

INTERNATIONAL VALUE

MARKET COMMENTARY

The MSCI World ex-USA Index declined -14.7% in the second quarter of 2022. The MSCI World ex-USA Value Index returned -12.4% while the MSCI World ex-USA Growth Index declined -17.3%. All eleven MSCI World ex-USA GICS sectors declined in the quarter.

Several economic developments in the quarter sparked fears of a recession. Economic growth around the world is stalling, the war in Ukraine showed little signs of abating, and inflation continues to be a global phenomenon on extended supply chain disruptions. Eurozone inflation hit 8.6%. France and Spain experienced new inflation records in June, while Germany remained elevated. Elsewhere, inflation in Australia and Canada continues to accelerate. The Reserve Bank of Australia raised interest rates by the most in 22 years, while the Bank of Canada hiked their key interest rate by the most since 1994. United Kingdom inflation rose to a 9.1% rate, the highest in 40 years. Higher rates are generally bad for equities. It becomes more costly to borrow, increasing the cost of capital, which is the rate used to discount future cash flows. Higher rates impair long-duration equities disproportionately because most of the intrinsic value is derived from a terminal value estimate far into the future. In general, growth stocks are longer duration securities than value stocks. Unsurprisingly, value has historically outperformed growth in periods of elevated inflation and interest rates.

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 trades at 9x forward P/E (consensus FY1) compared to the MSCI World ex-USA Growth at 17x. At both a forward and normal P/E of less than 9x, the portfolio trades at an even larger discount. We believe these large spreads and the macroeconomic backdrop should continue to benefit value relative to growth, which should be a conducive environment for our investment approach.

ATTRIBUTION – 2Q22

The Hotchkis & Wiley International Value portfolio (gross and net of management fees) significantly outperformed the MSCI World ex-USA Index in the second quarter of 2022 and outperformed the MSCI World ex-USA Value Index. Relative to the primary benchmark, stock selection in consumer discretionary was the largest positive contributor to relative outperformance. Positive stock selection in financials and the

overweight in energy also helped. Stock selection and the underweight in healthcare was the largest detractor from performance in the period. Stock selection in energy, the overweight in industrials, and the underweight in utilities detracted modestly. The largest positive contributors to relative performance in the quarter were Points.com, Cenovus Energy, BAE Systems, Suncor Energy, and ING Groep; the largest detractors were Credit Suisse, Royal Mail, Ericsson, Koninklijke Philips, and CNH Industrial.

LARGEST NEW PURCHASES – 2Q22

Siemens is a diversified industrial conglomerate with attractive assets in smart infrastructure, digital industries, and healthcare. Shares have lagged the market due to fears of a European recession, creating an opportunity for us to re-establish a position at an attractive valuation. Despite Siemens's excellent balance sheet and portfolio of high-quality businesses, SIE trades at a discount to the market and to its peers.

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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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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.

Portfolio managers' opinions and data included in this commentary are as of June 30, 2022, and subject to change without notice. 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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Past performance is no guarantee of future results.