

INTERNATIONAL VALUE

MARKET COMMENTARY

The MSCI World ex-USA Index declined -4.8% in the first quarter of 2022. The MSCI World ex-USA Value Index returned +1.6% while the MSCI World ex-USA Growth Index declined -11.0%. 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 ex-USA Value Index trades at 10x forward P/E (consensus FY1) compared to the MSCI ex-USA World Growth Index at 20x.

Inflation data globally continues to accelerate. Eurozone CPI hit 7.5%, while the United Kingdom rose to 6.3%. Russia's invasion of Ukraine fueled inflation worries further. Sanctions and trade disruption created supply shocks, putting inflationary pressures on significant Russian exports like oil, natural gas, and metals—each experienced meaningful price increases in the period. Brent crude oil increased by 37%, finishing the quarter at \$104/barrel, while European natural gas futures rose +61%. Our view has been that the lack of investment in new energy projects/production would create an imbalance once demand recovered to pre-pandemic levels; the resulting supply shortage would put upward pressure on energy prices. While this continues to be our view, Russia's invasion of Ukraine has exacerbated the situation. Russia is the world's 11th largest economy, representing just 2% of global GDP. It is the world's largest exporter of natural gas; however, and the third-largest exporter of crude oil. Russia provides more than 40% of Europe's natural gas and more than 25% of its oil.

Europe is particularly impacted by rising energy costs, and a prolonged conflict in Ukraine increases the odds of a sustained inflation overshoot, resulting in a more hawkish tone by the ECB. Meanwhile, the Bank of England raised its key interest rate for a third time since December despite acknowledging a gloomier economic outlook stemming from the conflict in Ukraine. The Bank of Canada also raised its overnight interest rate by 25 points in March and is projected to raise it by another 50 basis points at its next policy meeting in April. Higher interest rates are generally bad for equities because it increases the cost of capital and makes fixed income investments a more appealing alternative. It is typically less bad for value than growth for two primary reasons. First, financials represent the lone sector that benefits from rising rates (higher earnings), and financials comprise significantly larger portions of value portfolios/indexes. Second, value equities are shorter duration securities than growth equities. In a discounted cash flow analysis, the terminal value estimate represents the lion's share of a conventional growth stock's value, whereas a conventional value stock will generate meaningful cash flows sooner. We believe the large valuation spreads and macroeconomic backdrop should continue to benefit value relative to growth, which should be a conducive environment for our investment approach.

ATTRIBUTION – 1Q22

The Hotchkis & Wiley International Value portfolio (gross and net of management fees) outperformed the MSCI World ex-USA Index in the first quarter of 2022 by a considerable margin. The overweight and stock selection in energy was the largest positive contributor, by far. The portfolio's energy positions returned +36% as a group compared to the MSCI World ex-USA's energy return of +21%. Positive stock selection in consumer discretionary and industrials also helped. Stock selection in financials and consumer staples detracted from performance in the period. The largest positive contributors to relative performance in the quarter were Kosmos Energy, BAE Systems, Schlumberger, Suncor Energy, and Cenovus Energy; the largest detractors were Royal Mail, ING Groep, UniCredit, Credit Suisse, and Societe Generale.

LARGEST NEW PURCHASES – 1Q22

Samsung 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 normal earnings power and has a net cash balance sheet

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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 International 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 International Value strategy may prevent or limit investment in major stocks in the MSCI World ex-USA, MSCI World ex-USA Value and MSCI World ex-USA 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

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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.

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