HIGH YIELD

MARKET COMMENTARY

The high yield market generated a 1.35% total return in the fourth quarter, bringing its calendar year total return to 8.50%. High yield outperformed treasuries, bank loans, and investment grade while underperforming emerging market debt fixed income asset classes in both the fourth quarter and for the 2025 calendar year. The Federal Open Market Committee cut its Fed Funds target rate by 25 bps to 4.00% (upper bound) as labor market conditions remained soft and CPI ticked down 40 bps to 2.60%. The futures market suggests two additional 25 bps Fed Funds target rate cuts in 2026. The 10-Year US Treasury yield increased 2 bps to 4.17% and the yield curve steepened as the short end declined 20 bps and the long end increased 10 bps.

Within the high yield market, yield-to-worst decreased 11 bps to 6.62% and the option adjusted spread widened 1 bps to 281 bps in the fourth quarter. While yields and spreads are below long-term averages, today's high yield market is higher quality and has shorter duration. The last twelve-month high yield default rate, including the impact of distressed exchanges, decreased 10 bps to 1.20%, below its historic average. High yield primary market gross issuance totaled $65 billion in the fourth quarter, driven primarily by debt refinancing transactions.

Turning to performance, the ICE BofA BB-B US High Yield Constrained Index generated a 1.57% total return in the fourth quarter, outperforming the broader high yield market by 22 bps as the CCC rating cohort produced a -0.52% total return. From a sector perspective gaming, metals, and telecommunications were notable outperformers while packaging/paper, cable and chemicals were notable underperformers.

Our overall assessment of the high yield market remains attractive relative to its history and to other fixed income alternatives. High yield bonds offer higher carry and lower duration compared to investment grade bonds in a stable economic environment and "higher for longer" interest rate backdrop. High yield bonds offer lower current defaults and better total return prospects, in today's easing monetary policy environment compared to bank loans.

We assess the high yield market across three vectors, Fundamentals, Technicals and Valuation, using a 1.0 to 5.0 scale, with 1.0 being bullish and 5.0 being cautious. Fundamentals (2.0) are solid with moderate leverage and coverage ratios, a benign default rate environment and low recession risk. Technicals (2.0) are strong given shrinking supply driven by elevated high yield bond calls/tenders and improved asset classes fund inflows. Valuation (2.5) is modestly attractive, balancing the below average yields and spreads with today's higher quality, shorter duration high yield market composition.

ATTRIBUTION ANALYSIS – 4Q25 & 2025

The High Yield portfolio underperformed the ICE BofA BB-B US High Yield Constrained Index in the fourth quarter (gross and net of management fees), driven primarily by negative selection effects in lower quality issuers. Credit selection was negative across nine of the nineteen high yield market sectors, most notably in basic industry and retail, partially offset by positive selection in energy and media. From a ratings perspective, our overweight allocation to and security selection within the CCC and nonrated cohorts hurt relative performance.

For the calendar year 2025, the High Yield portfolio underperformed the ICE BofA BB-B US High Yield Constrained Index (gross and net of management fees), driven by the portfolio's cash drag, an overweight allocation to the basic industry sector and negative credit selection. Credit selection was positive across eleven of the nineteen high yield market sectors, most notably in energy, and capital goods, more than offset by negative selection in basic industry and technology & electronics.

As of 12/31/25, net of fee composite and ICE BofA BB-B US High Yield Constrained Index performance for the following periods: 1-year (7.87%, 8.73%); 5-year (5.00%, 4.11%); and 10-year (5.93%, 6.05%), respectively. Average annual total returns for periods greater than one year. Net performance results are presented after management fees and all trading expenses but before custodial fees; the composite includes all High Yield discretionary accounts. Additional disclosures provided in Endnotes.

Unless otherwise noted, the "high yield" market refers to the ICE BofA US High Yield Index. **Past performance is no guarantee of future results.**

Endnotes:
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. The representative portfolio is used for informational purposes only, does not predict future portfolio characteristics, and may differ from other portfolios in the strategy due to asset size, client guidelines, and other variables. H&W selected the representative portfolio based on non-performance criteria. The portfolio reflects the management style of the strategy, is part of the strategy's composite, and has the longest continuous duration under the Adviser's discretion. Selection of the representative portfolio considers one or more of the following factors, such as the portfolio's investment guidelines/ restrictions, cash flow activity, or continuous duration under the Adviser's discretion.

Attribution is an analysis of a portfolio's gross of fee returns (without the deduction of fees and expenses) relative to the designated Index (security selection includes interaction effect). Bloomberg calculates returns using trade information. Returns calculated using this methodology can differ from actual client portfolio returns due to data differences, cash flows, trading, and other activity (report is generated at a point in time and will not include any adjustments thereafter). Sector performance only covers the subset of investments specific to that sector. Analysis for different time periods and/or market environments can result in significantly different results.

The discipline used in managing accounts in the High Yield strategy may prevent or limit investment in major bonds in the ICE BofA BB-B US High Yield Constrained and returns may not be correlated to the index. 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, Fitch and S&P. Any indices and other financial benchmarks shown are provided for illustrative purposes only, are unmanaged, reflect reinvestment of income and dividends and do not reflect the impact of advisory fees. It is not possible to invest directly in an index.

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.

Federal Open Market Committee directs open market operations in the United States and is made up of 12 members; **Yield-to-worst** is a measure of the lowest possible yield that can be received on a bond with an early retirement provision; and **Consumer Price Index (CPI)** regularly measures the change in the prices paid by consumers in the U.S. for a representative basket of goods and services.

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. Investing in debt securities typically decreases in value when interest rates rise. This risk is usually greater for longer-term debt securities. Principal Risks Disclosure for the firm's strategies are described in Part 2A of Form ADV of H&W (www.hwcm.com/wp-content/uploads/2025/07/HW-Principal-Risks-Disclosure-July-2025.pdf).

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. Data source: H&W, ICE BofA, Bloomberg.

Portfolio managers' opinions and data included in this commentary are as of December 31, 2025. 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.