

# FOCUSING ON QUALITY AMIDST THE COVID-19 OUTBREAK

A great deal of attention has been given to the spread of the coronavirus the past few weeks. We are continuously evaluating the impact the virus may have on the global economy, as well as how it may impact our portfolios here at Hotchkis & Wiley.

## OUR INVESTMENT APPROACH

Our approach is to invest in quality companies, with shareholder friendly management teams, trading at a discount to the businesses' ultimate fair value. Because we often invest in businesses or industries that are experiencing temporary challenges, we are focused on investing in companies that have strong balance sheets and robust business models capable of withstanding a prolonged economic downturn. Economic growth is certainly being impacted by the spread of coronavirus and equity markets have declined as a result. While we are following the coronavirus outbreak closely, like the rest of the world, we don't know the ultimate duration or severity of this outbreak and our overarching investment approach remains unchanged. During difficult market environments like this, it is important to emphasize the experience and discipline of our investment team—we have navigated difficult periods before, as a team, and have learned that patience and discipline are key to paving an effective path forward.

Our work continues to give us confidence that the companies we invest in have balance sheets and business models that should enable them to withstand a prolonged period of disruption. As value investors, we have a fair amount of cyclicity in our portfolios which has led to a negative impact on performance in recent weeks. While the

current market premium for non-cyclical companies is very high, we believe the market premium for companies with good balance sheets is relatively low. Accordingly, we are unwilling to shift the portfolio to non-cyclical businesses in a major way because the cost to do so is prohibitive. We are willing to shift toward companies with superior balance sheets because the cost in many cases is acceptable, low, or even zero. We have taken advantage of recent valuation changes, though trading has been marginal and predominantly centered on upgrading the portfolios' risk/return profile within industries.

Large, rapid selloffs are painful but moving away from equities or other "risk assets" during such periods often backfires. We believe that such emotion-driven markets are the most likely market type to ignore underlying fundamentals and valuation, particularly given the proliferation of passive ETFs and quant strategies. We believe business quality, balance sheets, and valuations matter, and that positioning the portfolios in companies that score well on these metrics will yield superior results for our investors.

## BUSINESS CONTINUITY PLANNING

The Firm has both a Business Continuity Plan (BCP) and separate Influenza Pandemic Preparedness Guideline which is regularly tested. The BCP and Pandemic guidelines are reviewed together in conjunction with our monitoring of the coronavirus.

With the majority of our employees located in Los Angeles, we understand the importance of having a strong contingency plan in place.

We have invested heavily in technology in recent years which adequately allows our investment analysts, portfolio managers, and trading team to work remotely as necessary. As the coronavirus situation evolves, we will implement travel restrictions and work adjustments to assist our employees in their business and personal related situations as appropriate. Our overriding goal is to exceed expectations in both investment performance and client service. We will continue to monitor this evolving situation and will provide further updates as necessary.

Thank you for your continued support and confidence in Hotchkis & Wiley. Please do not hesitate to reach out to us should you require additional information.

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