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 trades at 11x forward P/E (consensus FY1) compared to the MSCI World Growth at 19x. At both a forward and normal P/E of 10x 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 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, overweights and stock selection in financials and energy contributed positively to performance. Positive stock selection and underweights in consumer discretionary and technology also helped. Stock selection in communication services detracted from performance, as did our underweights in health care, consumer staples, and utilities. The largest positive contributors to relative performance in the quarter were Cenovus Energy, Suncor Energy, BAE Systems, Elevance Health, and FedEx; the largest detractors were General Electric, Warner Bros Discovery, F5, General Motors, and Credit Suisse.

LARGEST NEW PURCHASES – 2Q22

Koninklijke Philips NV, once a sprawling conglomerate, Philips today is a leaner and more focused business. The company is a leading provider of diagnostic imaging equipment and is well positioned in several important fast-growing niches such as Cardio-Ultrasound and Cath Lab. The company is trading at a deep discount due to a voluntary product recall of certain CPAP, BiPAP, and Mechanical Ventilator devices. Since then, the FDA has required numerous extensive tests of their facilities and shareholders are becoming increasingly worried about these issues and the potential for related litigation. We believe that the reports, although serious, affect only a miniscule number of overall machines and expect earnings to recover strongly once these issues are resolved.

Samsung Electronics is a diversified technology company with leading positions in memory, display panels, mobile phones, tablets, PCs, networking, consumer electronics, and appliances. However, the crown jewel of the company is its semiconductor business, representing approximately 50-70% of EBIT in most years. Samsung is the scale player in this oligopoly industry characterized by improving revenue and growth prospects. Samsung trades at a low multiple of normalized earnings and has a net cash balance sheet.

Workday is a leader in cloud-based enterprise application software for back-office business functions including human capital management and financials. Back-office software is the least cloud-penetrated category of enterprise applications, which we believe gives Workday a long growth runway. In addition, Workday's formidable competitive advantages result in impressive unit economics that should support a robust mid-30s EBIT margin at maturity. Despite these quality characteristics, Workday's stock is down 45% YTD and now trades at a sizeable discount to its estimated fair value.

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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 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 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, please 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 June 30, 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.