VALUE OPPORTUNITIES

MARKET COMMENTARY

The Russell 3000 Index increased 7.2% in the fourth quarter of 2022. The Russell 3000 Value Index outperformed for the quarter, returning +12.2% vs. +2.3% for the Russell 3000 Growth Index.

In calendar year 2022, the economy and capital markets experienced numerous milestones that had not been observed for quite some time. The S&P 500 declined -18.1%. Since the Great Depression, only three years have been worse: 1974 (oil crisis), 2002 (tech bubble burst), and 2008 (financial crisis). Value stocks declined but held up much better than growth stocks. The Russell 3000 Value declined -8.0% compared to the Russell 3000 Growth's -29.0% decline. The 21-percentage point difference represented value's largest advantage since 2000. Considering the still wide valuation gap and value's significant outperformance in periods of elevated/rising inflation and interest rates, we are optimistic that value's outperformance can persist.

Inflation peaked midyear at 9.1%, the highest reading in more than 40 years. To combat rising prices, the FOMC increased the Fed Funds rate by more than 400 basis points over the course 2022, from 0.25% to 4.5% (upper bounds). This was the largest rate hike in any calendar year since 1973, and the current 4.5% level is its highest in more than 15 years. Other interest rates followed suit. 10-year treasury yields peaked above 4% for the first time in more than a decade; 30-year mortgage rates peaked above 7% for the first time in more than 2 decades. Yields on corporate credit also increased significantly. The treasury yield curve remains significantly inverted, which has been a harbinger of recessions historically. The tight labor market exhibited strong contrasting signals, however, with the unemployment rate reaching a 50-year low. Expectations for future corporate earnings are roughly flat, thus the stock market's decline was entirely due to a compression in valuation multiples as opposed to an actual or expected decline in earnings.

It is difficult to predict when and if a recession will occur given the complexity of the US economy. However, we do recognize certain warnings signs, e.g., continued Fed tightening and the yield curve. We have built a portfolio largely of under-leveraged companies trading at low valuations; we believe these characteristics are key to helping weather an economic downturn. When we compare the current economic backdrop relative to the economy entering the recession of 2008, we take solace in the fact that today there are fewer excesses in the system. Unlike 2008, balance sheets of both consumers and financial institutions are relatively strong. Further, equity valuations are reasonable, and in select market segments, unusually attractive. A strong argument could be made that a recession is already priced into equity markets, at least in certain market segments, which is different compared to the 2008 period. While several signs point to an economic slowdown, several others suggest that the severity would be manageable and/or much of the pain has already been felt.

The S&P 500 Energy sector returned +65% in 2022, the best-performing sector by substantial margin. The only other S&P 500 sector with a return above zero was Utilities, which was up about +2%. Crude oil is a depleting resource/commodity. Put simply, when oil is extracted from a well, that well now contains less oil, and what remains is increasingly difficult to extract. As a result, wells produce less oil as they age, the pace of which is called its *decline rate*. To maintain flat production, therefore, companies must invest considerable sums in new projects to replace these wells' declining production. To *increase* production, these investments need to be substantial. In recent years, however, energy companies have spent unusually little on new production, instead using cash flows to pay down debt and/or return to shareholders. Our view is that this lack of investment will create a situation where supply will not keep pace with global demand. This imbalance keeps the price of oil elevated and facilitates strong free cash flows for energy companies. Much of the cash flow is earmarked for share repurchases, which is accretive to earnings per share. Capital expenditures, i.e., new investments, have increased recently, but it takes a long time for such investments to result in actual production. Thus, this imbalance could persist for some time. Meanwhile, energy stocks' valuations remain compelling even after the impressive performance because they are coming from such a low base. Free cash flow yields are well into the teens, hence our continued overweight.

Information Technology represents the portfolio's largest weight, and largest overweight relative to the index (Financials is the portfolio's second largest weight, while Energy is the second largest overweight). The valuation multiples of the portfolio's technology positions are higher than those in financials and energy, but still attractive given the quality of the business, the strong balance sheets, and the appealing growth prospects. These businesses deserve valuation multiples well above the market average, yet often trade at modest discounts, thus significantly below their intrinsic values. Our thesis on Financials is straightforward—The sector trades at notable discounts to other parts of the market and relative to its own history, despite balance sheets that are well positioned to withstand a potential economic slowdown. Our positions are focused on companies with difficult-to-replicate franchises that should earn returns well above their cost of capital.

ATTRIBUTION – 4Q22 & 2022

The Hotchkis & Wiley Value Opportunities portfolio (gross and net of management fees) outperformed the Russell 3000 Value Index in the fourth quarter of 2022. On a sector basis, the largest contributor to relative performance during the quarter came from security selection in Industrials. The overweight in Energy and security selection in Consumer Discretionary and Real Estate also contributed to relative performance. Conversely, the overweights in Information Technology and Communication Services detracted from relative performance during the quarter, as did security selection in Energy and Materials. The largest positive contributors to relative performance in the quarter were General Electric, Hess, Tesla Put Options, Oracle, and Murphy Oil; the largest detractors were F5 Inc., Stagwell, Microsoft, Wells Fargo, and Alphabet.

The portfolio outperformed the benchmark over calendar year 2022 (gross and net of management fees). The overweight allocation to Energy led the outperformance. The underweight in Real Estate also contributed positively, as did security selection in Information Technology. The overweights in Information Technology and Communication Services detracted from relative performance for the year, as did the underweight in Health Care.

(continued)

[1]US CPI Urban Consumer year-over-year, not seasonally adjusted.

VALUE OPPORTUNITIES

LARGEST NEW PURCHASES – 4Q22

Comcast is the largest consumer telecom service provider in the US, serving over 30MM customers and passing nearly 60MM homes and small businesses. Comcast owns the NBCU media conglomerate and Sky European Pay TV business. Fears of slowing subscriber growth have weighed on the company and industry overall. We believe Comcast's stock price does not reflect the growth it should produce as it continues to take share of the broadband market. In addition, the company continues to trade at a discount to our estimate of fair value and exhibits a strong record of returning cash to shareholders.

Medtronic is one of the largest and most diversified medical device companies in the world. The company has strong competitive positions in its key markets, leading to compelling margins and cash generation. Medtronic continues to gain share in key markets, improve execution, and shorten new product cycles. Management is committed to returning capital to shareholders, with a dividend payout target of at least 50%. At 14x our view of normal earnings combined with a fast-growing, high-quality business, we believe Medtronic is attractive, and initiated a position in the portfolio.

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 1000, 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 securities reflected herein are intended for illustrative purposes only and not a recommendation to buy or sell specific 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.

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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 December 31, 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.