HIGH YIELD

MARKET COMMENTARY

The high yield market generated strong investment returns in both the fourth quarter and full year 2023 as economic growth exceeded expectations, inflation decelerated and the Federal Open Market Committee ("FOMC") pivoted away from its interest rate hiking campaign. The ICE BofA US High Yield Index generated a 7.1% in the fourth quarter bringing its 2023 calendar total return to 13.5%. The 10-year treasury yield began and ended 2023 at 3.9% after briefly touching 5.0% in October. The Fed Funds rate increased 100 bps over the course 2023 to 5.5% (upper bounds). Inflation, as measured by headline CPI, declined 310 bps to 3.4% while the unemployment rate ticked up 20 bps to 3.7%.

Within the high yield market, cyclical, lower rated and large cap issuers outperformed the broad market index. Yields declined 125 bps in the fourth quarter and 130 bps in the calendar year to 7.7% in-line with its long-term average. High yield spreads tightened 69 bps in the fourth quarter and 147 bps in the calendar year to 334 bps, below its long-term average, as recession fears moderated. Default activity accelerated both in the fourth quarter and calendar year to 2.8%, modestly below the long-term average. Leverage and interest coverage ratios deteriorated over the course of 2023 as issuers redeployed excess cash to shareholders and impact of higher interest rates flowed through the interest rate expense line item. Primary market activity improved in 2023 with $176 billion in gross issuance, a 65% increase over 2022, but remains below its historic average. Asset class fund flows remained negative in 2023 although fourth quarter flows were positive.

We continue to view the high yield market's prospects as roughly average relative to history and attractive relative to other fixed income alternatives given the current macro-economic environment. Fundamentals are average despite deterioration over the past year. Technicals are above average as the FOMC pivots away from its aggressive monetary tightening policy. Valuation indicators are mixed. Yield to worst has reverted up to average and is higher than in the past decade. Spreads are below average although high yield quality indicators (rating and seniority) have improved over time. Spread dispersion is sufficiently wide and conducive to our bottom-up credit picking approach and our penchant for small and mid-cap ("SMID") credits. We remained focused on generating portfolio carry while looking for opportunities to improve portfolio quality.

ATTRIBUTION ANALYSIS – 4Q23 & 2023

The Hotchkis & Wiley High Yield portfolio (gross and net of management fees) underperformed the ICE BofA US High Yield Index and the ICE BofA BB-B US High Yield Constrained Index ("BB-B Constrained") in the fourth quarter of 2023. Relative to the BB-B Constrained, our SMID overweight and negative credit selection in basic industry, retail, and technology detracted from performance.

For the full calendar year, the portfolio outperformed both benchmarks (gross and net of management fees). Relative to the BB-B Constrained, our overweight exposure to lower rated credits and positive credit selection in retail, media, and consumer goods helped relative performance. Security selection in basic industry adversely impacted performance.

Unless otherwise noted, the "high yield" market refers to the ICE BofA US High Yield Index

Net of fee composite performance as of 12/31/23: 13.54%, 4.77% and 4.04% for 1-, 5-, and 10-year, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees. **Past performance is no guarantee of future results.**

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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 High Yield 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. Absolute performance for the portfolio may reflect different results. No assurance is made that holdings, or all investment decisions by H&W were or will be profitable.

The discipline used in managing accounts in the High Yield strategy may prevent or limit investment in major bonds in the ICE BofA US High Yield and ICE BofA BB-B US High Yield Constrained, 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. Portfolio information is subject to the firm's portfolio holdings disclosure policy.

The ICE BofA BB-B US High Yield Constrained Index contains all securities in the ICE BofA US High Yield Index rated BB+ through B- by S&P (or equivalent as rated by Moody's or Fitch), but caps issuer exposure at 2%. Index constituents are capitalization weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. The ICE BofA US High Yield Index tracks the performance of below investment grade, but not in default, US dollar-denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

The ICE BofA index data referenced is the property of ICE Data Indices, LLC ("ICE BofA") and/or its licensors and has been licensed for use by Hotchkis & Wiley. ICE BofA and its licensors accept no liability in connection with its use. See www.hwcm.com for full disclaimer.

Investing in high yield securities is subject to certain risks, including market, credit, liquidity, issuer, interest-rate, inflation, and derivatives risks. Lower-rated and non-rated securities involve greater risk than higher-rated securities. High yield bonds and other asset classes have different risk-return profiles, which should be considered when investing.

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.

Portfolio managers' opinions and data included in this commentary are as of December 31, 2023. Any discussion or view of a security, an asset class/segment, industry/sector and/or investment type are not investment recommendations, should not be assumed to be profitable, and are subject to change without notice.

Past performance is no guarantee of future results