

# INTERNATIONAL SMALL CAP DIVERSIFIED VALUE

## MARKET COMMENTARY

The MSCI World ex-USA Small Cap Index returned +10.6% in the fourth quarter of 2023. Ten of the eleven GICS sectors generated positive returns in the quarter, led by the real estate, technology, and materials sectors. The energy sector was the lone holdout, declining -1.3% as oil prices fell in the quarter. The strong fourth quarter extended the index return to +12.6% for the year.

Globally, the deceleration in inflation led to a plunge in bond yields, with many central banks signaling more dovish policies ahead. In the United Kingdom, inflation dipped below 4% year-over-year in November, prompting speculation that the Bank of England might implement interest rate cuts in 2024. Despite this, concerns about a looming recession persisted, evident in bank/economist 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. Inflation in Japan dipped below 3% for the first time in more than a year.

All eleven GICS sectors were positive for the year, led by information technology (+21%), financials (+17%), and industrials (+17%). Real estate (+6%), healthcare (+7%), and utilities (+8%) were relative laggards. Small value stocks slightly outperformed small growth stocks overseas in 2023 (+14.7% for the MSCI World ex-USA Small Value Index vs +10.6% for the MSCI World ex-USA Small Growth Index). Despite the outperformance, the valuation gap between the MSCI World ex-USA Small Growth and MSCI World ex-USA Small Value remains wide. The portfolio trades at a discount to the value index, and trades at a slight discount to its historical average.

We hold steady in our commitment to the principles of value investing and remain diligent in our search for new opportunities. With a stable and committed team, a healthy firm, and consistent approach, we believe our clients will be rewarded.

## ATTRIBUTION ANALYSIS – 4Q23 & 2023

The Hotchkis & Wiley International Small Cap Diversified Value portfolio (gross and net of management fees) underperformed the MSCI World ex-USA Small Cap Index in the fourth quarter of 2023. Stock selection in industrials and an underweight position in real estate were key detractors in the quarter. Stock selection and the overweight in energy also hurt. Stock selection in materials, consumer staples, and technology contributed positively to relative performance in the quarter.

The portfolio outperformed the benchmark by a significant margin over calendar year 2023 (gross and net of management fees). Stock selection was positive in 9 of the 11 GICS sectors, led by materials, technology, and industrials. The underweight position in real estate also contributed to outperformance, as did the overweight position in financials. Conversely, stock selection in energy detracted from relative performance in 2023. Stock selection in real estate was also a slight detractor over the course of the year.

Net of fee composite performance as of 12/31/23: 20.98% and 16.35% for 1-year and Since 7/1/20, 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.**

**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 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.

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. Investing in foreign as well as emerging markets involves additional risk such as greater volatility, political, economic, and currency risks and differences in accounting methods.

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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](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.

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.

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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.

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 December 31, 2023. 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.