MARCH 31, 2024

LARGE CAP DIVERSIFIED VALUE

MARKET COMMENTARY

The S&P 500 Index returned +10.6% in the first quarter, closing the period at an all-time high. Excluding Nvidia, which returned +82% in the quarter and is now the third largest stock in the US, the S&P 500's return would have been +8%. Inflation has remained slightly above 3% for the past 9 months, with the latest reading +3.2% year-over-year. While inflation has slowed dramatically from the 9.1% peak in mid-2022, it remains higher than the Federal Reserve's (Fed) long-term 2% target. At the March Federal Open Market Committee meeting, the committee held the Fed Funds rate at 5.50% (upper bound) for the fifth consecutive meeting. The Fed has been increasingly reluctant to cut rates considering improving economic growth expectations and a strong labor market. The market's expectations for the Fed Funds rate in the coming year are about a full percentage point higher than those same expectations 12 months ago.

The S&P 500 trades at 22x next year's consensus earnings estimates, well above its 30+ year median of 18x. At the beginning of 2023, just 15 months ago, the index traded at an average level (18x). It is up +40% since then, more than half of which is attributable to multiple expansion. It has traded at a higher multiple only 20% of the time since the early 1990s, most of which occurred in the late 1990s/early 2000s. 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.

Outside of the tech-oriented mega cap cohort, the large cap market's valuation is rather ordinary, by most measures trading at a modest premium to historical averages. At 9x normal earnings, the portfolio trades right in line with its long-term average, representing a considerable discount to the value index and a massive discount to the broad index. This has been achieved, in our view, without sacrificing quality or assuming undue risk. Through our Fundamental Risk Rating framework, we rate each stock in the portfolio on three pillars: balance sheet, quality, and governance. A score of 1.0 is best, 5.0 is worst, and 3.0 is average. If we had to choose which of the three pillars is most important, it would likely be quality because it often encompasses elements of the other two pillars. In other words, it is uncommon for a high-quality business to score poorly on the other two pillars, or for a low-quality business to score well on the other two pillars—either can happen, it is just rare. Less than a quarter of the portfolio is invested in stocks with a quality rating below average (3.5 or 4.0 rated, we own none that are 4.5 or 5.0), nearly all of which are financials and energy. These are capital intensive, commodity businesses with the marginal competitors generating cost of capital returns. The positions we own in this group have little to no obsolescence risk, and at less than half the valuation of those with above average quality ratings, represent considerable upside potential.

Nevertheless, we are willing to pay higher prices for businesses that score well on our fundamental risk ratings framework. We reduced positions in select software stocks, which have good risk ratings, because their valuations have increased dramatically in recent years. Meanwhile, the relative valuations of healthcare and consumer staples have improved as the sectors underperformed. Many stocks in these sectors also have good risk ratings. The largest sector increase in recent years has been healthcare, which now represents the portfolio's second largest sector. We have been partial to well-positioned healthcare providers and competitively advantaged healthcare equipment companies. More recently, we have increased our consumer staples exposure via iconic-brand companies with stable businesses and strong market positions.

ATTRIBUTION ANALYSIS – 1Q24

The Hotchkis & Wiley Large Cap Diversified Value portfolio outperformed the Russell 1000 Value index in the first quarter of 2024 (gross and net of management fees). The portfolio's exposure to financials was the largest positive contributor in the quarter, as the overweight and stock selection in both banks and insurers helped. Positive stock selection in healthcare and industrials also helped relative performance, along with the lack of exposure to real estate. Stock selection in energy, communication services, and information technology detracted from relative performance in the quarter.

(continued)

Hotchkis & Wiley

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LARGEST INDIVIDUAL CONTRIBUTORS – 1Q24

Citigroup is the 4th largest US bank by assets with $2.4 trillion in total assets. Investment in its IT, compliance and risk capabilities have pressured margins and returns over recent years obscuring the bank's strong core franchise. As Citi completes this investment program over the next year or two, we expect expenses to decline and margins and returns to move toward management's targets as well as those produced by peers. On our estimates of normal earnings Citi is an attractive value. The company performed well during the quarter following announcements from management to restructure and simply the bank, which led to increased confidence that Citi will see an inflection in its costs and margins.

General Motors is one of the world's largest manufacturers of passenger vehicles. We like General Motors due to its business segments, free cash flow profile, and commitment to return large amounts of cash to shareholders. The stock continued its strong momentum post the UAW strike, driven by 2024 guidance that was materially stronger than consensus and the $10 billion accelerated share repurchase program.

Hartford Financial Services Group is a leading insurer to US businesses. Their small commercial insurance franchise consistently delivers very strong underwriting margins and is the envy of many in the industry, in our opinion. Their group benefits (life & disability) arm caters to mid and large-sized corporate customers and their employees. Here, the company has the distribution, scale, and claims management capabilities to produce solid and relatively stable profits and cash flows. We believe that Hartford Financial is attractively valued for a company with hard to replicate positions. Performance rose over the period as the company announced solid Q4 '23 results.

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.

APA Corp. (formerly known as Apache) is an independent E&P operating offshore in the North Sea, onshore in Egypt, and in the Midland and Delaware basins in the Permian. Recent exploration success in Suriname and Egypt has allowed APA to de-emphasize spending on lower returning assets in the US and North Sea. Given APA's production sharing contracts and relatively modest corporate production decline rate, the company can maintain its dividend and fund its growth capex plans at $50 oil. APA posted an OK fourth quarter, with EBITDAX-capex of $841m beating consensus by 2% due to slightly higher-than-expected NGL production. The FY24 production guide was modestly disappointing, which weighed on the stock price. In January, APA agreed to acquire Callon Petroleum, which we viewed as being modestly dilutive to existing APA shareholders compared to a share buyback.

The Boeing Company is the world's largest aerospace company. Boeing designs and manufactures aircraft for commercial and defense markets. Boeing faced numerous challenges stemming from an emergency exit door blow out during an Alaskan Airlines flight; luckily no one was injured. The FAA halted the production of all 737s, and, once the halt was lifted, limited the monthly rate of 737s leaving the factory. Investor sentiment towards Boeing is low, as they work through their operational issues, which may push the 2025/2026 targets out. Boeing announced changes at the CEO, Board, and head of Boeing Commercial Aircraft near the end of the quarter. While serious, we believe its challenges are more than reflected in its valuation.

Net of fee composite performance as of 3/31/24: 26.57%, 13.95%, and 10.38% for 1-, 5-, and 10-year, 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.**

LARGE CAP DIVERSIFIED VALUE

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 Large 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. Specific securities identified are the three 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.

The securities reflected herein are intended for illustrative purposes only, were selected to demonstrate the investment process as a non-performance based criteria and are not a recommendation to buy or sell specific securities. There is no assurance that the securities discussed will remain in the portfolio or that securities sold have not been repurchased. The securities discussed do not represent the entire portfolio, may only represent a small portion of the portfolio and should not assume the securities discussed were or will be profitable or that recommendations made in the future will be profitable or will equal the performance of the securities discussed. H&W's opinions regarding these securities are subject to change at any time, for any reason, without notice. Certain client portfolio(s) may or may not hold the securities discussed due to each account's guideline restrictions and other relevant considerations.

The value discipline used in managing accounts in the Large Cap Diversified Value strategy may prevent or limit investment in major stocks in the S&P 500 and Russell 1000 Value 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.

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The Russell 1000® Value Index measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values. The S&P 500® Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general.

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 foreign as well as emerging markets involves additional risk such as greater volatility, 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.

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 March 31, 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