

VALUE OPPORTUNITIES

MARKET COMMENTARY

The Russell 3000 Index increased by +6.2% in the third quarter of 2024. The Russell 3000 Value Index significantly outperformed, returning +9.5% compared to +3.4% for the Russell 3000 Growth Index. Performance was positive across 10 of the 11 Russell 3000 GICS sectors, led by utilities, real estate, industrials, and financials. Energy finished the quarter with a decline of -3.1%. The Russell 3000 Value Index traded at a forward P/E ratio of 16.8x at the end of the quarter, versus 27.2x for the Russell 3000 Growth Index, according to Bloomberg.

Macroeconomic factors significantly influenced market performance during the quarter. The easing of inflationary pressures paved the way for lower interest rates, benefiting rate-sensitive sectors like real estate, financials, and utilities, particularly those with high leverage. Conversely, commodity-related stocks, which typically thrive in inflationary environments—such as energy—underperformed in Q3. The technology sector also underperformed during the quarter, as investors assessed relative valuations and weighed the potential for an economic slowdown.

Looking ahead, lower interest rates are typically favorable for markets, as long as the economy stays strong. We are committed to identifying businesses with durable balance sheets, sustainable return on equity, stable free cash flow, and attractive valuations relative to expected earnings. We believe our investment strategy, centered on identifying undervalued assets and effective risk management, is poised to generate consistent long-term returns.

ATTRIBUTION ANALYSIS – 3Q24

The Hotchkis & Wiley Value Opportunities portfolio underperformed the Russell 3000 Value Index in the third quarter of 2024 (gross and net of management fees). On a sector basis, the overweight position and security selection in energy were the largest detractors from relative performance during the quarter. Our energy holdings currently trade at a significant discount to the overall portfolio. Security selection in materials, consumer discretionary, and financials also detracted, as did the underweight positions in utilities and real estate. Put

options on miscellaneous market indices also detracted in the quarter. Conversely, security selection in technology was strong during the quarter, with technology remaining the largest overweight sector in our portfolio. Security selection in industrials and consumer staples also performed well.

LARGEST INDIVIDUAL CONTRIBUTORS – 3Q24

F5 (FFIV) sells application networking and security software, as well as data center appliances. The company's stock price rebounded sharply in Q3 after reporting a growing pipeline and better close rates in subscription software sales. F5 has no debt, trades at an attractive valuation, and is benefiting from an improving gross margin and lower operating expenses.

Ericsson (ERIC) is the largest vendor of hardware and software for operating wireless networks outside of China. The company built on the prior quarter's outperformance, with signs of revenue stabilization and margin improvement continuing, and management seeing signs of recovery in the North American market.

Qantas (QAN AU), the larger of the two major Australian airlines, reported earnings that pointed to improving revenue. Having repurchased 9% of the company's shares for the second consecutive year, Qantas announced an additional A\$0.4 billion buyback. The company's valuation remains attractive, adding potential diversification benefits to the portfolio.

LARGEST INDIVIDUAL DETRACTORS – 3Q24

NOV, Inc. (NOV) is a leading provider of oilfield capital equipment, consumables, and services. The downturn in energy prices has reduced oilfield activity below sustainable levels, impacting NOV's sales and profitability. As activity rebounds, most of NOV's product lines should experience significant increases in volume and pricing. In the longer term, the earnings power of its Rig Aftermarket business should improve, given its large installed base.

(continued)

Net of fee composite performance as of 9/30/24: 26.16%, 14.83% and 10.99% for 1-, 5-, and 10-year, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees.

For informational purposes only, the specific investments shown represent only the top contributors and detractors for the relevant performance time period. The selection criteria used to determine the top contributors and detractors remains the same across performance measurement periods; additional disclosures provided in Endnotes. **Past performance is no guarantee of future results.**



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Kosmos (KOS) is an independent E&P focused offshore in the US Gulf of Mexico, Ghana, and Equatorial Guinea. The company is competitively advantaged due to the expertise required to explore, discover, and operate assets offshore. Shares were pressured over the period as oil prices continued to decline, driven by worries surrounding OPEC+ barrels returning to the market, coupled with slowing demand. We believe that the valuation of the stock does not fully reflect the value of the Company's existing production. Additionally, the company also has LNG assets, an exploration portfolio, and a platform to acquire and operate additional offshore resources.

Endnotes:

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 Value Opportunities 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 (data source: Bloomberg, Russell).

Specific securities identified are the three largest contributors (or detractors) to the portfolio's performance, relative to the index, for the relevant performance time period. Other securities may have been the best and worst performers on an absolute basis. The selection criteria used to determine the top contributors and detractors remains the same across performance measurement periods. 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 value discipline used in managing accounts in the Value Opportunities strategy may prevent or limit investment in major stocks in the Russell 3000 Value and returns may not be correlated to the index. 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.

Ecovyst (ECVT) is a specialty chemical company. The stock price fell during the quarter as investors weighed the combination of a poor earnings report coupled with the potential for economic weakness. Our view is that the long-term earnings power of Ecovyst is largely unchanged. We believe the company's current price is substantially below its intrinsic value and used the recent downturn in the stock price as an opportunity to buy a high-quality business at an especially attractive valuation.

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The Russell 3000[®] Index tracks the performance of the 3,000 largest U.S.-traded stocks. The Russell 3000[®] Value Index includes stocks from the Russell 3000[®] Index with lower price-to-book ratios and lower expected growth rates. The Russell 3000[®] Growth Index includes companies that display signs of above average growth. The index is used to provide a gauge of the performance of growth stocks in the U.S.

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.

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. Investment risk disclosures for the firm's strategies are described in Part 2A of Form ADV of H&W.

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Portfolio managers' opinions and data included in this commentary are as of September 30, 2024. 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.

Past performance is no guarantee of future results.

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