MID-CAP VALUE

MARKET COMMENTARY

After outperforming growth by 14.7% in 2022 (by declining less), value underperformed growth in the first quarter of 2023 by 7.8% (+1.3% vs. +9.1%). The Russell Midcap technology sector was up 14.5% in the quarter. Technology comprises a much larger portion of the Russell Midcap Growth than the Russell Midcap Value (26% vs. 9%). Conversely, the energy sector declined -9.6%, while the financials sector rose +4.1%. These sectors comprise a much larger portion of the Russell Midcap Value than the Russell Midcap Growth (22% vs. 11%).

We remain partial to financials, with banks representing the largest absolute weight. The banking industry has been in the crosshairs of skeptics since the early March failure of Silicon Valley Bank ("SVB"). SVB failed due to a combination of unique characteristics and mismanagement. It had an unusually concentrated depositor base composed of large corporate depositors; 97% of its deposits exceeded the $250,000 FDIC insurance limit, and thus were uninsured. This makes it more susceptible to a bank run because it takes significantly fewer customers withdrawing their money compared to a bank with a more diversified customer base. Further, SVB invested in long duration securities much more heavily than it should have, creating a risky asset/liability mismatch. Several other regional banks have similar problems, albeit nothing to the extreme of SVB. Nonetheless, well-capitalized, well-managed banks sold off in sympathy, and now trade at attractive valuations for the risks at hand. The portfolio's bank exposure trades at close to 6x normal earnings and 0.8x book value, uncommonly attractive levels. We have thoroughly assessed widespread bank concerns about declining deposits, an impending recession, and potential regulatory changes. We conclude that these valuations more than compensate us for those risks. Our portfolio of banks is also well diversified across 8 different companies each with a different business mix and therefore different risks.

Energy continues to be the second largest weight in the portfolio and largest relative overweight. Our view has been, and continues to be, that lack of investment in oil production will create a situation where supply is unable to keep pace with global demand. While the risk of a slowdown in global growth appears to be growing, the imbalance in supply and demand should keep the price of oil elevated, which will result in continued free cash flow strength for energy companies. Much of this cash flow is earmarked for share repurchases, which is accretive to earnings per share. Capital expenditures have increased recently but spending on long lead time projects appears insufficient to oversupply the market. Thus, this imbalance could persist for some time. Meanwhile, energy stocks' valuations remain compelling even after impressive performance. Free cash flow yields are well into the teens, hence our significant overweight.

ATTRIBUTION – 1Q23

The Hotchkis & Wiley Mid-Cap Value portfolio (gross and net of management fees) outperformed the Russell Midcap Value Index in the first quarter of 2023. Stock selection in Energy, Financials, and Communication Services worked well. Conversely, the overweight positions in Energy and Financials detracted, as did stock selection in Information Technology. The largest positive contributors to relative performance in the quarter were First Citizens Bancshares, Warner Bros. Discovery, Kosmos Energy, Adient, and GE Healthcare Technologies; the largest detractors were APA Corp., Citizens Financial Group, AIG, Popular, and Fluor.

LARGEST NEW PURCHASES – 1Q23

Centene ("CNC") is a managed care organization focused on the managed Medicaid market, with 23 million at-risk health insurance enrollees. CNC has the largest Medicaid share, with 15 million Medicaid enrollees and 2 million Exchange members (which use similar provider networks). CNC is the clear market leader in a business in which scale is a significant competitive advantage. The Medicaid market should grow faster than the economy as a whole, driven by spending per member growth. We believe Centene is trading at an attractive multiple of earnings and can grow with minimal requirements for invested capital.

Fidelity National Information Services ("FIS") is a leading provider of financial technology in the payments, banking, and capital markets industries. The Banking Solutions segment represents 46% of sales and includes FIS' very sticky core banking platform, which has just been modernized after several years of investment. Merchant Solutions accounts for 32% of sales and is focused on accepting digital payments for enterprise and e-commerce customers. Finally, Capital Markets makes up 18% of sales and has recently transitioned to a software-as-a-service model from previous licensing efforts. Shares declined recently due to concerns about competitive positioning in the small business portion of the merchant acquiring portfolio and fears of an economic slowdown. We believe that the shares represent an attractive value for a company with a strong competitive position and the ability to grow EPS at ~10%.

(continued)

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Marathon Oil is an independent E&P that gives us exposure to a tightening energy market. The company has leading positions in multiple unconventional resource plays in the United States which have a relatively favorable position on the global cost curve. Marathon operates primarily in the onshore US. Specifically, the company has assets in the Williston, Eagle Ford, STACK/SCOOP and North Delaware Basins. Additionally, the company has acquired prospective acreage in the Louisiana Austin Chalk and Texas Delaware. Internationally, Marathon owns a valuable asset in Equatorial Guinea which includes a 63% operated working interest in the Alba field and 80% in Block D under a production sharing contract. Marathon is currently generating large amounts of free cash flow which it is returning to shareholders primarily through share repurchases. While WTI oil prices are currently around $80 per barrel, the company would still generate over $1 billion in free cash flow if oil were to fall to $50 per barrel.

Net of fee composite performance as of 3/31/23: -5.47%, 6.38%, and 7.77% for 1-, 5-, and 10-year, 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 Mid-Cap 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 Mid-Cap Value strategy may prevent or limit investment in major stocks in the Russell Midcap, Russell Midcap Value and Russell Midcap 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.

The securities reflected herein are intended for illustrative purposes only and not a recommendation to buy or sell specific securities. Securities identified do not represent all of the securities purchased or sold for advisory clients and are not indicative of current or future holdings or trading activity. H&W has no obligation to disclose purchases or sales of the 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.

The "Largest New Purchases" section includes the three largest new security positions during the quarter/year based on the security's quarter/year-end weight adjusted for its relative return contribution; does not include any security received as a result of a corporate action. If fewer than three new security positions during the quarter/year, all new security positions are included.

The Russell Midcap® Index, an unmanaged index, measures the performance of the 800 smallest companies in the Russell 1000® Index. The Russell Midcap® Value Index measures the performance of those Russell Midcap® companies with lower price-to-book value ratios and lower forecasted growth values. The Russell Midcap® Growth Index measures the performance of those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell Investment Group is the source and owner of the Russell Index data contained herein (and all trademarks related thereto), which may not be redistributed. The information herein is not approved by Russell. H&W and Russell sectors are based on the GICS by MSCI and S&P.

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 small and medium-sized companies involves greater risks than those associated with investing in large company stocks, such as business risk, significant stock price fluctuations and illiquidity.

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.