INTERNATIONAL VALUE

MARKET COMMENTARY

In 2020, investors witnessed the devastating impact of a worldwide pandemic on the global economy. While the effect was severe, investors perceived it as a transitory event, and recognized the stimulative influence of massive monetary and fiscal intervention. These interventions helped propel the MSCI World ex-USA Index which returned +16% in the fourth quarter moving it into positive territory for the year (+8%). Value investors were largely left behind in the year; however, as international growth stocks climbed +18% and international value stocks declined -3%. This represented one of the largest gaps on record. We had a glimpse of what that comeback might look like during the fourth quarter of 2020. Value stocks outperformed, buoyed by the economic ramifications of new COVID-19 vaccines and another round of fiscal stimulus.

In our experience, when a major asset class underperforms for as long as value has, most investors are under-allocated to the asset class. Signs of this neglect include incessant rhetoric about the asset class' demise in the financial media, unusually wide valuation gaps, and the fatigue/frustration asset allocators experience when compelled to repeatedly explain why they have invested in such a lagging strategy. When the economic winds shift, however, the out-of-favor asset class can enjoy a substantial and sustained period of outperformance. We have learned time and time again, that patience is rewarded for those that stay focused on fundamentals and valuation.

Despite value outperforming growth in the fourth quarter, value continues to trade at a larger than normal discount to growth. Also, the portfolio continues to trade at a large discount to the value benchmark. The portfolio's 4Q outperformance narrowed the gap modestly but we anticipate considerably more reversion ahead. To achieve such a large valuation discount, a portfolio must not only be invested in stocks trading at substantial discounts to intrinsic value but must also be very different than the index. The portfolio is both. Its active share is 93, which means that 93% of the portfolio is positioned differently than the index.

Financials and banks remain the portfolio's largest sector and industry weights, respectively, both in absolute terms and relative to the benchmark. Banks have been an unloved industry for years as scars from the financial crisis remain and regulatory uncertainties linger. When it appeared that the market was finally beginning to recognize the industry's strong recurring profitability and its massive de-risking efforts over the past decade, the global pandemic caused investors to shun banks regardless of underlying fundamentals or valuations. Among the most important of these de-risking efforts was a substantial increase in capital held on banks' balance sheets. In addition to having excess capital, banks took large provisions throughout the year for potential credit delinquencies that may occur in the future. While these provisions hit 2020 bank earnings, the industry continued to produce compelling pre-provision income, even in the low interest rate environment. The combination of having strong balance sheets, large reserve pools, and ongoing profitability gives us confidence that banks have more than enough capacity to withstand a severe economic downturn much worse than we have experienced thus far. Yet many banks trade at single-digit multiples of normal earnings, which we see as extremely attractive in this market.

Calendar year 2020 was challenging in a myriad of ways. Looking through our value investor lens, the year tested our patience and conviction. We held steady in our commitment to the principles of value investing and worked as a team to ensure existing investments remained prudent and to find new ideas in an ever-changing environment. We will continue to do both. Our team remains entirely intact, the firm is healthy, and we are optimistic that our clients will be rewarded by our commitment and effort. It was reassuring to observe our time-tested investing style come back into vogue during the most recent quarter and we are optimistic that this reversion could be powerful and lasting. We look forward to the new year with enthusiasm.

ATTRIBUTION – 4Q20

The Hotchkis & Wiley International Value portfolio (gross and net of management fees) outperformed both the MSCI World ex-USA and the MSCI World ex-USA Value Indices in the fourth quarter of 2020 by a wide margin. The portfolio has long exhibited valuation characteristics at a discount to both indices, which had been a major stylistic headwind throughout 2020 until reversing in the fourth quarter. Positive stock selection drove more than 80% of the outperformance. Positive stock selection in financials, industrials, energy, and consumer discretionary was particularly strong. The overweight exposure to financials and underweight exposure to healthcare also helped. The underweight exposure to consumer discretionary and overweight exposure to consumer staples were modestly negative. The largest positive contributors to relative performance in the quarter were CNH Industrial, Frank's International, Airbus, Magna International, and Royal Mail; the largest relative detractors were Henkel, Unilever, Schlumberger, Ezaki Glico, and GlaxoSmithKline.

Over the calendar year, the strategy underperformed the MSCI World ex-USA Index but modestly outperformed the MSCI World ex-USA Value Index. The value-focused approach that helped during the fourth quarter hurt over the course of the entire year. Accordingly, the largest contributors/detractors over the year were largely opposite of what occurred during the fourth quarter, with financials being the largest detractor for the year.

(continued)

INTERNATIONAL VALUE

LARGEST NEW PURCHASES – 4Q20

Babcock is a UK government outsourcer with focus on Ministry of Defense contracts. Babcock's 35,000 employees perform complex and technical work with high barriers to entry and limited competition: about half of Babcock's profits are from businesses where Babcock faces no real competition. Babcock's share price fell over the past year over concerns about management changes, weak near-term free cash flow, revenue declines associated with specific programs and impacts from COVID-19. Babcock's core businesses are growing only low-single digit, but its market position is strong, and the company should generate significant cash flow over time.

Coca-Cola Enterprise Partners ("CCEP") is the world's largest coke bottler, focused on the mature cash generative European territories. The business is very stable. Unfortunately, the pandemic forced the shutdown of restaurants, cafés, and bars, which caused the temporary disruption in the high margin away from home demand. CCEP is one of the consumer staples stocks with the greatest dislocation from intrinsic value, leading to our initiation of the position. Although the path to recovery may be choppy, we expect demand will fully recover.

Schlumberger is the world's leading diversified provider of oilfield services. We recently purchased Schlumberger following the rapid dislocation in oil names given the combination of COVID-19 demand shock and the decision by Saudi Arabia and Russia to increase oil production. In highly technical areas, from reservoir understanding to subsea boosting, Schlumberger's capabilities are unmatched. The business should generate free cash flow despite the near-term volatility in oil markets and should earn attractive returns on capital as the market normalizes.

Composite performance is available at www.hwcm.com, located on the strategy's Performance tab. Returns discussed can differ from actual portfolio returns due to data differences, cash flows, trading, and other activity. Portfolio characteristics and attribution based on representative International Value portfolio. Certain client portfolio(s) may or may not hold the securities discussed due to each account's guideline restrictions, cash flow, tax and other relevant considerations. Performance attribution is an analysis of the portfolio's return relative to a selected benchmark (interaction effect is combined with stock selection), is calculated using daily holdings information and does not reflect management fees and other transaction costs and expenses. Specific securities identified are the largest contributors (or detractors) to the portfolio's performance relative to the MSCI World ex-USA Index. Other securities may have been the best and worst performers on an absolute basis. The "Largest New Purchases" section includes the three largest new security positions during the quarter/year based on the security' quarter/year-end weight adjusted for its relative return contribution; does not include any security received as a result of a corporate action; if fewer than three new security positions during the quarter/year, all new security positions are included. Securities identified do not represent all of the securities purchased or sold for advisory clients and are not indicative of current or future holdings or trading activity. H&W has no obligation to disclose purchases or sales of the securities. No assurance is made that any securities identified, or all investment decisions by H&W were or will be profitable. 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 and MSCI World ex-USA Value and returns may not be correlated to the indexes.

Quarterly characteristics and portfolio holdings are available at www.hwcm.com, located on the strategy's Characteristics 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, please contact H&W at hotchkisandwiley@hwcm.com. Portfolio information is subject to the firm's portfolio holdings disclosure policy. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. See www.hwcm.com / *Index definitions* for full disclaimer.

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. Growth investing tends to work well during speculative, momentum-driven markets, while value investing tends to work well following recessionary periods. Past recessions and recoveries cannot predict future performance due to different factors and circumstances, including differences in US and international financial markets.

Market Disruption: The recent global coronavirus pandemic has caused and continues to cause disruption in the global economy, unprecedented business and travel disruption and extreme fluctuations in global capital and financial markets. H&W is unable to predict the consequences of the upheaval caused by coronavirus pandemic, which, depending on the severity and the length of the outbreak, has the potential to negatively impact the firm's investment strategies and reduce available investment opportunities.

The commentary is for information purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Portfolio managers' opinions and data included in this commentary are as of December 31, 2020 and are subject to change without notice. Any forecasts made cannot be guaranteed. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness. Certain information presented is based on proprietary or third-party estimates, which are subject to change and cannot be guaranteed. 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 as well as emerging market securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. All investments contain risk and may lose value. Past performance is no guarantee of future results.