HIGH YIELD

MARKET COMMENTARY

The high yield market generated a robust 5.3% total return in the third quarter as interest rates fell, spreads tightened, and recession concerns eased amidst decelerating inflation and moderate weakness in the U.S. labor market. The Federal Reserve announced a 50 basis points cut in the Fed Funds rate steady to 5.0% (upper bound). The U.S. economic data points remain stable with the most recent GDP print (June) at 3.0%. Inflation remains above the Fed's 2.0% long-term target but the most recent (August) 2.5% survey result was in-line with expectation and 40 bps lower than July's result.

Within the high yield market, yield-to-worst decreased 96 bps to 7.0%, modestly below its long-term average, while spreads tightened 15 bps to 303 bps, tight by historic standards. The last twelve-month high yield default rate, including the impact of distressed exchanges, decreased 13 bps to 1.6%, below its long-term average. The post default recovery rate held steady at 38.0% of par value, below its long-term average. High yield primary market issuance remains robust $238 billion gross issuance year to date, a 78% increase over the same period last year.

Turning to performance, the ICE BofA US High Yield Constrained Index generated a 5.3% total return in the quarter, outperforming US Treasuries, Investment Grade corporates and leveraged loans. Small and midcap ("SMID") issues underperformed the broad market while lower quality outperformed. From a sector perspective, telecommunications, real estate, media, and healthcare sectors were strong outperformers while energy and automotive sectors were notable underperformers 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 offer higher carry and lower duration compared to investment grade bonds in a stable economic environment and "higher for longer" interest rate backdrop. 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 (2.0) are solid with below average leverage, above average interest coverage and benign default rate environment. Technicals (2.5) are strong given the robust new high yield bond issuance and accommodative monetary policy backdrop. Valuation (3.5) is below average as credit spreads remain tight.

ATTRIBUTION ANALYSIS – 3Q24

The Hotchkis & Wiley High Yield portfolio underperformed the ICE BofA BB-B US High Yield Constrained Index in the third quarter of 2024 (gross and net of management fees). Credit selection was positive across eleven of the nineteen high yield market sectors, most notably in media which more than offset negative selection in energy. From a ratings perspective, credit selection within the CCC+ or lower rating cohorts were materially positive but was more than offset by negative selection effects within the Investment Grade, BB, and nonrated cohorts. From an issue size perspective, our overweight allocation to SMID credits and cash detracted from relative performance.

Net of fee composite performance as of 9/30/24: 14.20%, 4.69%, and 4.45% for 1-, 5-, and 10-year, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees. Additional disclosures provided in Endnotes.

Unless otherwise noted, the "high yield" market refers to the ICE BofA US High Yield Index. **Past performance is no guarantee of future results.**

Endnotes:

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 trading 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 (data source: Bloomberg, ICE).

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, Fitch and S&P. The ICE BofA US High Yield Constrained Index measures the performance of USD-denominated, non-investment grade, fixed rate, taxable corporate bonds with remaining maturities of less than 5 years.

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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. Investment risk disclosures for the firm's strategies are described in Part 2A of Form ADV of H&W.

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 September 30, 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.