

SMALL CAP DIVERSIFIED VALUE

MARKET COMMENTARY

The Russell 2000 Index increased 5.2% in the second quarter of 2023. The Russell 2000 Value Index underperformed the Russell 2000 Growth Index in the quarter, returning +3.2% vs. +7.1%.

The US CPI Index has fallen from its 9.1% peak in mid-2022 to 4.0% and is expected to decline further, which appears to be a primary catalyst for the positive move in equity markets. 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 2000 is still down -14% 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.

Performance deviations between value and growth have been stark in recent periods. Small growth extended its year-to-date edge to +11.1% (+13.6% vs. +2.5%). The performance deviation also extends to size as the Russell Top 200 Index outperformed the Russell 2000 Index by +11.4% year-to-date. Small caps and value trade at a larger-than-normal discount to large caps and growth. We do not view this as sustainable, and a reversion toward more normal valuation relationships would be significantly favorable to value relative to growth going forward. Our strategy generally trades at a discount to the value index, and our penchant for stocks under \$1B in market cap leads us to exhibit a smaller and more value leaning bias relative to our benchmark. While the strategy's performance has been satisfactory during this period of outperformance by large caps and growth, the strategy would benefit from value and smaller stocks coming back into vogue—that should be a stylistic tailwind for our strategy.

We will continue to focus on adding value via broad stock selection, disproportionately from the smaller and least efficient part of the market. We view this as our ongoing competitive advantage irrespective of market direction or temperament.

ATTRIBUTION – 2Q23

The Hotchkis & Wiley Small Cap Diversified Value portfolio (gross and net of management fees) outperformed the Russell 2000 Value Index in the second quarter of 2023. Stock selection in consumer discretionary made the largest contribution to relative outperformance. Stock selection in financials worked well, as did stock selection and the overweight in technology. Stock selection in industrials and the overweight in healthcare detracted from relative performance in the quarter. The overweight in financials detracted as well.

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Net of fee composite performance as of 6/30/23: 12.45%, 5.71% and 10.21% 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 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. The securities reflected herein are intended for illustrative purposes only and not a recommendation to buy or sell specific securities.

The value discipline used in managing accounts in the Small Cap Diversified Value strategy may prevent or limit investment in major stocks in the Russell 2000, Russell 2000 Value, Russell 2000 Growth and Russell Top 200 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 GLPS 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 Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Russell 2000® Value Index measures the performance of those Russell 2000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000® Growth Index measures the performance of those Russell 2000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell Top 200® Index tracks the stock market performance of the largest 200 companies in the Russell 3000® Index. The

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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.

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.