

INTERNATIONAL SMALL CAP DIVERSIFIED VALUE

MARKET COMMENTARY

The MSCI World ex-USA Small Cap Index rose +5.0% in the first quarter of 2023. The MSCI World ex-USA Small Cap Value Index rose +4.6%, while the MSCI World ex-USA Small Cap Growth Index increased +5.5%.

Global equity markets have demonstrated resilience despite signs of an economic slowdown and volatility within the banking industry. Performance was quite strong across most of the small cap developed world in the first quarter of 2023. Several of the benchmark's larger countries across Western Europe experiencing double-digit returns, led by Italy (+14.4%), Germany (+11.8%), and the Netherlands (+10.6%), and France (+9.7%). Australia was a notable laggard, declining -1.0%. Technology was the top-performing international small cap sector (+11.6%) in the quarter. Financials, energy, and real estate were the three sectors that declined in the quarter (-0.4%, -1.2%, and -1.6%, respectively).

From a geographical perspective, the portfolio's deviations from the benchmark are modest. An overweight exposure to continental Europe and underweight exposure to Australia are slight exceptions. We have no chronic aversion to the Australian small cap equity market, but about a quarter of it is materials where we find better risk/return opportunities in other markets. Similarly, we have identified more attractive financial sector opportunities in Europe than in Australia, where we have no exposure.

Financials represents the portfolio's largest sector weight and largest overweight relative to the index. While we have meaningful exposure to insurers, capital markets companies, and other financial services, our largest exposure remains European and Japanese banks. The takeover of Credit Suisse, concerns about slowing economic growth, and potential regulatory changes have caused tension across the global banking industry. After thoroughly assessing these concerns, we conclude that the current valuations more than compensate us for these risks, though we remain well diversified. We remain underweight real estate and healthcare, where we find few attractive valuation opportunities for the risks at hand.

ATTRIBUTION – 1Q23

The Hotchkis & Wiley International Small Cap Diversified Value portfolio (gross and net of management fees) outperformed the MSCI World ex-USA Small Cap Index in the first quarter of 2023. The underweight in Real Estate, along with positive stock selection in Industrials, Information Technology, and Health Care produced the majority of the performance advantage. The overweight in Financials was the largest detractor, followed by stock selection in Consumer Discretionary.

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Net of fee composite performance as of 3/31/23: 0.92% and 15.91% for 1-year and Since Inception, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees. **Past performance is no guarantee of future results.**

Portfolio managers' opinions and data included in this commentary are as of March 31, 2023, 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.

Portfolio characteristics and attribution are based on a representative International Small Cap Diversified 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.

The value discipline used in managing accounts in the International Small cap Diversified Value strategy may prevent or limit investment in major stocks in the MSCI World ex-USA Small Cap, MSCI World ex-USA Small Cap Value and MSCI World ex-USA Small Cap Growth and returns may not be correlated to the indexes. Index returns include reinvestment of dividends, net foreign withholding taxes. 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 Small Cap Index is a free float-adjusted weighted index capturing small cap stocks. The MSCI World ex-USA Small Cap Value and MSCI World ex-USA Small Cap Growth Indices are free float-adjusted weighted indexes capturing small cap stocks, exhibiting overall value or growth style characteristics, respectively. The MSCI indices represents stocks across 22 of 23 Developed Markets (DM) countries, excluding the United States and include reinvestment of dividends, net foreign withholding taxes. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services, LLC ("S&P") and is licensed for use by Hotchkis & Wiley ("H&W"). All rights reserved. Neither S&P nor MSCI is liable for any errors or delays in this report, or for any actions taken in reliance on any information contained herein. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. See www.hwcm.com for full disclaimer.

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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.

All investments contain risk and may lose value. The commentary is for information purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product.