

GLOBAL VALUE

MARKET COMMENTARY

The MSCI World Index increased 11.4% in the fourth quarter of 2023. The MSCI World Growth Index increased 13.4% while the MSCI World Value Index increased 9.3%. The strong fourth quarter extended the MSCI World calendar year 2023 return to +23.8%. This represents a full recovery from its decline in the prior calendar year. The index's two-year return is a modest +0.7% annualized.

Global stocks ended the fourth quarterly sharply higher as economic growth remained resilient and recessionary fears eased as investors cheered reduced inflation readings. The U.S. federal government narrowly avoided a shutdown in November, which would have left government employees furloughed and put U.S. debt at risk of a ratings downgrade by Moody's. The U.S. Federal Reserve left interest rates unchanged in December and took a more dovish stance, signaling up to three rate cuts in 2024. The European Central Bank also signaled it was done with raising interest rates. As a result, key benchmark rates across the globe fell sharply in Q4 and ended the year roughly where they began.

The MSCI World Index increased 23.8% for the year, with growth sharply outperforming value (+37.0% for the MSCI World Growth Index vs +11.5% for the MSCI World Value Index). All eleven GICS sectors were positive for the year, led by technology (+58.2%), communication services (+46.1%), and consumer discretionary (+36.7%). Utilities (+1.0%), consumer staples (+2.6%), and energy (+3.5%) were relative laggards. The strong performance of growth stocks helped to drive the valuation gap between the MSCI World Growth and MSCI World Value wider during the year, expanding from 8.9x at the close of 2022 to 11.8x by the end of 2023¹. Much of the outperformance of growth stocks in recent years has been driven by multiple expansion, which cannot continue indefinitely.

Historical evidence reinforces the notion that during transformative economic landscapes our investment style can embark on a significant and lasting period of outperformance. Our portfolio trades at a large discount to both the broader market and the value index, and also at a lower P/E multiple than its own historic average. We hold steady in our commitment to the principles of value investing and remain prudent in our search for new ideas in an ever-changing environment. With a resilient team, a healthy firm, and an optimistic outlook, we believe our clients will be duly rewarded for our dedication and efforts. As we eagerly anticipate the new year, our enthusiasm remains undiminished, ready to navigate evolving markets and capture opportunities on behalf of our clients.

¹Source: Bloomberg. Based on FY2 price-to-earnings ratio.

Past performance is no guarantee of future results

ATTRIBUTION ANALYSIS – 4Q23 & 2023

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 2023. Relative to the broad index, stock selection in financials, healthcare, and technology contributed positively to relative performance. The underweight in consumer staples also contributed positively. Conversely, the overweight and stock selection in energy detracted during the quarter. Stock selection in communication services also detracted, as did the underweight in technology.

The portfolio outperformed the MSCI World Index in calendar year 2023 (gross and net of management fees). Stock selection in financials and industrials contributed the most to relative outperformance. The underweight and stock selection in consumer staples also contributed positively, as did the underweight positions in healthcare, utilities, materials, and real estate. Conversely, stock selection and the underweight in technology detracted from relative performance. Stock selection and the overweight in energy also detracted, as did stock selection in communication services and consumer discretionary.

LARGEST INDIVIDUAL CONTRIBUTORS – 4Q23

Ericsson (ERIC) is a vendor of hardware and software needed to operate wireless networks. This business is effectively an oligopoly, and we believe margins should be better than they have been historically. Ericsson's stock rallied in December following AT&T's announcement of a multi-year deal with Ericsson to deploy commercial scale Open Radio Access Network (Open RAN) in the US.

Siemens AG (SIE) is a global leader in electrical engineering. The company focuses on industry (automation, software and drives), healthcare, and infrastructure (transport, building technologies, power distribution). Siemens trades at a discount to the market and a significant discount to competitors due to its complexity and conglomerate discount. In Q4, the company reported strong earnings including record high profits in all industrial businesses as well as robust cash generation. Additionally, management increased the dividend and launched a new €6B share repurchase program.

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Popular (BPOP) is the largest bank in Puerto Rico with a dominant market share of loans and deposits in the territory. Popular is a very well positioned and profitable bank with substantial excess capital. Bank stocks rallied in the quarter as the market began to anticipate interest rate cuts, which could be supportive to bank net interest margins. The bank also announced a quarterly dividend increase of nearly 13% during the quarter.

LARGEST INDIVIDUAL DETRACTORS – 4Q23

Kosmos Energy Ltd. (KOS) is a misunderstood E&P company focused on the discovery and production of offshore oil and gas resources. The current valuation does not reflect the value of the company's existing production, let alone the Company's LNG development that is scheduled to come on-stream early next year. This, coupled with higher energy prices, should prove to be positive for their future earnings and free cash flow. Performance was impacted by guidance for FY 2023 which indicated temporarily lowered production figures and higher costs as they pulled forward 2024 capex spend into 2023. Additionally, they announced a delay in the start-up of their LNG development. This, paired with declining commodity prices, led to negative performance over the period.

APA Corp. (APA) is an independent E&P operating in the North Sea, onshore in Egypt, and in the Midland and Delaware basins in the Permian, as well as in Suriname through a JV with Total offshore. APA's asset portfolio offers an attractive mix of relatively defensive cash flows (thanks to production sharing

contracts and relatively modest corporate production decline rate) but with the potential for attractive incremental reinvestment returns (Suriname). APA underperformed during the quarter, as it traded down in sympathy with lower oil and gas prices.

FedEx (FDX) delivers millions of parcels per day to more than 99% of the world's GDP including 220 countries and every address in the US and operates the largest less-than-truckload freight network in North America. FedEx has faced multiple headwinds in recent years: a mix shift toward less profitable B2C packages is pressuring Ground, a challenging integration of TNT is pressuring Express, and a deteriorating global macro environment is leading to volume declines across all segments. These headwinds are meaningful but should be temporary. ROIC and FCF should further improve under new management who are committed to reducing capex intensity and increasing shareholder returns. FedEx underperformed during the quarter, as the company cut its FY2024 sales outlook on a weaker than expected demand environment.

Net of fee composite performance as of 12/31/23: 28.43%, 12.57%, and 7.33% for 1-, 5-, and 10-year, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees.

All investments contain risk and may lose value. This commentary is for general information only and should not be relied on for investment advice or recommendation of any particular security, strategy, or investment product.

Portfolio characteristics and attribution are based on a representative Global Value portfolio. 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. Returns can differ from certain client portfolio(s) due to data differences, cash flows, trading, and other activity. 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.

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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. Composite performance is available at www.hwcm.com, located on the strategy's Performance tab along with important disclosures included in the strategy's [GIPS Report](#); quarterly characteristics and portfolio holdings are located on the 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 MSCI World Index is a free float-adjusted weighted index capturing large and mid cap stocks. The MSCI World Value and MSCI World Growth Indices are free float-adjusted weighted indexes capturing large and mid cap stocks, exhibiting overall value or growth style characteristics, respectively. The MSCI indices represent stocks across 23 Developed Markets (DM) countries and include reinvestment of dividends, net foreign withholding taxes.

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.

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.

Information contained in this material may represent or be based on forward-looking statements. Due to various risks and uncertainties, actual events/results or performance of the strategy may differ materially from those reflected or contemplated in such forward-looking statements. 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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