

INTERNATIONAL VALUE

MARKET COMMENTARY

The MSCI World ex-USA Index increased +6.2% in the first quarter of 2025, far outpacing the decline of -4.3% for the S&P 500 Index. Value outperformed growth in the quarter (+10.3% vs. 2.0%). Nine of the eleven broad index GICS sectors increased during the quarter, with utilities, financials, energy, and communication experiencing double-digit returns. Technology and consumer discretionary were the lone decliners.

European equities outperformed global markets in Q1 2025, driven by a mix of fiscal stimulus, monetary easing, and geopolitical improvements. Germany's €500 billion infrastructure plan and the EU's €800 billion defense spending boosted economic activity and investor confidence. The European Central Bank supported equities by cutting interest rates by 25 basis points, while inflation fell to 2.2%, creating a favorable environment for corporate earnings. Geopolitical optimism, including progress toward a Ukraine ceasefire and reduced trade tensions with the U.S., further bolstered sentiment. Strong corporate earnings, attractive dividend payouts averaging 3.5%, and undemanding valuations relative to U.S. equities also contributed to the region's robust performance.

The valuation spread between the growth and value indices continues to be wide on a forward price to earnings basis (19x vs. 10x), suggesting a promising outlook for value. By comparison, our portfolio trades at a forward price to earnings ratio of 9x. The portfolio's attractive valuation, combined with good underlying businesses and healthy balance sheets leaves us confident about the portfolio's prospects, particularly compared to passive alternatives.

ATTRIBUTION ANALYSIS – 1Q25

The International Value portfolio outperformed the MSCI World ex-USA Value Index in the first quarter of 2025 (gross and net of management fees). Stock selection in industrials and financials contributed the most to relative outperformance. Stock selection in consumer discretionary also worked well, as did the underweight position in real estate. Conversely, stock selection in communication

services and energy detracted from relative performance in the period. Stock selection and the overweight in technology also detracted, as did the underweight in financials.

LARGEST INDIVIDUAL CONTRIBUTORS – 1Q25

Babcock International (BAB.LN) is a UK government outsourcer with ~60% of revenue from Ministry of Defense (MoD) contracts. The company performed well in Q1 after guiding for higher revenue growth. Revenue growth and profitability should continue as the UK and other European countries invest more in defense spending.

Societe Generale (GLE FP) is the one of the largest banks in France and provides retail, commercial and investment banking services in France, Eastern Europe, Russia and Northern Africa. Soc Gen performed well during the quarter following strong 4Q results driven by continued improvement in French Retail banking and solid performance in its corporate and investment bank. Management also declared a larger than expected return of capital from 2024 earnings and provided guidance for 2025 that was above estimates. With gradually improving returns and solid capital ratios, Soc Gen is an undervalued stock trading at below tangible book and low multiples of earnings.

Lloyd's Banking Group (LLOY.LN) is one of the leading domestic UK banks with a substantial share of the UK banking market. Lloyd's outperformed during the quarter on better-than-expected economic data and after reporting a strong quarter. Despite reserving for motor finance related litigation, LLOY continued to show strong organic capital generation and provided solid capital return. Management guided for increased profitability from ongoing growth initiatives and improved income from the structural hedge. LLOY continues to look attractive based on valuation and its growth trajectory.

(continued)

As of 3/31/25, net of fee composite and MSCI World ex-USA Value performance for 1-, 5-year and Since Inception (1/1/16) periods: 12.87%, 20.27%, 8.12% and 12.86%, 15.14%, 6.96%, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees; the composite includes all International Value discretionary accounts. Additional disclosures provided in Endnotes.

Past performance is no guarantee of future results.



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LARGEST INDIVIDUAL DETRACTORS – 1Q25

WPP (WPP) is a large ad agency holding company. WPP's stock price came under pressure following weaker-than-expected Q424 earnings results. The company trades at a low multiple of consensus earnings with a good balance sheet, we believe the company can deliver near mid-teens returns from the combination of capital return and capital-free organic growth.

Kosmos Energy Ltd. (KOS) is an independent exploration and production company focused offshore. In addition to its existing production, KOS has liquified natural gas (LNG) assets that are set to begin production in 2024 and a platform to acquire and operate additional offshore resources. Shares fell over the quarter after Organization of the Petroleum Exporting Countries (OPEC+) delegates announced that the group would move forward with plans to restart previously halted oil production. We believe these short-term issues are significantly outweighed by the long-term value of the company's existing production, which the current stock price does not fully reflect.

Worldline (WLN.FP) is a provider of payment and other transaction processing services. The company has struggled to integrate acquisitions and is facing increased competitive pressure in parts of the business. Worldline had a disappointing 2024 and guidance suggests continued challenges in 2025. The company has new leadership, and we await further details regarding its strategic plan.

For informational purposes only, the specific investments shown represent only the top contributors and detractors for the relevant performance time period. The selection criteria used to determine the top contributors and detractors remains the same across performance measurement periods; additional disclosures provided in Endnotes. **Past performance is no guarantee of future results.**

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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 International 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 (data source: Bloomberg, Russell).

Specific securities identified are the three 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. 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. Certain client portfolio(s) may or may not hold the securities discussed due to each account's guideline restrictions and other relevant considerations.

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 Value 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. 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 ex-USA Index is a free float-adjusted weighted index capturing large and mid cap stocks. The MSCI World ex-USA Value and MSCI World ex-USA Growth Indices are free float-adjusted weighted indices capturing large and mid cap stocks, exhibiting overall value or growth style characteristics, respectively. The MSCI indices represent stocks across 22 of 23 Developed Markets (DM) countries, excluding the United States and include reinvestment of dividends, net foreign withholding taxes. 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.

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.

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.

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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