GLOBAL VALUE

MARKET COMMENTARY

The MSCI World Index increased 9.8% in the fourth quarter of 2022. The MSCI World Value Index increased 14.7% while the MSCI World Growth Index increased 4.7%.

In calendar year 2022, the global economy and capital markets experienced numerous milestones that had not been observed for quite some time. The MSCI World declined -18.1%, its worst annual performance since the Great Financial Crisis. Value stocks declined but held up much better than growth stocks. The MSCI World Value declined -6.5% compared to the MSCI World Growth's -29.2% decline. The more than 22 percentage point difference represented value's largest advantage since 2000. Considering the still wide valuation gap and value's significant outperformance in periods of elevated/rising inflation and interest rates, we are optimistic that value's outperformance can persist. Expectations for future corporate earnings are roughly flat, thus the stock market's decline in 2022 was entirely due to a compression in valuation multiples as opposed to an actual or expected decline in earnings.

Volatility was not confined to the equity markets. U.S. 10-year treasury yields peaked above 4% for the first time in more than a decade; 30-year mortgage rates peaked above 7% for the first time in more than 2 decades; and yields (and spreads) on corporate credit also increased significantly.

U.S. inflation peaked midyear at 9.1%, the highest reading in more than 40 years[1]. Inflationary pressures elsewhere appear to have peaked in recent months as well, although it may be too soon to take a victory lap. Central banks have increased interest rates aggressively and have signaled a willingness to do more. There are concerns that these actions could lead the global economy into a recession.

Forecasting economic growth and/or predicting recessions is not our expertise. We do, however, fully acknowledge current warnings signs, e.g., continued Fed tightening and an inverted yield curve. Two things providing solace in the event of an economic slowdown are modest financial leverage and attractive valuations. There are fewer excesses in the system compared to prior recessionary periods like 2008. Unlike then, balance sheets of both consumers and financial institutions are quite strong today. Further, equity valuations are reasonable, and in select market segments, unusually attractive. A strong argument could be made that a recession is already priced into equity markets, at least in certain market segments, which is different compared to recessionary periods like 2002. While several signs point to an economic slowdown, several others suggest that the severity would be manageable and/or much of the pain has already been felt.

The MSCI World Energy sector returned +48% in 2022, the best-performing sector by substantial margin. All other MSCI World sectors were negative for the year. Crude oil is a depleting resource/commodity. Put simply, when oil is extracted from a well, that well now contains less oil, and what remains is increasingly difficult to extract. As a result, wells produce less oil as they age, the pace of which is called its *decline rate*. To maintain flat production, therefore, companies must invest considerable sums in new projects to replace these wells' declining production. To *increase* production, these investments need to be substantial. In recent years, however, energy companies have spent unusually little on new production, instead using cash flows to pay down debt and/or return to shareholders. Our view has been, and continues to be, that this lack of investment will create a situation where supply, i.e., production, is unable to keep pace with global demand. This imbalance keeps the price of oil elevated and facilitates strong free cash flows for energy companies. Much of the cash flow is earmarked for share repurchases, which is accretive to earnings per share. Capital expenditures, i.e., new investments, have increased recently, but it takes a long time for such investments to result in actual production. Thus, this imbalance could persist for some time. Meanwhile, energy stocks' valuations remain compelling even after the impressive performance because they are coming from such a low base. Free cash flow yields are well into the teens, hence our continued overweight.

Financials represents the portfolio's largest weight. Our thesis on Financials is straightforward—it is the most attractively valued sector in the portfolio. The sector trades at notable discounts to other parts of the market and relative to its own history, despite balance sheets that we well positioned to withstand a potential economic slowdown. Our positions are focused on companies with difficult-to-replicate franchises that should earn returns well above their cost of capital. Information Technology represents the portfolio's second largest sector weight. The valuation multiples of the portfolio's technology positions are higher than those in financials and energy, but still attractive given the quality of the business, the bullet proof balance sheets, and the appealing growth prospects. These businesses deserve valuation multiples well above the market average, yet often trade at modest discounts, thus significantly below their intrinsic values.

ATTRIBUTION – 4Q22 & 2022

The Hotchkis & Wiley Global Value portfolio (gross and net of management fees) outperformed the MSCI World and MSCI World Value indices in the fourth quarter of 2022. Relative to the broad index, stock selection in Industrials, Information Technology, and Consumer Discretionary contributed positively to relative performance. The overweights to Financials, Energy, and Industrials also contributed positively. Conversely, stock selection and the underweight in Health Care detracted, along with the underweight in Materials. Stock selection in Communication Services also detracted modestly. The largest positive contributors to relative performance in the quarter were General Electric, AIG, Oracle, UniCredit SpA, and NOV; the largest detractors were Warner Bros. Discovery, F5 Inc., Popular, Alphabet, and CVS Health.

The portfolio outperformed the MSCI World Index over calendar year 2022 (gross and net of management fees). The overweight position and positive stock selection in Energy led the outperformance. The overweight in Financials, along with stock selection in Information Technology also contributed positively. Conversely, the underweight position and stock selection in Consumer Staples detracted from relative performance, as did the underweights in Health Care, Materials, and Utilities.

(continued)

[1]US CPI Urban Consumer year-over-year, not seasonally adjusted

GLOBAL VALUE

LARGEST NEW PURCHASES – 4Q22

Comcast is the largest consumer telecom service provider in the US, serving over 30MM customers and passing nearly 60MM homes and small businesses. Comcast owns the NBCU media conglomerate and Sky European Pay TV business. Fears of slowing subscriber growth have weighed on the company and industry overall. We believe Comcast's stock price does not reflect the growth it should produce as it continues to take share of the broadband market. In addition, the company continues to trade at a discount to our estimate of fair value and exhibits a strong record of returning cash to shareholders.

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 securities reflected herein are intended for illustrative purposes only and not a recommendation to buy or sell specific securities. There is no assurance that the securities discussed will remain in the portfolio or that securities sold have not been repurchased. The securities discussed do not represent the entire portfolio, may only represent a small portion of the portfolio and should not assume the securities discussed were or will be profitable or that recommendations made in the future will be profitable or will equal the performance of the securities discussed. H&W's opinions regarding these securities are subject to change at any time, for any reason, without notice.

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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 December 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.