

MID-CAP VALUE

MARKET COMMENTARY

The Russell Midcap Index delivered a robust +9.2% in the third quarter of 2024. Mid-cap value stocks outperformed mid-cap growth stocks during the quarter (+10.1% vs. +6.5%). Performance was positive across 10 of the 11 Russell Midcap GICS sectors, led by utilities, real estate, industrials, and financials. Energy finished the quarter with a decline of -1.7%. The Russell Midcap Value Index traded at a forward P/E ratio of 16.2x at the end of the quarter, which is more attractive than the broader Russell 1000 Index at 20.8x, according to Bloomberg.

Macroeconomic factors significantly influenced market performance during the quarter. The easing of inflationary pressures paved the way for lower interest rates, benefiting rate-sensitive sectors like real estate, financials, and utilities, particularly those with high leverage. Conversely, commodity-related stocks, which typically thrive in inflationary environments—such as energy—underperformed in Q3. The technology sector also underperformed during the quarter, as investors assessed relative valuations and weighed the potential for an economic slowdown.

Looking ahead, lower interest rates are typically favorable for markets, as long as the economy stays strong. We are committed to identifying businesses with durable balance sheets, sustainable return on equity, stable free cash flow, and attractive valuations relative to expected earnings. We believe our investment strategy, centered on identifying undervalued assets and effective risk management, is poised to generate consistent long-term returns.

ATTRIBUTION ANALYSIS – 3Q24

The Hotchkis & Wiley Mid-Cap Value portfolio underperformed the Russell Midcap Value Index in the third quarter of 2024 (gross and net of management fees). Stock selection and the overweight in energy detracted significantly from relative performance in the quarter as many of our holdings were down double-digits. Stock selection in consumer discretionary also detracted in the

quarter, as did the underweight positions in real estate and utilities. Stock selection in technology contributed positively to relative performance. Stock selection and the overweight in financials, along with stock selection in industrials also worked well in the quarter.

LARGEST INDIVIDUAL CONTRIBUTORS – 3Q24

F5 (FFIV) sells application networking and security software, as well as data center appliances. The company's stock price rebounded sharply in Q3 after reporting a growing pipeline and better close rates in subscription software sales. F5 has no debt, trades at an attractive valuation, and is benefiting from an improving gross margin and lower operating expenses.

Ericsson (ERIC) is the largest vendor of hardware and software for operating wireless networks outside of China. The company built on the prior quarter's outperformance, with signs of revenue stabilization and margin improvement continuing, and management seeing signs of recovery in the North American market.

CNO Financial Group (CNO) is a life insurance company that sells savings and protections products into the lower middle-market. The company has distinct distribution capabilities into the traditionally under-served lower middle-market. The company posted strong Q2 '24 results over the period, beating consensus estimates, and raised their FY24 guidance. The stock's performance was further supported by upward estimate revisions by a few sell-side analysts.

(continued)

Net of fee composite performance as of 9/30/24: 16.27%, 14.71%, and 7.33% for 1-, 5-, and 10-year, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees.

For informational purposes only, the specific investments shown represent only the top contributors and detractors for the relevant performance time period. The selection criteria used to determine the top contributors and detractors remains the same across performance measurement periods; additional disclosures provided in Endnotes. **Past performance is no guarantee of future results.**



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LARGEST INDIVIDUAL DETRACTORS – 3Q24

Kosmos (KOS) is an independent E&P focused offshore in the US Gulf of Mexico, Ghana, and Equatorial Guinea. Shares were pressured over the period as oil prices continued to decline, driven by worries surrounding OPEC+ barrels returning to the market, coupled with slowing demand. We believe the company is competitively advantaged due to the expertise required to explore, discover, and operate assets offshore. We also believe that the valuation of the stock does not fully reflect the value of the Company's existing production. Additionally, the company also has LNG assets, an exploration portfolio, and a platform to acquire and operate additional offshore resources.

APA Corp. (APA) 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 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. Performance was pressured over the quarter after the company missed their Q1 '24 EPS estimate and updated their FY24 guidance to include modestly higher capex and slightly lower production relative to expectations.

Adient Ltd., (ADNT) domiciled in England, is one of the world's largest suppliers 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: eliminating non-core activities, rewriting customer contracts, and lowering the company's break-even production levels. In fiscal Q3 (calendar Q2), Adient reported disappointing results, primarily due to weakness in Europe, missing consensus estimates across the board. As a result, management lowered the company's fiscal year guidance. However, the management team has continued to repurchase their undervalued shares, with the fully diluted share count down approximately 6.6% year-over-year. We believe the stock remains undervalued, and we have taken this opportunity to increase our exposure.

Endnotes:

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 (data source: Bloomberg, Russell).

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. 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

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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 Value 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.

Past performance is no guarantee of future results

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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. Investment risk disclosures for the firm's strategies are described in Part 2A of Form ADV of H&W.

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