

MID-CAP VALUE

MARKET COMMENTARY

The Russell Midcap Index increased +4.8% in the second quarter of 2023. The Russell Midcap Value Index underperformed for the quarter, returning +3.9% vs. +6.2% for the Russell Midcap Growth Index. Performance deviations between value and growth have been stark in recent periods.

As it stands today, the growth index trades at a premium to its own history using any common valuation metric and the value index trades reasonably in line with its own history. The portfolio, however, trades at a considerable discount to its past. This is attainable because the portfolio is significantly different than the value index, with an active share above 90. Importantly, however, we do not blindly invest in companies/industries with the lowest price multiples. We invest in those that trade at the largest discounts to intrinsic value, and that intrinsic value is highly dependent on a company's risk profile—lower risk companies have higher intrinsic values all else equal, which we believe should command higher fair value multiples.

The US CPI Index has fallen from its 9.1% peak in mid-2022 to 4.0% and is expected to decline further. Lower inflation and lower interest rates are generally good for equities. This seems to have trumped concerns about an economic slowdown. Bloomberg publishes a *United States Recession Probability Forecast*, which surveys a group of economists on what they think the chances of a recession are in the next 12 months. The index currently stands at 65%. However, equity markets fell in 2022 more than they have risen in 2023, i.e., the Russell Midcap is still down over the past year and a half suggesting a slowdown might be priced in already. Also, not all recessions/slowdowns are created equally. Balance sheets of consumers and companies are generally healthy, unlike 2007/2008. Fewer excesses in the financial system are likely to limit the severity of a recession if one occurs.

ATTRIBUTION – 2Q23

The Hotchkis & Wiley Mid-Cap Value portfolio (gross and net of management fees) underperformed the Russell Midcap Value Index in the second quarter of 2023. Stock selection in energy, industrials, and communication services detracted. Conversely, stock selection in financials was the largest positive contributor to relative performance. Stock selection in utilities and healthcare also contributed positively during the quarter. The largest positive contributors to relative performance in the quarter were First Citizens Bancshares, Universal Health Services, AIG, SLM Corp., and PDC Energy; the largest detractors were Kosmos Energy, Citizens Financial Group, Warner Bros. Discovery, APA Corp., and Ericsson.

LARGEST NEW PURCHASES – 2Q23

California Resources Corp. is an independent oil and natural gas exploration company with a carbon capture, utilization, and storage ("CCUS") business that primarily operates for customers in the State of California. The state government regularly proposes significant restrictions on drilling companies which can be offset by the CCUS business at California Resources. The company's resources are well positioned and maintains a solid balance sheet while trading at a discount to similar E&Ps, creating value from share repurchases.

Jones Lang LaSalle Inc. is a leading professional services firm that specializes in real estate and investment management with operations in over 80 countries. Overall, among the five segments, the company engages in leasing, property management, consulting, investment sales, loan servicing, workplace management, software, and more. Shares have lagged the broader real estate index and trade at an undemanding 11x P/nEPS.

Western Alliance is one of the fastest growing and highest return regional banks in the US. While the company's stock has come under significant pressure following the collapse of Silicon Valley Bank due to a focus in banking early-stage companies, Western Alliance has a much more diversified business than Silicon Valley Bank. We believe the company can weather a large decline in deposits and is very undervalued on its normal earnings power.

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Net of fee composite performance as of 6/30/23: 14.76%, 5.17%, and 7.39% 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.**

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.

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.

Certain information contained in this material represents or based upon 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.

Portfolio managers' opinions and data included in this commentary are as of June 30, 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.