INTERNATIONAL VALUE

MARKET COMMENTARY

The MSCI World ex-USA Index returned 10.5% in the fourth quarter of 2023. The index touched a 7-month low at the end of October before rebounding modestly to close out the quarter on a positive note. All 11 GICs sectors generated positive returns in the quarter, led by strong returns for the technology, materials, and real estate sectors. The strong fourth quarter extended the MSCI World ex-USA return to +17.9%. This represents a full recovery from its decline in the prior calendar year. The index's two-year return is a modest +0.5% annualized.

Globally, the deceleration in inflation figures led to a plunge in bond yields, with many central banks signaling more dovish policies ahead. In the United Kingdom, inflation finally dipped below 4% YoY in November, prompting speculation that the Bank of England might implement interest rate cuts in 2024 due to the larger-than-expected drop. Despite this, concerns about a looming recession persisted, evident in sentiment surveys across the UK and Eurozone. Meanwhile, the Bank of Japan maintained its policy at the year's final meeting, keeping a close eye on wage growth before considering an exit from negative interest rates. However, Japan's inflation indicators declined, with November's core CPI dropping to +2.7% year-over-year, though it remained a significant positive contributor to international market returns with a gain of 17.83% in the year. The international markets received an additional boost from the depreciation of the US dollar, which experienced its first loss since 2020 against a basket of international currencies, slipping -1.33% in 2023.

Value stocks slightly outperformed growth stocks overseas in 2023 (+18.5% for the MSCI World ex-USA Value Index vs +17.5% for the MSCI World ex-USA Growth Index. All eleven GICS sectors were positive for the year, led by technology (+41.3%), industrials (+27.3%), and consumer discretionary (+22.6%). Consumer staples (+5.5%), healthcare (+9.9%), and real estate (+9.9%) were relative laggards. Despite the relative outperformance by value stocks overseas, the valuation gap between the MSCI World ex-USA Growth and MSCI World ex-USA Value widened slightly during the year, expanding from 9.5x at the close of 2022 to 10.5x by the end of 2023[1]. Much of the outperformance of growth stocks in recent years has been driven by multiple expansion, which cannot continue indefinitely.

Historical evidence reinforces the notion that during transformative economic landscapes our investment style can embark on a significant and lasting period of outperformance. Our portfolio trades at a large discount to both the broader market and the value index, and also at a lower P/E multiple than its own historic average. We hold steady in our commitment to the principles of value investing and remain prudent in our search for new ideas in an ever-changing environment. With a resilient team, a healthy firm, and an optimistic outlook, we believe our clients will be duly rewarded for our dedication and efforts. As we eagerly anticipate the new year, our enthusiasm remains undiminished, ready to navigate evolving markets and capture opportunities on behalf of our clients.

ATTRIBUTION ANALYSIS – 4Q23 & 2023

The Hotchkis & Wiley International Value portfolio (gross and net of management fees) underperformed the MSCI World ex-USA Index but outperformed the MSCI World ex-USA Value Index in the fourth quarter of 2023. Relative to the broad benchmark, stock selection and the overweight in energy resulted in the bulk of the performance lag. The underweights in materials, utilities, and real estate also detracted from relative performance. Conversely, stock selection and the underweight in healthcare contributed positively to relative performance. Stock selection in consumer staples and consumer discretionary also worked well, as did the overweight in technology.

The portfolio outperformed the benchmark over calendar year 2023 (gross and net of management fees). Stock selection in financials was a key contributor to outperformance for the year. Stock selection and the underweight in healthcare also worked well, as did stock selection in consumer staples and consumer discretionary. Conversely, stock selection in technology and communication services detracted from relative performance in 2023. The overweight in energy and stock selection in industrials also detracted over the course of the year.

LARGEST INDIVIDUAL CONTRIBUTORS – 4Q23

Ericsson (ERIC) is a vendor of hardware and software needed to operate wireless networks. This business is effectively an oligopoly, and we believe margins should be better than they have been historically. Ericsson's stock rallied in December following AT&T's announcement of a multi-year deal with Ericsson to deploy commercial scale Open Radio Access Network (Open RAN) in the US.

(continued)

[1]Source: Bloomberg. Based on FY2 price-to-earnings ratio.

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Siemens AG (SIE) is a global leader in electrical engineering. The company focuses on industry (automation, software and drives), healthcare, and infrastructure (transport, building technologies, power distribution). Siemens trades at a discount to the market and a significant discount to competitors due to its complexity and conglomerate discount. In Q4, the company reported strong earnings including record high profits in all industrial businesses as well as robust cash generation. Additionally, management increased the dividend and launched a new €6B share repurchase program.

Samsung (005930 KS) is a diversified technology company with leading positions in semiconductors, display panels, mobile phones, consumer electronics, and appliances. Samsung's semiconductors business is its most valuable segment, representing 70% of normal EBIT, with Samsung's semiconductor memory business making up the majority of its value, specifically its DRAM business. As the largest company in the three-player DRAM oligopoly with 43% market share, Samsung is well positioned as DRAM demand is expected to grow high-single-digits over time, driven by growth in AI, cloud computing, and internet connected devices. Samsung performed strongly during the quarter, as the markets have begun to price in a recovery in DRAM pricing in 2024 off of prior cyclically depressed levels.

LARGEST INDIVIDUAL DETRACTORS – 4Q23

Kosmos Energy Ltd. (KOS) is a misunderstood E&P company focused on the discovery and production of offshore oil and gas resources. The current valuation does not reflect the value of the company's existing production, let alone the Company's LNG development that is scheduled to come on-stream early next year. This, coupled with higher energy prices, should prove to be positive for their future earnings and free cash flow. Performance was impacted by guidance for FY 2023 which indicated temporarily lowered production figures and higher costs as they pulled forward 2024 capex spend into 2023. Additionally, they announced a delay in the start-up of their LNG development. This, paired with declining commodity prices, led to negative performance over the period.

Cenovus Energy Inc. (CVE) is a Canadian integrated oil company headquartered in Calgary, operating steam-assisted gravity drain (SAGD), conventional and unconventional oil, NGL & natural gas production and refining and marketing. The company recently merged with competitor Husky and has demonstrated great operational prowess improving the upstream assets it acquired; we believe similar improvements in downstream performance may be forthcoming. Cenovus underperformed during the quarter, as it traded down in sympathy with lower oil and gas prices.

Baytex Energy Corp. (BTE) is an independent Canadian E&P engaging in the acquisition, development, and production of crude oil and natural gas. BTE primarily operates in the United States with 62% of their production occurring in the Eagle Ford. Given that Canadian E&P stocks tend to trade at a discount to US E&P stocks, we believe that BTE is undervalued for a company with much of their production in the US. Additionally, BTE gives us exposure to an energy market that had been underearning versus normal levels of profitability and is currently generating significant FCF in what could be a perennially undersupplied market. Recent performance for Baytex was related to the decline in energy prices.

Net of fee composite performance as of 12/31/23: 22.95%, 10.09% and 7.18% for 1-, 5-year and Since 1/1/16, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees.

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. 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.

Past performance is no guarantee of future results

The securities reflected herein are intended for illustrative purposes only and not a recommendation to buy or sell specific securities. 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.

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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. 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.

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.

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.

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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