GLOBAL VALUE

MARKET COMMENTARY

The MSCI World Index declined -21% in the first quarter of 2020 as investors contemplated the global economic impact of the COVID-19 pandemic. Measures undertaken to slow the spread of the virus are already having material and widespread effects on global economic activity. In an attempt to combat these effects, governments globally have taken swift and unprecedented action. Monetary policy responses included central banks cutting interest rates and injecting massive amounts of liquidity into an array of government, corporate, and money market credit facilities. Fiscal policy responses included massive stimulus packages designed to provide relief for companies and individuals most affected by the economic consequences of the pandemic. As equities sold off, government bonds rallied; the yield on the 10-year US Treasury note declined from 1.9% at the beginning of the year to less than 0.7% at the end of the quarter, reaching an all-time low of 0.5% in early March.

All MSCI World sectors declined by double digits. Defensive sectors such as healthcare, technology, consumer staples, and utilities declined the least while cyclicals, including energy, financials, and materials, declined the most. Energy was the largest laggard, with the sector falling -45% in the three month period. Increased oil supply—driven by Russia and Saudi Arabia—coupled with a rapid and severe decline in oil demand, has sent oil prices plummeting to unsustainably low levels. Financials was the second worst-performing sector, declining -32%. Banks were especially weak, falling -38% as interest rates collapsed and investors became concerned with the potential for increased credit losses.

In light of the sudden and sharp economic decline that began during the quarter, we stress-tested the liquidity and cost structure of every holding in our portfolio—essentially an in depth evaluation of both financial and operating leverage. The first objective was to evaluate each business' ability to survive an economic downturn more severe than what seemed conceivable just a few weeks ago. The second objective was to reevaluate weight changes that would result in an improved risk/return profile for the overall portfolio. Market volatility has created opportunities to acquire, at attractive prices, companies with better balance sheets and business quality than those we are selling. The businesses we have been buying are well capitalized, profitable and positioned to maintain or even grow their value through an economic downturn. We believe that the thoughtful and decisive actions we have taken have improved the resiliency of the portfolio while setting it up to benefit from an eventual recovery.

The MSCI World Growth Index trades at 18.4x consensus earnings (FY2) and 4.2x book value, which are, remarkably, above historical averages (17.6x and 3.8x, respectively). On the other hand, the MSCI World Value Index trades at 10.3x consensus earnings and 1.2x book value, both of which fall in the lowest quintile of its own history (i.e. the index traded at higher multiples more than 80% of the time). Our portfolio, trading at 5.3x normal earnings, 8.3x consensus earnings (FY2), and 0.8x book value (each an all-time low), is at a historically wide discount to the already depressed index. Truly a unique value opportunity.

The first quarter was challenging. A stable investment team is an irreplaceable luxury during times like this. We have not experienced a global pandemic the likes of which we face today, but we have certainly encountered difficult investment environments before. We are confident that the current portfolio will exceed client expectations in the long-term notwithstanding economic activity or market direction in the near-term.

ATTRIBUTION – 1Q20

The Hotchkis & Wiley Global Value portfolio (gross and net of management fees) underperformed the MSCI World Index in the first quarter of 2020. Two stylistic factors combined to detract from performance in a major way: size and valuation. Mega cap stocks (where we are underweight relative to the market) held up better than others, and low P/E and low P/B stocks (where we are obviously overweight) underperformed. From a sector standpoint, financials, industrials, and energy were the largest detractors. The largest individual detractors to relative performance were AIG, Seritage Growth Properties, Wells Fargo, National Oilwell Varco, and Embraer; the largest positive contributors to relative performance were Oracle, Microsoft, Total, Ericsson, and BAE Systems.

LARGEST NEW PURCHASES – 1Q20

Siemens is a diversified industrial business with especially attractive assets in the healthcare and factory automation sectors. The stock trades at a discount to the market and low multiple of normal earnings despite an excellent balance sheet and a portfolio of businesses that should be able to grow while earning good incremental returns on capital.

TE Connectivity is the global leader in passive electronics with over 320,000 products, including connectors, relays, switches, touch screens, and fiber optic lines. These products are in nearly all modern electronic devices. The products are most often designed for custom application and while dependability is critical, they typically represent a small portion of the customer's total cost. The stock trades at an attractive valuation given the high quality of the business, strong balance sheet, and good corporate governance.

Total is an integrated energy company with operations in oil & gas production, refining, chemical production and LNG trading. We especially like the Company's exploration & production portfolio, which consists of valuable long-lived, low-decline rate assets. Total has a strong balance sheet and can easily withstand an extended period of low commodity prices (they are expected to be profitable in 2020). Should oil & gas prices increase from current low levels, earnings will increase meaningfully.

GLOBAL VALUE

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 Global Value 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. Equity performance attribution is an analysis of the portfolio's return relative to a selected benchmark, is calculated using daily holdings information and does not reflect management fees and other transaction costs and expenses. Specific securities identified are the largest contributors (or detractors) to the portfolio's performance relative to the MSCI World Index. Other securities may have been the best and worst performers on an absolute basis. 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. No assurance is made that any securities identified, or all investment decisions by H&W were or will be profitable. The value discipline used in managing accounts in the Global Value strategy may prevent or limit investment in major stocks in the MSCI World, MSCI World Value and MSCI World Growth indices 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 Characteristics 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, please contact H&W at hotchkisandwiley@hwcm.com. Portfolio information is subject to the firm's portfolio holdings disclosure policy. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. See www.hwcm.com / *Index definitions* for full disclaimer.

Market Disruption: The recent global coronavirus pandemic has caused and continues to cause disruption in the global economy, unprecedented business and travel disruption and extreme fluctuations in global capital and financial markets. H&W is unable to predict the consequences of the upheaval caused by coronavirus pandemic, which, depending on the severity and the length of the outbreak, has the potential to negatively impact the firm's investment strategies and reduce available investment opportunities.

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 managers' opinions and data included in this commentary are as of March 31, 2020 and are subject to change without notice. Any forecasts made cannot be guaranteed. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness. Certain information presented is based on proprietary or third-party estimates, which are subject to change and cannot be guaranteed. 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 value stocks presents the risk that value stocks may fall out of favor with investors and underperform growth stocks during a given period. The strategy invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. All investments contain risk and may lose value. Past performance is no guarantee of future results.