

FOCUSED GLOBAL VALUE

MARKET COMMENTARY

The MSCI World Index declined -16.2% in the second quarter of 2022. The MSCI World Value Index declined -11.6% while the MSCI World Growth Index declined -21.2%.

Several economic developments in the quarter sparked fears of a recession. Real US GDP was -1.6% quarter-over-quarter (1Q), the war in Ukraine showed little signs of abating, the Consumer Price Index increased 8.6% year-over-year, and an increasingly hawkish FOMC raised the Fed Funds rate by 125 basis points via two hikes (from 0.5% to 1.75%). The Fed signaled further rate increases going forward to combat the highest inflation level in more than 40 years.

Inflation continues to be a global phenomenon on extended supply chain disruptions and the ongoing conflict in Ukraine. Eurozone inflation hit 8.6%. France and Spain experienced new inflation records in June, while Germany remained elevated. Elsewhere, inflation in Australia and Canada continues to accelerate. The Reserve Bank of Australia raised interest rates by the most in 22 years, while the Bank of Canada hiked their key interest rate by the most since 1994. United Kingdom inflation rose to a 9.1% rate, the highest in 40 years. Higher rates are generally bad for equities. It becomes more costly to borrow, increasing the cost of capital, which is the rate used to discount future cash flows. Higher rates impair long-duration equities disproportionately because most of the intrinsic value is derived from a terminal value estimate far into the future. In general, growth stocks are longer duration securities than value stocks. Unsurprisingly, value has historically outperformed growth in periods of elevated inflation and interest rates.

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 11x forward P/E (consensus FY1) compared to the MSCI World Growth Index at 19x. At both a forward and normal P/E of 12x or less, the portfolio trades at an even larger discount. We believe these large spreads and the macroeconomic backdrop should continue to benefit value relative to growth, which should be a conducive environment for our investment approach.

ATTRIBUTION – 2Q22

The Hotchkis & Wiley Focused Global Value portfolio (gross and net of management fees) outperformed the MSCI World Index in the second quarter of 2022 but underperformed the MSCI World Value Index. Relative to the primary benchmark, the overweight in energy contributed positively to performance. Positive stock selection in consumer discretionary and technology also helped. Stock selection in communication services detracted from performance, as did our underweights in consumer staples, healthcare, and utilities. The largest positive contributors to relative performance in the quarter were Suncor Energy, BAE Systems, Elevance Health, Tokio Marine Holdings, and Cummins; the largest detractors were General Electric, F5 Inc., Credit Suisse, Warner Bros. Discovery, and Euronet Worldwide.

LARGEST NEW PURCHASES – 2Q22

Ericsson is the largest vendor of hardware and software used to operate wireless networks outside of China. Following a multi-year turnaround, this business is performing well. However, margins in the company's other segments remain below normal. Here, we see room for further improvement. Ericsson trades at an attractive multiple of current and normalized earnings.

Warner Bros. Discovery Inc. (formerly Discovery Inc.) provides a wide range of educational television channels, as well as offers consumer and educational products and services as well as a diversified portfolio of digital media services. The company was down sharply in the quarter along with other streaming service companies after Netflix issued lackluster guidance. We see Warner Bros. Discovery Inc. as being well-positioned to attract consumers with its strong brands and enormous content library. We believe monetization can improve materially due to ad targeting and the leveling of ad rates across different broadcasters.

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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.

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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. 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

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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.

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