

VALUE OPPORTUNITIES

MARKET COMMENTARY

The Russell 3000 Index increased 8.4% in the second quarter of 2023. The Russell 3000 Value Index underperformed for the quarter, returning +4.0% vs. +12.5% for the Russell 3000 Growth Index.

Performance deviations between value and growth have been significant in recent periods. Large growth outperformed large value in the quarter by 8.7% (+12.8% vs. +4.1%), extending its year-to-date edge to +23.9% (+29.0% vs. +5.1%). Over the past year and a half, however, large value remains ahead of large growth due to its substantial outperformance last year. At the beginning of calendar year 2022, growth traded at a near-record premium to value¹. Value's outperformance in 2022 brought this premium down by year end, but it remained about 1 standard deviation above average. With growth's dramatic outperformance thus far in 2023, its valuation premium has again spiked, and now sits more than 2 standard deviations wider than normal. We do not believe this gap is sustainable. We expect a reversion toward a historical valuation relationship. This would be favorable to value relative to growth going forward if it occurred. We view the overall equity market as rather richly valued, though this is driven by growth stocks, not value.

As it stands today, the growth index trades at a large premium to its own history using any common valuation metric and the value index trades reasonably in line with its own history. The portfolio, however, trades at a considerable discount to its past. This is attainable because the portfolio is significantly different than the value index, with an active share above 90. Importantly, however, we do not blindly invest in companies/industries with the lowest price multiples. We invest in those that trade at the largest discounts to intrinsic value, and that intrinsic value is highly dependent on a company's risk profile—lower risk companies have higher intrinsic values all else equal and should command higher fair value multiples. The portfolio's large exposure in technology holdings epitomizes this construct. We own companies with attractive growth rates, stable customer bases, and healthy returns of capital to shareholders. These should also trade at premium valuations, and after strong performance year-to-date, several do. We trimmed some technology exposure accordingly but maintain meaningful exposure to these excellent businesses.

ATTRIBUTION – 2Q23

The Hotchkis & Wiley Value Opportunities portfolio (gross and net of management fees) underperformed the Russell 3000 Value Index in the second quarter of 2023. On a sector basis, the largest contributor to relative performance came from security selection in financials. The overweight in technology and underweight in utilities also contributed positively to relative performance. In contrast, security selection in communication services and industrials detracted from relative performance during the quarter,

as did the overweight in energy. The largest positive contributors to relative performance in the quarter were Microsoft, SLM Corp., First Republic Bank, First Citizens Bancshares, and AIG; the largest detractors were Ericsson, Kosmos Energy, Elevance Health, Berry Petroleum, and Warner Bros. Discovery.

LARGEST NEW PURCHASES – 2Q23

Evercore is a premier investment banking franchise at an attractive value. Over the years, Evercore has built a strong franchise that has consistently gained market share from its peers. The Company has a net cash balance sheet, and the business model generates extremely high incremental returns and should be able to return 100% of net income to shareholders over time. EVR remains an attractive value as a quality franchise trading at a discount to many of its boutique peers despite its ability to deliver stronger growth and having a more attractive business mix.

Korn Ferry is a consulting firm that offers talent acquisition, leadership development, organizational strategy, and other services to help private, public, middle market, and emerging growth companies drive superior business performance. With a 40+ year track record focused on executive-level recruitment, Korn Ferry has become a premier brand in the industry. The company has also been upgrading its talent base and improved its search processes to enhance recruitment effectiveness, resulting in increasing market share. Searches are performed globally in a wide variety of industries such as technology, industrial, government, healthcare, and many more. Globalization of businesses and the shortage of talent in developed markets due to demographic trends along with emerging markets are key growth drivers of executive search.

NOV Inc. is a leading diversified provider of oilfield capital equipment, consumables, and services. Most of these businesses, from drilling rig blow-out-preventers to subsea flexible pipe, earn attractive margins and consume limited amounts of capital compared to other areas of the oilfield. The company maintains a top 2 or 3 market position in most of its business lines and should earn attractive returns in a normalized oil price environment. As oilfield activity rebounds, the majority of the company's product lines should experience significant increases in volume and pricing.

¹ Based on consensus forward PE (FY2)

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Net of fee composite performance as of 6/30/23: 24.85%, 9.86% and 10.79% 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.**

All investments contain risk and may lose value. 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 characteristics and attribution are based on a representative Value Opportunities 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 value discipline used in managing accounts in the Value Opportunities strategy may prevent or limit investment in major stocks in the Russell 1000, Russell 3000 Value and Russell 3000 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 "Largest New Purchases" section includes the three largest new security positions during the quarter/year based on the security's 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.

The Russell 3000® Index tracks the performance of the 3,000 largest U.S.-traded stocks. The Russell 3000® Value Index includes stocks from the Russell 3000® Index with lower price-to-book ratios and lower expected growth rates. The Russell 3000® Growth Index includes companies that display signs of above average growth. The index is used to provide a gauge of the performance of growth stocks in the U.S. Russell Investment Group is the source and owner of the Russell Index data contained herein (and all trademarks related thereto), which may not be redistributed. The information herein is not approved by Russell. H&W and Russell sectors are based on GICS by MSCI and S&P.

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 may be exposed to more individual stock volatility than a more diversified strategy and may also invest in smaller and/or medium-sized companies, foreign securities, and debt securities.

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.

Market Disruption: The global coronavirus pandemic has caused disruption in the global economy and extreme fluctuations in global capital and financial markets. H&W is unable to predict the impact caused by coronavirus pandemic, which has the potential to negatively impact the firm's investment strategies and investment opportunities.

Certain information contained in this material represents or based upon 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.

Portfolio managers' opinions and data included in this commentary are as of June 30, 2023, and subject to change without notice. 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.