

INTERNATIONAL SMALL CAP DIVERSIFIED VALUE

MARKET COMMENTARY

The MSCI World ex-USA Small Cap Index declined -17.9% in the second quarter of 2022. Value continued to outperform during the second quarter. The MSCI World ex-USA Small Value Index declined -15.6% while the MSCI World ex-USA Small Growth Index declined -20.4%.

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 to raise 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 outperformed growth in periods of elevated inflation and interest rates historically.

ATTRIBUTION – 2Q22

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 second quarter of 2022 by a considerable margin and outperformed the MSCI World ex-USA Small Cap Value Index by a smaller margin. Relative to the primary benchmark, stock selection in materials, industrials, and technology contributed positively to performance. The overweight and stock selection in financials also helped. Stock selection in energy detracted from performance, along with the underweight exposure to utilities.

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Portfolio characteristics and attribution based on representative International Small Cap Diversified 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. No assurance is made that any securities identified, or all investment decisions by H&W were or will be profitable.

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. 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, 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. Investing in smaller and/or newer companies involves greater risks than those associated with investing in larger companies, such as business risk, significant stock price fluctuations and illiquidity. The strategy invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

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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.

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