INTERNATIONAL VALUE

MARKET COMMENTARY

The MSCI World ex-USA Index returned +5.6% in the first quarter of 2024. Ten of the 11 GICs sectors generated positive returns in the quarter. Consumer staples was the lone sector that failed to generate a positive return, while information technology led all sectors with a return of +32.6%. As a result, the tech heavy MSCI World ex-USA Growth Index returned +6.9% while the MSCI World ex-USA Value Index returned +4.2%.

Inflation trends overseas show signs of moderation, led by lower food and goods price inflation, although services price inflation remains elevated. The most recent data showed CPI in the Eurozone 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 have moved further into 2024.

Recent GDP data points to challenges overseas. While spending on services is resilient, manufacturing and production in the Eurozone remain weak, resulting in a GDP print of 0.0% in Q4. Japan's Q4 GDP grew by 0.1%, while the United Kingdom experienced a slight decline of -0.3%. It's worth noting that an acceleration in wage growth and inflation in Japan resulted in the Bank of Japan raising interest rates for the first time since 2007.

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 financials and industrials.

ATTRIBUTION ANALYSIS – 1Q24

The Hotchkis & Wiley International Value portfolio underperformed the MSCI World ex-USA Index but outperformed the MSCI World ex-USA Value Index in the first quarter of 2024 (gross and net of management fees). Relative to the broad benchmark, stock selection in information technology resulted in the bulk of the performance lag. Stock selection in consumer discretionary and industrials also detracted from relative performance. Conversely, stock selection in financials contributed positively to relative performance. The underweights in utilities and materials also contributed positively in the quarter.

LARGEST INDIVIDUAL CONTRIBUTORS – 1Q24

Babcock is a UK government outsourcer with a focus on Ministry of Defense (MoD) contracts. Babcock performs complex and technical work with high barriers to entry and limited competition. The conflicts in the Middle East continued to escalate during the quarter, which likely contributed to the stock's outperformance.

Tokio Marine Holdings is the third largest property-casualty insurer in Japan by written premiums. The company also has a sizeable presence in North America, where it has built a collection of very profitable specialty insurance businesses. Shares rose during the quarter on reports from Nikkei that the Japanese FSA had "urged" the three large Japanese non-life insurers to "accelerate" divestment of their cross-holdings. Additionally, the company announced strong fiscal Q3 results which further boosted performance.

UniCredit is the largest bank headquartered in Italy with €890 billion of assets. UniCredit delivered a strong quarterly earnings report, contributing to a higher stock price in Q1. We believe the stock continues to be undervalued, having the potential to deliver higher than expected profits amid improved capital efficiency.

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.

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International Distributions Services is a holding company with two operating companies facing very different situations. The Royal Mail division is well positioned but is in the process of a turnaround as it manages through severe labor problems. The structurally separate GLS division is stable and growing and is widely estimated to be worth >£4/share, implying >£1B negative value for the Royal Mail business. The stock underperformed due to concerns regarding weak parcel volumes in the near term.

Randstad is the world's largest staffing company. The company maintains a leadership position in most major geographies and should benefit from a cyclical recovery in the labor market as employers resume hiring. Longer term, it should also benefit from secular tailwinds such as talent scarcity and a growing worker preference for flexible jobs, including temp and contract roles. It underperformed during the quarter as the uncertain timing of a macro recovery weighed on the stock.

Net of fee composite performance as of 3/31/24: 18.59%, 9.75% and 7.55% for 1-, 5-year and Since Inception (1/1/16), respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees.

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 International Value 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. Specific securities identified are the largest contributors (or detractors) to the portfolio's performance relative to the index. Other securities may have been the best and worst performers on an absolute basis.

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The value discipline used in managing accounts in the International Value strategy may prevent or limit investment in major stocks in the MSCI World ex-USA, MSCI World ex-USA Value and MSCI World ex-USA Growth 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. For a list showing every holding's contribution to the overall account's performance and portfolio activity for a given time period, contact H&W at hotchkisandwiley@hwcm.com. Portfolio information is subject to the firm's portfolio holdings disclosure policy.

Past performance is no guarantee of future results

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The MSCI World ex-USA Index is a free float-adjusted weighted index capturing large and mid cap stocks. The MSCI World ex-USA Value and MSCI World ex-USA Growth Indices are free float-adjusted weighted indices capturing large and mid cap stocks, exhibiting overall value or growth style characteristics, respectively. The MSCI indices represent stocks across 22 of 23 Developed Markets (DM) countries, excluding the United States 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.

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.

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