

INTERNATIONAL SMALL CAP DIVERSIFIED VALUE

MARKET COMMENTARY

The MSCI World ex-USA Small Cap Index returned +2.6% in the first quarter of 2024. This lagged the US small cap market (+5.2%) but in local currencies the two equity markets would have performed similarly—most major currencies weakened relative to the US Dollar in the quarter¹. Such movements have little effect on the portfolio's relative performance, however, as we remain reasonably neutral from a geographical perspective—intentionally so.

Like the US, we continue to observe moderating inflation overseas. The Eurozone Consumer Price Index was +2.4% in March, a far cry from the >10% rate in late 2022. The latest inflation readings from the UK (+3.2%), Japan (+2.6%), Canada (+2.9%), and Australia (+3.4%) are slightly higher but have followed a similar disinflationary path. The pace with which inflation has decelerated appears to be slower than the market had expected. Accordingly, government bond yields increased in the quarter as expectations for central bank rate cuts have been moderated and delayed. The Bank of Japan actually increased its short-term benchmark rate, moving it to above zero for the first time in 17 years.

There was considerable performance dispersion between sectors in the quarter. The top performing sectors were financials (+9.0%), energy (+7.2%), and industrials (+4.4%). Real estate was the worst performing sector (-3.5%), followed by healthcare (-1.2%), and utilities (-1.0%). International small cap value and small cap growth performed similarly.

Financials remain our portfolio's largest holding, both in absolute and relative terms. We are well diversified across various regions in banks, and insurers, and other financial service companies. The banks we hold are currently trading at attractive discounts to the broad market and offer attractive dividend yields. While economic and regulatory risks persist, we believe the high single-digit price-to-

earnings ratios and discounts to book value present attractive upside potential. We have nearly as much exposure to industrials as we do to financials. An assorted mix of attractively valued businesses with different businesses and different end markets comprise our industrials exposure. Conversely, we continue to see fewer compelling valuation opportunities in small-cap real estate, which represents our most significant underweight relative to the benchmark, by far.

Overall, we continue to view the valuations for quality foreign small cap companies as compelling. Passive small cap investing exposes an investor to many companies that are unprofitable and/or exhibit a high degree of financial leverage. We generally avoid such exposures, and believe the current portfolio exhibits an appropriate balance of attractive valuation/upside potential with acceptable risks.

ATTRIBUTION ANALYSIS – 1Q24

The Hotchkis & Wiley International Small Cap Diversified Value portfolio outperformed the MSCI World ex-USA Small Cap Index in the first quarter of 2024 (gross and net of management fees). Stock selection in industrials was the top contributor to outperformance in the quarter. The overweight in financials also contributed positively, as did the underweight in real estate. Stock selection in financials, consumer discretionary, and energy detracted in the quarter.

¹ The Bloomberg Dollar Spot Index, which is derived from average exchange rates between the US Dollar and a basket of major world currencies, rose 2.7% in 1Q 2024.

Net of fee composite performance as of 3/31/24: 17.63% and 16.37% for 1-year and Since Inception (7/1/20), 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.



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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 Small Cap Diversified 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.

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. Investing in smaller and/or newer companies involves greater risks than those associated with investing in larger companies, such as business risk, significant stock price fluctuations and illiquidity. Investing in foreign as well as emerging markets involves additional risk such as greater volatility, political, economic, and currency risks and differences in accounting methods.

The value discipline used in managing accounts in the International Small Cap Diversified Value strategy may prevent or limit investment in major stocks in the MSCI World ex-USA Small Cap and returns may not be correlated to the index. 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.

The MSCI World ex-USA Small Cap Index is a free float-adjusted weighted index capturing small cap stocks. The index represents stocks across 22 of 23 Developed Markets (DM) countries, excluding the United States and include reinvestment of dividends, net foreign withholding taxes. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index.

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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.

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.

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Past performance is no guarantee of future results

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