of dividends, interest, and capital gains. Gross performance results are presented before management and custodial fees but after all trading expenses. Net performance results are presented after actual management fees and all trading expenses but before custodial fees. H&W's management fees are described in Part 2A of its Form ADV. The standard High Yield Bond management fee schedule is 45 basis points on the first \$50 million and 40 basis points thereafter. Internal dispersion is calculated using the equal-weighted standard deviation of all portfolios (gross returns) that were included in the

Composite for the entire year. A list of composite and broad distribution pooled fund descriptions and policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. Past performance is no guarantee of future performance. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

**Composite:** The Composite includes all High Yield discretionary accounts. The High Yield strategy seeks high current income combined with the opportunity for capital appreciation to maximize total return primarily through investments in high yield securities and rated below investment grade fixed income instruments. It may also use futures, swaps and other derivatives, mortgage- or asset-backed securities and restricted securities that are sold in private placement transactions. (Composite creation & inception date: 5/1/2009)

**Indexes:** The ICE BofA BB-B U.S. High Yield Constrained Index ("ICE BofA BB-B") contains all securities in the ICE BofA U.S. 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 U.S. High Yield Index ("ICE BofA HY") tracks the performance of below investment grade, but not in default, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. The indexes assume reinvestment of dividends and capital gains, and assumes no management, custody, transaction or other expenses. The strategy used in managing the accounts in the Composite may prevent or limit investment in major bonds in the ICE BofA BB-B and ICE BofA HY and returns may not be correlated to the indexes. It is not possible to invest directly in the index. Benchmark returns are not covered by the report of independent verifiers.

The 3-year annualized standard deviation measures the variability of the composite (using gross returns) and the benchmark(s) returns over the preceding 36-month period.

|      | % Total<br>Return<br>Gross of<br>Fees | % Total<br>Return<br>Net of<br>Fees | % Total<br>Return<br>ICE<br>BofAML<br>BB-B | % Total<br>Return<br>ICE<br>BofAML<br>HY | No. of<br>Accts | Internal<br>Dispersion<br>(%) | Comp.<br>Assets<br>(\$M) | Total Firm<br>Assets<br>(\$M) | 3-Year Annualized<br>Standard Deviation (%) |                    |                  |      |
|------|---------------------------------------|-------------------------------------|--------------------------------------------|------------------------------------------|-----------------|-------------------------------|--------------------------|-------------------------------|---------------------------------------------|--------------------|------------------|------|
|      |                                       |                                     |                                            |                                          |                 |                               |                          |                               | Composite                                   | ICE BofAML<br>BB-B | ICE BofAML<br>HY |      |
| 2022 | -9.2                                  | -9.6                                | -10.5                                      | -11.2                                    | 7               | 0.1                           | 1,564                    | 28,330                        | 2022                                        | 12.4               | 10.7             | 11.1 |
| 2021 | 7.5                                   | 7.0                                 | 4.6                                        | 5.4                                      | 8               | 0.2                           | 2,159                    | 34,902                        | 2021                                        | 10.9               | 8.6              | 9.1  |
| 2020 | 4.7                                   | 4.2                                 | 6.3                                        | 6.2                                      | 8               | 0.3                           | 2,230                    | 31,687                        | 2020                                        | 11.1               | 8.8              | 9.4  |
| 2019 | 10.8                                  | 10.3                                | 15.1                                       | 14.4                                     | 9               | 1.0                           | 3,641                    | 33,623                        | 2019                                        | 4.1                | 3.8              | 4.1  |
| 2018 | -2.8                                  | -3.3                                | -2.0                                       | -2.3                                     | 8               | 0.2                           | 3,451                    | 27,191                        | 2018                                        | 4.9                | 4.0              | 4.6  |
| 2017 | 8.9                                   | 8.4                                 | 7.0                                        | 7.5                                      | 8               | 0.4                           | 3,940                    | 32,037                        | 2017                                        | 5.6                | 5.0              | 5.6  |
| 2016 | 16.4                                  | 15.8                                | 14.7                                       | 17.5                                     | 8               | 0.3                           | 3,613                    | 29,952                        | 2016                                        | 5.9                | 5.4              | 6.0  |
| 2015 | -3.7                                  | -4.2                                | -2.8                                       | -4.6                                     | 7               | n/m                           | 2,740                    | 28,367                        | 2015                                        | 5.0                | 5.0              | 5.3  |
| 2014 | 1.7                                   | 1.2                                 | 3.5                                        | 2.5                                      | <6              | n/m                           | 2,549                    | 32,190                        | 2014                                        | 4.4                | 4.3              | 4.4  |
| 2013 | 9.7                                   | 9.1                                 | 6.3                                        | 7.4                                      | <6              | n/m                           | 1,670                    | 25,962                        | 2013                                        | 7.2                | 5.8              | 6.4  |

n/m – not considered meaningful for composites with five accounts or less for the full year.