FOCUSED GLOBAL VALUE

MARKET COMMENTARY

The MSCI World Index declined -5.2% in the first quarter of 2022. The MSCI World Value Index declined a more modest -0.7% while the MSCI World Growth Index declined -9.6%. Despite value's recent outperformance, the valuation spread between growth and value remains wide because the spread at the period's outset was extreme. The MSCI World Value Index trades at 13x forward P/E (consensus FY1) compared to the MSCI World Growth Index at 26x.

Inflation data globally continues to accelerate. The US Consumer Price Index (CPI) reached 7.9% year-over-year, its highest level in 40 years, raising the threat of tightening monetary policy. Eurozone CPI hit 7.5%, while the United Kingdom rose to 6.3%. Russia's invasion of Ukraine fueled inflation worries further. Sanctions and trade disruption created supply shocks, putting inflationary pressures on significant Russian exports like oil, natural gas, and metals—each experienced meaningful price increases in the period. WTI crude oil increased by 33%, finishing the quarter at $100/barrel; European natural gas futures rose +61%. Our view has been that the lack of investment in new energy projects/production would create an imbalance once demand recovered to pre-pandemic levels; the resulting supply shortage would put upward pressure on energy prices. While this continues to be our view, Russia's invasion of Ukraine has exacerbated the situation. Russia is the world's 11th largest economy, representing just 2% of global GDP. It is the world's largest exporter of natural gas; however, and the third largest exporter of crude oil. The rise in energy prices has increased energy companies' cash flows significantly. Many have used the cash to pay down debt, de-risking the sector extensively. Share repurchases have been another popular use of capital, which is accretive to shareholders because valuations remain compelling. M&A activity has also increased, which can also be positive for shareholders in the right situation, e.g., paying a good price, removing redundant costs. Each company is in a different situation but there are numerous opportunities for management teams to benefit shareholders. Consequently, energy remains a sizable sector overweight in the portfolio notwithstanding the strong recent performance.

The number of US job openings continues to hover around its highest level in at least 20 years, increasing the risk of further wage inflation. To combat these inflationary threats, the FOMC increased the Fed Funds rate by 0.25% and signaled more aggressive rate increases in the coming year. Central banks around the world are also in the process of raising target lending rates. Europe is particularly impacted by rising energy costs. Russia provides more than 40% of Europe's natural gas and more than 25% of its oil. A prolonged conflict in Ukraine increases the odds of a sustained inflation overshoot, resulting in a more hawkish tone by the ECB. And the Bank of England raised its key interest rate for a third time since December despite acknowledging a gloomier economic outlook stemming from the conflict in Ukraine.

Higher interest rates are generally bad for equities because it increases the cost of capital and makes fixed income investments a more appealing alternative. It is typically less bad for value than growth for two primary reasons. First, financials represent the lone sector that benefits from rising rates (higher earnings), and financials comprise significantly larger portions of value portfolios/indexes. Second, value equities are shorter duration securities than growth equities. In a discounted cash flow analysis, the terminal value estimate represents the lion's share of a conventional growth stock's value, whereas a conventional value stock will generate meaningful cash flows sooner. At 13x forward P/E and 10x normal P/E, the portfolio trades at an even larger discount to the benchmark. We believe the large valuation spreads and macroeconomic backdrop should continue to benefit value relative to growth, which should be a conducive environment for our investment approach.

ATTRIBUTION – 1Q22

The Hotchkis & Wiley Focused Global Value portfolio (gross and net of management fees) outperformed the MSCI World Index in the first quarter of 2022 by a considerable margin and outperformed the MSCI World Value Index. Relative to the primary benchmark, positive stock selection in industrials was the largest positive contributor. The overweight position in energy and financials, along with positive stock selection in technology and communication services also helped. Stock selection in financials and consumer staples, along with a lack of exposure to materials detracted from performance. The largest positive contributors to relative performance in the quarter were NOV Inc., BAE Systems, Suncor Energy, AIG, and Euronet Worldwide; the largest detractors were Credit Suisse, Magna International, F5 Inc., ING Groep, and BNP Paribas.

LARGEST NEW PURCHASES – 1Q22

General Motors (GM) is a significantly improved company with many attractive elements, including a profitable and well-insulated pickup truck business, an efficient global manufacturing base, a solid balance sheet, and a long-term commitment to return large amounts of cash to shareholders. GM is very well positioned for the rapid changes now underway in the global transportation markets. It has industry-leading technology in both electric and hydrogen drivetrains. GM also has the vertically integrated Cruise business, which is rapidly approaching deployment of autonomous transportation services, a business that offers significant long-term upside to those few companies with the technical capability and the capital required to compete.

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Composite performance is available at www.hwcm.com, located on the strategy's Performance tab. Returns discussed can differ from actual portfolio returns due to data differences, cash flows, trading, and other activity. Index returns include reinvestment of dividends, net foreign withholding taxes. Portfolio characteristics and attribution based on representative Focused Global Value portfolio. Certain client portfolio(s) may or may not hold the securities discussed due to each account's guideline restrictions, cash flow, tax and other relevant considerations. Performance 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. 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 Focused Global Value strategy may prevent or limit investment in major stocks in the MSCI World, MSCI World Value and MSCI World Growth and returns may not be correlated to the indexes. Quarterly characteristics and portfolio holdings are available at www.hwcm.com, located on the strategy's 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.

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 invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

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. Securities identified do not represent all of the securities purchased or sold for advisory clients and are not indicative of current or future holdings or trading activity. H&W has no obligation to disclose purchases or sales of the securities. The largest new purchases are as of the publication date but may be sold and no longer held in the Large Cap Diversified Value strategy at any time, for any reason, without notice, subsequent to the publication date. The securities reflected herein are intended to be for illustrative purposes only and are not intended to be, and should not be construed as, investment recommendations or investment advice. Past performance of these securities, or any other investments, is not an indicator of future results. H&W's opinions regarding these securities are subject to change at any time, for any reason, without notice. No assurance is made that any securities identified, or all investment decisions by H&W were or will be profitable.

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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.

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.

Portfolio managers' opinions and data included in this commentary are as of March 31, 2022, 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.

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Past performance is no guarantee of future results.