VALUE OPPORTUNITIES

MARKET COMMENTARY

The Russell 3000 Index declined -16.7% in the second quarter of 2022. The Russell 3000 Value Index declined a more modest -12.4% while the Russell 3000 Growth Index declined -20.8%. All eleven Russell 3000 GICS sectors declined in the quarter.

Several economic developments in the quarter sparked fears of a recession. The war in Ukraine showed little signs of abating, the Consumer Price Index increased 8.6% year-over-year, and an increasingly hawkish FOMC raised the Fed Funds rate by 125 basis points via two hikes (from 0.5% to 1.75%). Real GDP for the quarter came in at -1.6% quarter-over-quarter. Looking forward, the Fed signaled further rate increases are probable to combat the highest inflation level in more than 40 years. The futures market implies that investors expect the Fed Funds rate to exceed 3% by year end with more rate hikes expected in 2023. 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.

Value held up better than growth in the quarter. Energy, and the least economically sensitive sectors—healthcare, utilities, and consumer staples—each declined less than 8% in the quarter. All other sectors declined -15% or more, with consumer discretionary (-26%), technology (-21%) and communication services (-21%) the worst performers. The portfolio is more heavily weighted to economically sensitive areas of the market, with energy, financials, and industrials being our largest sector weights relative to the Russell 3000 Value. The stocks we own in these sectors generate attractive free cash flow and trade at large discounts to the market.

Despite value's recent outperformance, the valuation spread between growth and value remains wide because the spread at the period's outset was extreme. The Russell 3000 Value trades at 13x forward P/E (consensus FY1) compared to the Russell 3000 Growth at 20x. At both a forward and normal P/E of less than 9x, the portfolio trades at an even larger discount. We believe these large spreads and the macroeconomic backdrop should continue to benefit value relative to growth, which should be a conducive environment for our investment approach.

ATTRIBUTION – 2Q22

The Hotchkis & Wiley Value Opportunities portfolio (gross and net of management fees) underperformed the Russell 3000 Value Index in the second quarter of 2022. Security selection and the overweight in communication services was the largest detractor from relative performance. The underweight in healthcare and security selection in energy and industrials also detracted. Security selection in financials and materials contributed positively to performance. The largest positive contributors to relative performance in the quarter were Points.com, Arrow Electronics, Hess, Shell, and Iracore International Holdings; the largest detractors were General Electric, F5 Inc., Warner Bros. Discovery, Seritage Growth Properties, and General Motors.

LARGEST NEW PURCHASES – 2Q22

Nielsen Holdings PLC is a global leader in marketing and analytical services for the advertising and media industry. At the end of 1Q22, Nielsen accepted an offer of $28/share from private equity consortium, Evergreen Coast Capital Corporation – valuing the company at approximately $16B including debt. Currently, shares trade for around $23 because Nielsen's largest shareholder initially announced that they intend to vote their blocking-stake against the deal. We believe this financially-focused owner is very likely to recognize the change in market reality over the past few weeks and will ultimately vote to approve the deal.

Twitter provides online social networking and microblogging services. The market is increasingly concerned that the deal to sell the company to Elon Musk will fail. While we recognize there is risk to the deal, we believe that the current price provides an attractive expected return when probability weighting the different potential outcomes.

Workday is a leader in cloud-based enterprise application software for back-office business functions including human capital management and financials. Back-office software is the least cloud-penetrated category of enterprise applications, which we believe gives Workday a long growth runway. Management believes subscription sales will grow ~20% for many years, which seems reasonable given Workday's <25% penetration in the Global 2000 and <10% penetration in medium enterprise globally. In addition to a strong growth outlook, Workday's formidable competitive advantages result in impressive unit economics that should support a robust mid-30s EBIT margin at maturity. Despite these quality characteristics, Workday's stock is down 45% YTD and trades for 16x normal EBIT. This is a compelling valuation for a company with premiere franchise potential.

VALUE OPPORTUNITIES

Composite performance is available at www.hwcm.com, located on the strategy's Performance tab. Returns discussed can differ from actual portfolio returns due to data differences, cash flows, trading, and other activity. Portfolio characteristics and attribution based on representative Value Opportunities 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. 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 Value Opportunities strategy may prevent or limit investment in major stocks in the Russell 3000 Value, Russell 3000 Growth and S&P 500 and returns may not be correlated to the indexes. 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. The strategy may be exposed to more individual stock volatility than a more diversified strategy and may also invest in smaller and/or medium-sized companies, foreign securities, and debt securities.

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. 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. The largest new purchases are as of the publication date, but may be sold and no longer held in the Value Opportunities strategy at any time, for any reason, without notice, subsequent to the publication date. The securities reflected herein are intended to be for illustrative purposes only and are not intended to be, and should not be construed as, investment recommendations or investment advice. Past performance of these securities, or any other investments, is not an indicator of future results. H&W's opinions regarding these securities are subject to change at any time, for any reason, without notice. No assurance is made that any securities identified, or all investment decisions by H&W were or will be profitable.

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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.

Portfolio managers' opinions and data included in this commentary are as of June 30, 2022, 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.

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.

Past performance is no guarantee of future results.