MID-CAP VALUE

MARKET COMMENTARY

The Russell Midcap Index increased +8.6% in the first quarter of 2024. The Russell Midcap Growth Index outperformed for the quarter, returning +9.5% vs. +8.2% for the Russell Midcap Value Index. Performance was positive in 10 of the 11 GICS sectors, led by industrials, financials, and energy. Only real estate saw a small decline in the quarter.

Much of the market movement in Q1 hinged on released economic data and expectations for interest rate cuts by the Federal Reserve (Fed). Economic data in the U.S. has been resilient, leading to the timing of interest rate cuts being pushed further into 2024. Concern about the increasing cost of capital, which is the rate used to discount future cash flows, weighed disproportionately on smaller companies, although mid cap stocks did hold up better than their smaller counterparts. In our view, this concern appears to be an overreaction, as the market has unfairly mispriced many companies in the cyclical sectors in which we invest.

Financials remain our portfolio's largest holding, both in absolute and relative terms. We are well diversified across the banks, capital markets, and insurance companies. Banks are currently trading at especially large discounts to the broad market, despite solid current earnings and strong capital ratios. 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.

Our energy exposure represents the portfolio's largest overweight sector. We continue to see value in energy stocks that trade at a low multiple of normal earnings and should maintain profitability in an inflationary environment. The supply/demand outlook for oil suggests oil prices are likely to remain elevated for longer than typical. Oil supply cuts by OPEC+ and capital discipline by US oil producers are resulting in shrinking oil inventories. We believe the recent move higher in oil prices may be sustainable as economic conditions around the world show signs of improvement. Conversely, we continue to see fewer compelling valuation opportunities in mid cap real estate, industrials, and utilities companies.

Overall, we continue to view the current economic backdrop as particularly compelling for high quality mid cap companies, which we define as having low debt, attractive returns on invested capital, the ability to generate free cash flow, and strong management teams. These traits do not always apply to a passive index fund such as the Russell Midcap Index where many companies are unprofitable and/or exhibit a high degree of financial leverage. With a resilient economy, moderating inflation, the potential for interest rate cuts by the Fed later this year, and continued government investment (the Bipartisan Infrastructure Law and CHIPS Act), we believe companies down the market cap spectrum may be poised for a sustained period of strong performance on both an absolute and relative basis.

ATTRIBUTION ANALYSIS – 1Q24

The Hotchkis & Wiley Mid-Cap Value portfolio underperformed the Russell Midcap Value Index in the first quarter of 2024 (gross and net of management fees). Stock selection in energy detracted the most from relative performance in the quarter. Stock selection in consumer discretionary, industrials, and information technology also detracted in the quarter. The underweight in industrials was also a drag on performance. Stock selection and the underweight in utilities contributed positively to relative performance. The underweight in real estate also worked well in the quarter, as did the overweight in energy and stock selection in healthcare.

LARGEST INDIVIDUAL CONTRIBUTORS – 1Q24

Vistra Energy is a portfolio of power generation plants paired with a competitive retail business. Vistra's retail business is smaller than the generation business, consuming about two thirds as much power as the generation business produces. Texas is the largest market in terms of both generation and retail, but Vistra has assets and operations throughout the US. We believe that Vistra trades at a substantial discount compared to fully regulated utilities. While the performance of Independent Power Producers has been historically volatile due to commodity market exposure, Vistra's business model and balance sheet have evolved and are moving closer to that of a regulated utility. Additionally, their growing retail business provides a natural hedge to power price volatility. Performance trended upward over the period as the company reported solid earnings beating consensus EPS by ~13%. Additionally, the board announced an increase in its quarterly dividend by 9% YoY to $0.215/share which further helped boost performance.

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Allison Transmission Holdings designs and manufactures automatic transmissions used in commercial and military applications. We believe Allison is undervalued as it is the established leader in fully automatic commercial truck transmissions. Today, it controls more than 60% share of the global fully automatic commercial transmission market. Allison's Q4 results greatly surpassed consensus estimates driven by strong end markets and pricing. Finally, management's 2024 outlook was better than the Street's expectations.

FIS is a diversified provider of financial technology, software and services. It is one of the largest merchant acquirers globally. FIS also provides issuer processing, core bank processing and capital markets offerings. FIS has historically reported in three primary segments: Merchant Solutions, Banking Solutions (including core processing), and Capital Markets. Uncertainty around FIS' merchant acquiring business allows us to purchase a scaled and diversified financial technology business, which should grow ahead of GDP and at very high returns on incremental capital, at a below market multiple. FIS outperformed during the quarter as the company completed the sale of a majority stake in its merchant acquiring business, posted solid Q4 results, gave guidance for a sustainable acceleration in revenue growth, and committed to continued share repurchases.

LARGEST INDIVIDUAL DETRACTORS – 1Q24

Kosmos Energy is an independent exploration and production company focused offshore. In addition to its existing production, Kosmos has LNG assets that are set to begin production in 2024 and a platform to acquire and operate additional offshore resources. Kosmos enjoys a competitive advantage due to the expertise required to explore, discover, and operate assets offshore. Currently the stock is undervalued as the stock doesn't fully reflect the value of the company's existing production. Performance declined over the period with the announcement that the company would be issuing $300M in convertible senior notes.

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.

Adient Ltd., Domiciled in England, is the world's largest supplier of automotive seating systems and interior components. Adient's business is defensible due to long product cycles, its global just-in-time (JIT) infrastructure, and established OEM relationships. Adient's new management team is in the process of turning around a series of poor decisions left by the former team. Adient's fiscal year Q1 results (calendar year Q4) were below consensus estimates, driven by softness in China. FY 2024 sales guidance was slightly lowered, but EBITDA guidance remains unchanged. Investors are concerned whether Adient will be able to hit their EBITDA guidance, given the more challenging demand environment. Our long-term thesis remains intact.

Net of fee composite performance as of 3/31/24: 23.88%, 11.95%, and 7.37% 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.**

MID-CAP 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 Mid-Cap 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.

The securities reflected herein are intended for illustrative purposes only and 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 Mid-Cap Value strategy may prevent or limit investment in major stocks in the Russell Midcap, Russell Midcap Value and Russell Midcap 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.

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The Russell Midcap® Index, an unmanaged index, measures the performance of the 800 smallest companies in the Russell 1000® Index. The Russell Midcap® Value Index measures the performance of those Russell Midcap® companies with lower price-to-book value ratios and lower forecasted growth values. The Russell Midcap® Growth Index measures the performance of those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values.

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 small and medium-sized companies involves greater risks than those associated with investing in large company stocks, such as business risk, significant stock price fluctuations and illiquidity.

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