GLOBAL VALUE

MARKET COMMENTARY

The MSCI World Index rose 7.7%, closing the second quarter of 2021 just shy of an all-time high. It is up +13.1% since the beginning of the year. While the threat of new COVID variants persists, vaccination levels increased and new cases slowed in most regions. Consequently, governments continued to ease closures/restrictions, accelerating economic activity around the globe. Manufacturing and labor markets showed signs of improvement, highlighting the potential for tight supply conditions. Consumer prices in the US rose at the fastest level in years. Brent crude oil touched $76/barrel, its highest level in more than two years. Corporate earnings continued to show strength, with 77% of MSCI World companies outperforming consensus expectations.

The yield on most developed market government bonds fell during the quarter (Germany Bunds were a slight exception), particularly for long-dated bonds. Real estate was among the top-performing sectors in the MSCI World index as REITs often trade inversely to interest rates, though at 2.7% it entered the quarter as the index's smallest sector. Technology was the top-performing sector. The 8 largest individual contributors for the MSCI World were all technology-driven companies, though technically 3 of them reside in other sectors (Google and Facebook = communication services; Amazon.com = consumer discretionary; the others were Microsoft, Apple, Nvidia, PayPal, and Adobe). Utilities was the only sector that declined in the quarter, though industrials, materials, and consumer staples also lagged.

The MSCI World Growth Index outperformed the MSCI World Value Index (+10.9% vs. +4.7%) in the second quarter. This does not mean that value's recent, limited stretch of outperformance has come to an end. Nearly all prolonged value-led markets contain stints when growth outperforms value. In perhaps the strongest value rally ever, for example, the MSCI World Value outperformed the MSCI World Growth by 78 percentage points from March 2000 through December 2006. However, growth outperformed value in more than one-third of those months (31 out of 82 months).

We continue to observe value spreads that are considerably wider than average. So too is the spread between the portfolio and the value benchmark, which means the spread between the portfolio and either the core or growth index is extreme. We believe this bodes well going forward as value relationships normalize. We continue to focus on companies trading at large discounts to intrinsic value but that have strong balance sheets, quality businesses, and employ appropriate corporate governance—a combination that we believe should continue to benefit our clients.

ATTRIBUTION – 2Q21

The Hotchkis & Wiley Global Value portfolio (gross and net of management fees) underperformed the MSCI World Index in the second quarter. The portfolio's value focus hurt performance relative to the broad benchmark as global growth stocks outperformed global value stocks by a wide margin. The portfolio modestly underperformed the MSCI World Value Index. Relative to the broad benchmark, stock selection in technology and communication services detracted from performance, along with the overweight position in industrials. Positive stock selection in energy and consumer staples, along with the lack of exposure to utilities, helped. The largest detractors to performance were F5 Networks, Discovery, Euronet Worldwide, Citigroup, and General Electric; the largest positive contributors were Wells Fargo, Heineken, Hess, Royal Mail, and Oracle.

LARGEST NEW PURCHASES – 2Q21

Babcock International Group is a U.K. government outsourcer with a focus on Ministry of Defense (MoD) contracts. Babcock's 35k employees generally perform complex technical work with high barriers to entry and limited competition. The business saw productivity—and as a result margins—decline due to COVID-related health and safety measures put in place. Additionally, a few of Babcock's key end markets, mainly Training and Aviation, have experienced depressed demand. With new leadership refocusing the business, we expect a significant recovery in profitability. Trading around 6x our view of normal earnings, we believe this is an attractive opportunity.

CVS Health operates fast growing insurance and pharmacy benefit management businesses. These well-positioned businesses should deliver strong earnings growth. Yet the value of these assets has been overshadowed by concerns regarding CVS' front-end retail business. While the headwinds facing retail are real, this business is ultimately a very small piece of CVS Health's value. We believe that CVS Health's sum-of-the-parts valuation is attractive.

Gruma is the world's largest tortilla and corn flour company. It competes in a small but growing category that benefits from favorable secular trends. The Company's brands are well-positioned: nearly all of Gruma's business has #1 or #2 market positions. Gruma is unusual among Mexican consumer staples companies in that 75% of its sales and profits are earned outside of Mexico in hard currency rather than pesos, with the U.S. representing more than half of EBITDA. The balance sheet is healthy, cash flow generation strong, and we trust management to be good stewards of shareholder value.

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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 Global 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. Growth investing tends to work well during speculative, momentum-driven markets, while value investing tends to work well following recessionary periods. Past recessions and recoveries cannot predict future performance due to different factors and circumstances.

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

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 managers' opinions and data included in this commentary are as of June 30, 2021 and are subject to change without notice. Any forecasts made cannot be guaranteed. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness. Certain information presented is based on proprietary or third-party estimates, which are subject to change and cannot be guaranteed. 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.

Past performance is no guarantee of future results.