

# INTERNATIONAL VALUE

## MARKET COMMENTARY

The MSCI World ex-USA Index increased +7.8% in the third quarter of 2024. The MSCI World ex-USA Value Index rose by +9.7%, while the MSCI World ex-USA Growth Index increased by +5.9%. Nine of the eleven MSCI World ex-USA Index sectors delivered positive returns during the quarter. Real estate led with a return of +17.7%, followed by utilities (+15.9%), financials (+11.8%), and communication services (+11.6%). In contrast, the energy sector experienced a decline of -2.1%, while technology declined -0.5%.

Macroeconomic factors significantly influenced market performance during the quarter. The easing of inflationary pressures paved the way for lower interest rates, benefiting rate-sensitive sectors such as utilities and real estate, particularly companies with high leverage. Our portfolio is underweight these sectors, which weighed on relative performance. Conversely, commodity-related stocks, which typically thrive in inflationary environments—such as energy—underperformed in Q3. Sentiment in oil and gas stocks reached a historic low, as a recent report indicated that hedge funds are the most bearish on these stocks since 2020. The portfolio is overweight in energy relative to the broad index, and we anticipate improved performance as the economic landscape evolves and sentiment improves.

The technology sector also underperformed during the quarter, as investors assessed relative valuations and weighed the potential for an economic slowdown. Our technology sector exposure looks very different from the broad index. Our largest exposures are in communications equipment and technology hardware, storage & peripherals, where we own businesses where expectations are low, and earnings power is misunderstood.

Looking ahead, lower interest rates are typically favorable for markets. However, it is critical to focus on long-term trends rather than short-term fluctuations. We remain committed to identifying businesses with durable balance sheets, sustainable returns on equity, stable free cash flow, and attractive valuations relative to expected earnings. Our

decision to underweight high-leverage companies reflects our focus on seeking better risk-adjusted returns elsewhere. We believe our investment strategy, centered on identifying undervalued assets and effective risk management, is poised to generate consistent long-term returns.

## ATTRIBUTION ANALYSIS – 3Q24

The Hotchkis & Wiley International Value portfolio underperformed the MSCI World ex-USA Value Index in the third quarter of 2024 (gross and net of management fees). The largest detractors from relative performance were stock selection and an underweight position in financials. Stock selection and the overweight in energy also detracted, as did stock selection in consumer staples and the underweight positions in utilities and real estate. Conversely, stock selection in consumer discretionary, industrials, and healthcare contributed positively to relative performance. Additionally, stock selection and the slight overweight in materials performed well during the quarter.

## LARGEST INDIVIDUAL CONTRIBUTORS – 3Q24

Ericsson (ERIC) is the largest vendor of hardware and software for operating wireless networks outside of China. Sentiment is improving on signs of revenue stabilization and margin improvement, including evidence of recovery in the important North American market.

Qantas (QAN AU), the larger of the two major Australian airlines, performed well on positive earnings news and a continued favorable outlook. Having repurchased 9% of the company's shares for the second consecutive year, Qantas announced an additional A\$0.4 billion buyback. The valuation for this well-positioned airline remains attractive.

Nippon Sanso (4091 JP) is a leading global industrial gas producer. During the quarter the Company reported results that suggest our expectations of improved pricing and op ex discipline are being realized.

*(continued)*

Net of fee composite performance as of 9/30/24: 23.01%, 10.97% and 8.01% for 1-, 5-year and Since Inception (1/1/16), respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees.

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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## LARGEST INDIVIDUAL DETRACTORS – 3Q24

Samsung (005930 KS) is a diversified technology company with leading positions in semiconductors, display panels, mobile phones, consumer electronics, and appliances. Samsung's stock price declined in Q3 due to several factors, including weakening demand for consumer electronics, continued challenges in the semiconductor industry, and supply chain disruptions.

Kosmos (KOS) is an independent E&P focused offshore in the US Gulf of Mexico, Ghana, and Equatorial Guinea. Shares were pressured over the period as oil prices

continued to decline, driven by worries surrounding OPEC+ barrels returning to the market, coupled with slowing demand.

Worldline SA (WLN FP) is a provider of payment and other transaction processing services. The relatively weak European macro environment, coupled with regulatory headwinds in Germany and an evolving competitive landscape have negatively impacted growth.

### 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](http://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](mailto: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.

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.

Portfolio managers' opinions and data included in this commentary are as of September 30, 2024. 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.

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