VALUE OPPORTUNITIES

MARKET COMMENTARY

The S&P 500 Index declined -20% and the Russell 3000 Value Index declined -27% in the first quarter of 2020 as investors contemplated the economic shock of the COVID-19 pandemic. Shelter-in-place orders, travel bans, layoffs, etc. will have material and widespread impacts on global economic activity. In an attempt to combat these effects, governments have taken swift and unprecedented action. Monetary policy responses included the Federal Reserve cutting its Fed Funds rate to near zero and injecting massive amounts of liquidity into an array of government, corporate, and money market credit facilities. Fiscal policy responses included a $2.2 trillion package intended to stimulate the economy, and to provide relief for companies and individuals most affected by the economic consequences of the pandemic. As equities sold off, treasuries rallied—the yield on the 10-year 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 Russell 3000 Value sectors declined by double digits. Consumer staples, healthcare, utilities, and technology declined the least while energy, consumer discretionary, and financials declined the most. Energy was the largest laggard, with the sector falling -52% in the three month period. Government-imposed efforts to mitigate the COVID-19 pandemic, particularly travel/transportation bans, have decreased the global demand for oil. Meanwhile, negotiations between Saudi Arabia and Russia designed to limit oil production reached an impasse. Increased supply of oil, which coupled with the aforementioned decreased demand, sent WTI oil prices plummeting -66%, closing the quarter at close to $20/barrel. The financial sector declined -35%. Banks declined disproportionately, falling -41% as interest rates collapsed and investors became concerned with the potential for increased credit defaults.

In light of both the prevailing and potential adverse economic developments of the quarter, we stress-tested the liquidity and cost structure of portfolio holdings—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. We have increased turnover during this quarter, emphasizing high quality companies with strong balance sheets that can withstand a prolonged severe downturn. The cyclical tilt in portfolio holdings has hurt near-term earnings prospects; however, companies with economic sensitivity trade at significant valuation discounts to the overall market. In fact, this valuation spread has widened during the recent sell-off. We believe the portfolio is composed of financially strong companies whose near term earnings will be hurt but whose long term prospects and compelling valuations provide enormous opportunity when economic activity resumes.

The Russell 3000 Growth Index trades at 18.7x consensus earnings and 6.5x book value, which are, remarkably, above historical averages (18.0x and 5.0x, respectively). The Russell 3000 Value Index, however, trades at 11.7x consensus earnings (FY2) and 1.5x 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). The Hotchkis and Wiley Value Opportunities portfolio trades at 5.5x normal earnings, 9.1x consensus earnings (FY2), and 0.95x book value, which not only falls in the lowest quintile of its own history but close to all-time lows. Therefore, despite the value index trading at valuations well below average, the portfolio's valuation relative to the index is at/near an all-time discount. So while the portfolio is composed of companies with business models and balance sheets we believe are able to withstand a draconian environment, the valuation potential is highly compelling in both absolute and relative terms.

A stable investment team is an irreplaceable luxury during challenging periods. We have not encountered a global pandemic the likes of which we face today, but we have certainly encountered challenging environments before. While we do not discount the human toll the virus has taken, our clients have charged our team with managing their assets through various investment environments. We take that responsibility in earnest. We speak to experts daily and read research constantly to try and understand COVID-19's potential ramifications on the economy, capital markets, and most importantly, the portfolio. Despite the unusually opaque nature of today's environment, 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 Value Opportunities portfolio (gross of management fees) underperformed the Russell 3000 Value Index in the first quarter of 2020. The portfolio had more than double the benchmark exposure to stocks that began the year trading at a discount to book value (26% vs. 10%). The outsized exposure to these deeply discounted stocks was a considerable detractor as this group underperformed by a large magnitude. Energy, real estate, and healthcare detracted from performance which was partially offset by the overweight and positive security selection in technology. The largest individual detractors to relative performance in the period were Seritage Growth Properties, National Oilwell Varco, AIG, Cairn Energy, and Wells Fargo; the largest positive contributors were Microsoft, Oracle, Motors Liquidation Trust, Alphabet, and McDermott term loans.

(continued)

VALUE OPPORTUNITIES

LARGEST NEW PURCHASES – 1Q20

Anthem is the country's largest commercial health insurer and second largest health insurer overall. It also has sizable Medicaid and Medicare Advantage businesses. The stock is undervalued due to skepticism about margins and growth. It is a quality business that grows faster than GDP, returns most of its cash to shareholders. Despite this, it trades at a meaningful discount to the overall market.

Evercore is a premier investment banking franchise trading at an attractive valuation. Over the years, Evercore has built a strong franchise that has consistently gained market share from its peers. Its business model generates high incremental returns while allowing the company to return nearly all of its net income to shareholders. Although the impact from COVID-19 will weigh on Evercore's results in the near-term, the company has a clean balance sheet and its restructuring business should stand to benefit in a recession.

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.

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. 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. For the portfolio's total performance attribution, interaction effect is combined with stock selection. Specific securities identified are the largest contributors (or detractors) to the portfolio's performance relative to the Russell 3000 Value 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 Value Opportunities strategy may prevent or limit investment in major stocks in the Russell 3000 Value, Russell 3000 Growth and S&P 500 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.

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 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. All investments contain risk and may lose value. Past performance is no guarantee of future results.

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