ValueInvestor INSIGHT

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Investor Insight: David Green

David Green of Hotchkis & Wiley describes why he believes taking cyclical risk is being well rewarded in today's market, what types of stocks he traded into and out of in March, why he's sticking with his financials, what he thinks about Tesla, and why he's particularly high on the prospects for Evercore, TE Connectivity, General Electric and News Corp.

INVESTOR INSIGHT

David Green
Hotchkis & Wiley

Investment Focus: Seeks companies that are earning well below their potential at times when the market appears to believe that potential is particularly limited.

It's never easy to figure out whether a company undergoing change or some other stress can return to normal, but doing that well is how value investors like Hotchkis & Wiley's David Green earn their keep. Focused on owning stocks trading at low multiples of estimated "normal" earnings, the Hotchkis & Wiley Value Opportunities Fund he has co-managed with George Davis since its 2003 inception has earned a net annualized 9.9%, vs. 7.9% for the Russell 3000 Value Index.

At a time when defining normal is more difficult than ever, Green says the valuations for his target companies are "at or near all-time lows." Among areas of particular interest today: investment banking, industrial machinery and equipment, financial services and traditional media.

How generally would you compare the equity opportunity set you saw going into the coronavirus crisis with what you're seeing today?

David Green: Coming into this year the market to us was valuing more recession-resistant and less-cyclical stocks at very high multiples, so we tended to think the most attractive stocks had a more cyclical bent and seemed to already be discounting a recession. That turned out to be unfortunate, as the recession set off by the pandemic has been more severe than anyone anticipated and the valuation spread between those stocks considered more stable and those considered more cyclical widened. When the least-expensive parts of the market get relatively cheaper and the most-expensive parts of the market get relatively more expensive, that's not going to be a good recipe for us in terms of how we perform.

The good news in all that is that the valuations we're seeing today if you're willing to take some cyclical risk are quite compelling. You obviously want to own companies with balance sheets that can withstand a very severe economic downturn. You also want to own fundamentally good businesses you expect to hold long term. If what you consider to be normal earnings power is more or less unchanged, you can find very good businesses trading at great prices. Our portfolio overall as of the end of March was trading at 5.5x our estimate of normal earnings, which is 1.5 standard deviations below the average since the Value Opportunities Fund's inception. The portfolio only traded lower than that during the depths of the financial crisis in 2009 and during the European debt crisis in 2012.

Here's how we're thinking about it: Eventually we're going to get through this. We don't know when, and we don't know how long it will take for people to feel comfortable re-engaging. In the short term – maybe more or less over the next year – you really don't know. But over a reasonable time frame, we have a lot of confidence that we're going to be back to a normally functioning society. So we believe if we own a portfolio of financially strong companies, even though their near-term earnings may be hurt badly, their long-term prospects and low valuations have the potential to provide pretty significant upside when economic activity resumes.

Describe the types of new ideas you added to the portfolio during the worst of the market break.

DG: One example would be Evercore [EVR], the boutique investment bank. From February through the first few weeks of March the stock fell by more than half from over $80 to almost $35. At the low, it had nearly one-third of its market cap in net cash. The vast majority of its business is in mergers-and-acquisitions advisory, where it has an excellent franchise and has consistently increased market share. Its cost structure is pretty variable, as a lot of its cost base is in incentive compensation tied to completed M&A deals – if deals aren't done, while the revenue isn't there, neither is the related compensation. Earn-

ings will be hit this year, but the company will still be solidly profitable.

We see no reason the M&A market shouldn't return, and one could make the case that with all the dislocation caused by the pandemic that M&A activity will pick up sooner rather than later. Evercore also is a leader in providing financial restructuring advice, which one could imagine having an increasingly strong tailwind. If we take the nearly $7.70 in adjusted EPS the company earned in 2019 as fairly representative of normal, the stock got down to a less than 5x P/E. This is a good example of our being able to buy a really good franchise at a really good price when the market is throwing everything out the window. [*Note*: Still 40% below their 52-week high, Evercore shares traded recently at just under $57.]

Another new buy we made was Anthem [ANTM], the big health insurer. We first took the position in February and added to it substantially as the stock got hit really hard, initially out of concern that health insurers were going to get slammed by pandemic-related costs. That wasn't an unrealistic fear, but our research led us to believe that medical-loss ratios for insurers were actually more likely to come down during the crisis because so much non-coronavirus care was falling off. Given the price action in the shares – [Anthem's stock fell from $296 on March 4 to as low as $171 on March 23] – we thought we were buying an excellent long-term business that grows faster than GDP but whose stock was trading at a meaningful discount to the overall market. Those opportunities don't come along often. [*Note*: Anthem shares, now around $291, are up 70% from their March low.]

You were fairly exposed to both financials and energy-related stocks going into the recent crisis. How are you looking at the investment prospects in those areas today?

DG: Long term we continue to believe both sectors are undervalued. The financials we own like Goldman Sachs [GS] and Wells Fargo [WFC] have what we consider irreplaceable franchises and very strong capital positions to ride out the economic downturn, and we think their long-term earnings power is totally intact. As the shares have sold off, we think they're extremely cheap – even assuming prevailing interest rates are with us for a long time. If interest rates move back toward normal, we think these stocks are remarkably cheap.

With respect to energy, low prices have resulted in dramatic and rapid reductions in supply. Ultimately we'll need prices that are substantially higher than today's to incentivize the drilling that will be necessary to meet normal demand. So we would expect energy prices to go up. With that expectation, it's not difficult to find some select energy names that we think are undervalued. [*Note*: The two largest energy-related holdings in the Value Opportunities Fund at the end of March were global major Royal Dutch Shell and oilfield-equipment firm Frank's International.]

You're typically fully invested, so when the market broke, what types of things were you selling to redirect cash to more attractive opportunities?

DG: One representative example would be PepsiCo [PEP], which going into all this was already one of our more expensive stocks. The shares held up extremely well when the coronavirus hit because the impact on the business shouldn't be overly significant. It became really expensive relative to other opportunities we had, so it made sense to redeploy cash from it to buy things that were literally 50% cheaper. That's the type of trade we'll make in a downturn like this: sell a stable, safety stock and put the proceeds into ideas that may be more cyclical, but that we think are still strong businesses that give us a lot more upside over time.

Oracle [ORCL] is another position we've reduced in this market. It's long been an excellent business with sticky customer relationships, but as the stock has withstood the market volatility well – it's roughly flat year to date – on a relative basis it just got quite a bit less attractive compared to other available options.

David Green

WFH

Investment management is among the professions that, ostensibly at least, can easily translate to remote work. With a phone, a high-speed Internet connection and secure data access, an "office" can be pretty much wherever you want it to be.

In the third month of testing out that proposition, how is it actually going? "I've found it to be totally seamless," says David Green of Hotchkis & Wiley. He's finding almost everything done in the office well replicated virtually, lauding technology platforms like Microsoft Teams – a product of his Value Opportunities Fund's largest holding – for its ability to facilitate group collaboration and communication. "I've seen no falloff in terms of productivity," he says. "If anything, I'm able to connect with people more easily because no one's traveling and they're generally less distracted."

While he's not ready to say office work is passé, he's less-than-bullish on the long-term demand prospects for commercial real estate. "I live in L.A. and often have a reverse commute and will look on the other side of the freeway and see car after car literally stopped. Think how inefficient that is, and the time and money being wasted. If technology today can alleviate even some of that, that's not a bad thing at all."

This is an aside, but you seem to have done a good job in letting your Microsoft [MSFT] position – first acquired in 2011 – ride. That's not always easy for investors to do. How have you pulled that off?

DG: If you would have told me when we originally bought Microsoft – at prices in the $20s and $30s – that eight or nine years later it would be our largest position with the share price above $180, I would have said there's no way that's going to happen. The fact is that the business has totally exceeded our expectations, but we've updated our estimates of value along the way and the share price just hasn't gotten much ahead of that.

The potential market and the runway for the Azure cloud business is huge, and we still don't believe the market is fully recognizing how strong the company's position is there. If you take out the net cash on the balance sheet and the more representative value we assign to Azure, we think the remaining core businesses are valued at or below the market multiple, while still growing faster and more profitably than the average company. Microsoft has also been a great diversifier from other things we own. It obviously could change, but as long as the value grows as fast as the share price, we should recognize that and not be in a rush to sell.

Describe in more detail your investment case for Evercore.

DG: We've been long-time shareholders of Goldman Sachs. It's active in a number of areas, but its highest-return business is advisory, which requires no capital. We've watched Evercore over time and it has built its franchise almost entirely from financial advisory, with some wealth management added in recent years. I don't think people generally recognize the strength of Evercore's brand in advisory, where it has consistently gained market share to the point where it's now #4 in the U.S. behind Goldman, JPMorgan and Morgan Stanley. In 2010 it had 2.3% of the market, now it's 8.3%. Evercore also seems to get lumped by the market together with other financial stocks, even though it doesn't have lending risk.

As I mentioned earlier, while the business won't be unaffected by the economic downturn, we believe mergers and acquisitions activity as well as advising on financial restructurings will have good tailwinds behind them in the aftermath of the crisis. Companies in positions of strength look to take advantage of bad markets to improve their market positions, and the bad economic environment means there are more vulnerable targets out there potentially willing to do a deal. Evercore's expertise is valuable on both sides of that. We think people may be surprised how quickly M&A comes back.

You often speak about how "sticky" a company's relationship is with its customers. How do you assess that stickiness here?

DG: That's a good question. The customer relationship here isn't sticky in the classic sense – if your franchise or brand value weakens, somebody can pretty easily take business away. But at the same time, there's a huge advantage to having that brand value built over time. If you're in the board room and discussing who to work with on a deal or restructuring, there are only a small number of firms you're willing to go with. Nobody wants to take a chance on a lesser brand name with less experience and credibility.

Evercore is on that short list and we believe continues to increase its franchise

INVESTMENT SNAPSHOT

Evercore
(NYSE: EVR)

Business: Boutique investment bank that derives most of its revenue from providing financial advisory services related to mergers and acquisitions as well as restructuring.

Share Information (@5/28/20):

Price	**56.94**
52-Week Range	33.25 – 91.59
Dividend Yield	4.1%
Market Cap	$2.31 billion

Financials (TTM):

Revenue	$2.02 billion
Operating Profit Margin	21.6%
Net Profit Margin	12.9%

Valuation Metrics
(@5/28/20):

	EVR	S&P 500
P/E (TTM)	8.6	25.6
Forward P/E (Est.)	29.3	23.1

Largest Institutional Owners
(@3/31/20 or latest filing):

Company	% Owned
Vanguard Group	9.2%
BlackRock	8.3%
Hotchkis & Wiley	4.8%
State Street	2.4%
TimesSquare Capital	2.4%

Short Interest (as of 5/15/20):

Shares Short/Float	2.9%

THE BOTTOM LINE

While the market seems to be treating the boutique investment bank as "just another down-and-out financial," it is actually well positioned to benefit from a robust market for the M&A and financial-restructuring advisory services it offers, says David Green. At 15x his estimate of the company's "normal" earnings, the stock would trade at closer to $115.

Sources: Company reports, other publicly available information

value. It has successfully expanded its M&A coverage network because it's considered a destination for talent. Brand cachet and respect in the customer marketplace is also important in competition for talent. We'd expect them to be opportunistic on that front during all this as well.

How are you looking at upside in the stock from today's price of just under $57?

DG: The stock has come back a bit, but it still trades at only 7.4x the $7.70 in adjusted EPS the company earned in 2019, which we would consider a normal year going forward. For a company with this balance sheet, this profitability and still-good growth prospects, that's a really low multiple.

There's no reason this business couldn't go for at least 15x normal earnings, which is far less than it's traded in the past. As recently as 2018, the stock was at $117. The market seems to be treating this as just another down-and-out financial, which we just don't think is warranted at all.

What about the business franchise at TE Connectivity [TEL] prompted you to establish a new position in it during the first quarter?

DG: The company is the global leader in what we consider passive electronics, producing some 320,000 products that include things like connectors, relays, switches, touch screens and fiber-optic lines. These components are increasingly used in a wide variety of end markets, including autos, heavy trucks, aerospace, industrial equipment and data centers.

While TE Connectivity's products are often fairly cheap to make and buy, dependability is critical, the products are most often custom-designed into the production process, and product lifecycles are long. That makes the customer relationship quite sticky. When what's already designed in is working, reliable and relatively inexpensive, that generally means there's little incentive for a customer to switch to a competing supplier.

Another positive we see here is the secular trend toward increased electronic content per unit in a number of industries. Automotive-focused products, for example, account for more than 40% of the company's total sales, and growth in electric vehicles, autonomous driving and vehicle connectivity all drive increased electronic content per vehicle. The company has similar opportunities in many of its other end markets.

In a business like this we like that we don't have to bet on which competitor is going to win in the end market. If electronics devices are increasingly prevalent and electronic content in cars and trucks and airplanes goes up, over time TE Connectivity should benefit.

How are you handicapping the impact of the pandemic crisis on the business?

DG: Management recently said to expect a roughly 25% sequential revenue falloff in the third quarter, driven mostly by declines in automotive, trucking, commercial-aerospace and other industrial demand. A decent percentage of the customer base is more defensive in a downturn, though, with businesses serving military, medical and data-center clients showing steady or

INVESTMENT SNAPSHOT

TE Connectivity
(NYSE: TEL)

Business: Swiss-based designer and manufacturer of connectivity and sensor products sold primarily into transportation, industrial and communications end markets worldwide.

Share Information (@5/28/20):

Price	**82.78**
52-Week Range	48.62 – 101.00
Dividend Yield	2.3%
Market Cap	$27.30 billion

Financials (TTM):

Revenue	$13.05 billion
Operating Profit Margin	16.4%
Net Profit Margin	5.4%

Valuation Metrics
(@5/28/20):

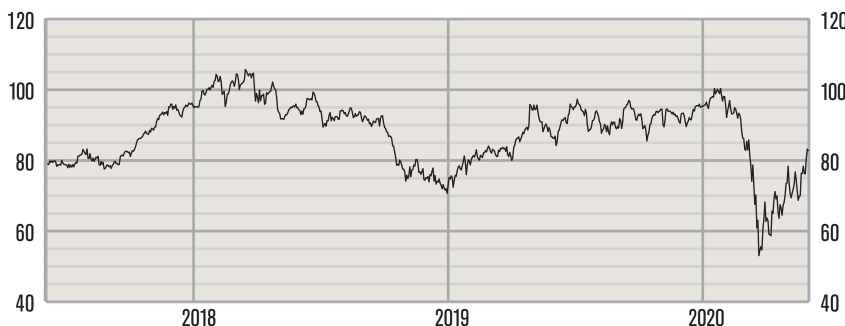
	TEL	S&P 500
P/E (TTM)	38.9	25.6
Forward P/E (Est.)	20.0	23.1

Largest Institutional Owners
(@3/31/20 or latest filing):

Company	% Owned
Dodge & Cox	9.6%
Vanguard Group	7.4%
Harris Associates	5.8%
Capital Research & Mgmt	4.5%
State Street	3.9%

Short Interest (as of 5/15/20):

Shares Short/Float	1.4%



THE BOTTOM LINE
David Green doesn't believe the market is adequately valuing the stickiness of the company's customer relationships, its resilience through the current downturn, and its secular growth potential as economic activity recovers. At even a market P/E of 17-18x, on his $7 estimate of normal earnings power the shares would trade at close to $120.

Sources: Company reports, other publicly available information

even growing demand. Overall, we think the company should still generate close to $1 billion in free cash flow this year, so there doesn't at all appear to be any existential threat. If anything, we'd expect management – which we consider very disciplined and return-focused – to capitalized on any opportunities it can to take share from weaker competitors through the downturn.

The share price was fully cut in half through the market panic – how inexpensive do you think the stock is now that the price has rebounded to a recent $82.75?

DG: One thing we found during the selloff was that in companies with a lot of debt, their enterprise values really didn't go down as much on a comparable basis as the EVs did at companies like TE Connectivity without much debt. That's one reason this attracted our attention.

As the parts of the business that need to recover do recover, we estimate the normal earnings power here at around $7 per share. The company did better than that in 2018, when the share price was over $100. We think given the secular growth prospects and the high returns on capital the company earns that there's no reason the shares shouldn't trade for a 17-18x market multiple. That would result in a share price of around $120.

The company increased its quarterly dividend earlier this month by 4%. While the dividend in any one year isn't that important to our thesis, there aren't many companies raising dividends in this environment and we think it speaks to the solidity of the business and management's focus on shareholder return.

Betting on a turnaround at General Electric [GE] has proven to be rather rough sledding in recent years. Why do you think the odds of success today will prove to be better?

DG: The company is now focused primarily on jet engines, power turbines and diagnostic-imaging systems. These are all businesses where it has dominant market positions and installed bases that generate significant recurring maintenance and repair revenues.

The commercial jet-engine business is on everybody's mind today given the dramatic falloff in air travel and the follow-on impacts that's having on the demand for aircraft. That obviously affects the near-term prospects for the company, but we believe the long-term secular growth story for global air travel is still largely intact and that GE will continue to be one of the prime beneficiaries of that. It has very high market shares in both the narrow-body and wide-body engine markets in which it competes, and also benefits from long-lived and profitable aftermarket revenue streams.

In healthcare, the majority of the business is in diagnostic imaging, where GE currently has roughly 50% of the global market. Scale provides cost advantages and the massive installed base is lucrative not only because of strong maintenance revenues but also because switching costs in the industry tend to be relatively high. This, of course, is also a business with positive secular tailwinds, as populations around the world age and healthcare access improves.

INVESTMENT SNAPSHOT

General Electric
(NYSE: GE)

Business: Diversified industrial conglomerate selling products and related services into the global aviation, medical equipment, power generation and renewable energy markets.

Share Information (@5/28/20):

Price	**6.78**
52-Week Range	5.48 – 13.26
Dividend Yield	0.6%
Market Cap	$59.31 billion

Financials (TTM):

Revenue	$93.54 billion
Operating Profit Margin	6.0%
Net Profit Margin	(-2.5%)

Valuation Metrics
(@5/28/20):

	GE	S&P 500
P/E (TTM)	11.1	25.6
Forward P/E (Est.)	40.0	23.1

Largest Institutional Owners
(@3/31/20 or latest filing):

Company	% Owned
T. Rowe Price	8.3%
Vanguard Group	7.3%
Fidelity Mgmt & Research	6.1%
BlackRock	4.3%
State Street	3.9%

Short Interest (as of 5/15/20):

Shares Short/Float	1.7%

GE PRICE HISTORY

THE BOTTOM LINE

While its turnaround efforts have been derailed by the pandemic crisis, David Green believes the company will ultimately thrive now that it's focused on competitively advantaged businesses with solid secular growth prospects. Based on his sum-of-the-parts analysis, he values the stock today at $19, a 180% premium to the current price.

Sources: Company reports, other publicly available information

GE Power has been a well-documented sore spot, but here as well we think the outlook is better than the market seems to contemplate. The company has a 50% global market share in gas turbines, a business we'd argue has a solid growth runway. If you think about where incremental power generation is going to come from, renewables can't do it all, so the next-best alternative is natural gas. It's cheap, much cleaner than coal, and much easier to bring on line than nuclear. As gas-powered energy takes share, that should be a positive for the market leader.

The power business has been earning far below normal returns, in large part due to poor underwriting and execution. Buying competitor Alstom in 2015 has proven to be a terrible acquisition, and it saddled GE with a large number of unprofitable long-term contracts to work through. As these contracts fall off, we believe replacement business is being underwritten intelligently and will result in more normal profitability over time.

How comfortable are you with the balance sheet?

DG: The company actually has very little industrial net debt. If you take out the $32 billion in debt at GE Capital – which we think is a perfectly appropriate level and offset by the unit's assets – there's something like $44 billion in debt on the parent-company balance sheet vs. around $41 billion in cash. If you net from that the value of GE's publicly traded stake in Baker Hughes, now worth about $5.5 billion, there's no net debt at all.

As a further sign of the balance-sheet strength, the company just raised debt going out to 2035 at around a 4% interest rate. We think that reflects the value of the underlying assets and the company's open access to capital markets.

How would you grade new CEO Larry Culp's first 18 months on the job?

DG: We believe he's done a great job. He also did an excellent job at Danaher over a long period of time, and we think as an outsider at GE he is able to look at the company's businesses and talent in a dispassionate way, which is exactly what's needed. He got a great price in selling the BioPharma business. He sold a big chunk of Baker Hughes equity for considerably more than the current share price. He's de-risked the balance sheet by issuing long-term debt at very low rates. Do we think he should IPO the healthcare business? Yes, we absolutely do. But overall, as shareholders we're lucky to have him running the company.

ON DOWNTURNS:

One trade we'll make: sell a safety stock to buy one that may be more cyclical but we think gives us more upside.

The shares at a recent $6.75 trade at 25% their level of three years ago. How are you looking at valuation today?

DG: We think given the different businesses that it makes sense to value the company as a sum of the parts. For aviation, we use a peer-company 11x or so EV-to-normal-EBITDA multiple to arrive at a value of around $100 billion. We believe the healthcare business is worth $40-50 billion, again using peer EV/EBITDA multiples of 12-15x on our estimate of normal earnings. For power, we think the gas-turbine business can generate roughly $4 billion in normal EBITDA, which at an 8x EV/EBITDA multiple would translate into another $35 billion or so in value. There's also a wind-turbine business I haven't mentioned, which can earn $1 billion in annual EBITDA and we think is worth another $8 billion.

If we add all that up, conservatively assign additional value for GE Capital and the remaining Baker Hughes stake, and then take out debt and the pension obligation, we come to a net sum-of-the-parts value of around $19 per share.

The near-term outlook here is clearly not easy to judge. But this was the largest company in the world by market cap 20 years ago and now it's trading for way less than Shopify. Given the name, the liquidity and the profile, when the business finally does turn, we think the market will embrace the stock.

Turning to another once high-profile company that has changed a lot, describe the upside you see in News Corp. [NWSA].

DG: News Corp owns a mix of media assets left over when the company spun out its television and film focused businesses as 21st Century Fox in 2013. Its primary assets today are the Australian online real estate listing company REA Group [Sydney: REA], national newspaper franchises such as *The Wall Street Journal*, *The Times* in the U.K. and *The Australian*, book publisher HarperCollins, as well as other assets such as U.S. online real-estate portal Move.com, a pay-TV business in Australia under the Foxtel brand, and a number of local newspapers. This is another case where we think the assets looked at one by one are worth a lot more than the market currently recognizes.

REA is quite a valuable asset. Australia does not have something like the Multiple Listing Service (MLS) that we have in the U.S., and REA has become the leading way for sellers to list a home for sale in the country, with over four times more usage than its closest competitor. Because this is where most buyers go to view real estate, this is where all the sellers need to list their homes for sale. REA's stock trades publicly and News Corp.'s share at market value is currently worth about $5.4 billion.

Most print-based publishing businesses have been devastated by the Internet, but some national news franchises have shown themselves resilient as they expand their paid subscription reach online. We don't necessarily believe the 30x EV/EBIT multiple on the publicly traded shares of New York Times Co. [NYT] is appropriate, but at 15x our normalized EBIT estimates, after corporate expenses, we value News Corp.'s flagship national news franchises at a total of around $2.5 billion.

The company's mix of regional Australian papers and leading tabloids, like the *New York Post* and *The Sun* in the U.K., may have material value, but to be conservative we're valuing them at zero.

Among the other assets, HarperCollins is the second-largest consumer book publisher in the world with a valuable backlist and a solid record of finding and developing new authors through a program that cranks out thousands of new titles a year. We're valuing it today at 12x normal EBIT after corporate expenses, or around $1.9 billion.

The Move.com assets in the U.S. include Realtor.com, which is the second leading real-estate portal after Zillow. We think we are being very conservative in valuing it at $840 million, which is the price News Corp. paid for this business, mostly in 2014. If we valued Move where stocks like Zillow or Redfin trade, that number would be significantly higher.

Finally, the Foxtel Australian pay-TV business is the most uncertain part of the company's portfolio. It would be an attractive asset to a number of strategic buyers, but its current results are poor and management is in the process of trying to turn it around. We think we're being conservative and leaving upside optionality by valuing these assets at around $600 million.

How solid is the balance sheet?

DG: We think the balance sheet is extremely strong. At first glance the company appears levered, but that is only because of the consolidation of Foxtel debt that is non-recourse to the parent company. The parent News Corp. has no gross debt and $1.2 billion of cash. If we add up all the assets and cash, we arrive at a value for the company of around $12 billion, or $20 per share. That compares with a current share price of around $12.

Is Rupert Murdoch's effective control of the company a positive or negative for you at this point?

DG: I think it's something that's been weighing on the valuation, that people think he might do things that ultimately aren't in the best interests of all shareholders. There is a case to be made that value could be realized by spinning out the REA stake, or IPOing Move.com or even *The Wall Street Journal*. Our view is that if you look at his track record, he's been very shrewd in buying and selling assets, the most recent example being the 21st Century sale to Disney at what appears to us to be a very full price. His actions show that he is interested in maximizing shareholder value.

Back briefly to the overall market environment, did the speed of the share-price downturn and then the following rebound surprise you?

DG: In March, the liquidity in the market seized up at a time when there was a tremendous amount of uncertainty about both the health and economic consequences of the coronavirus. So while the speed of the downturn surprised me, you could understand it. When the Fed came in to address the liquidity issues, the panic around that receded and that drove at least the early part of the rebound. Now

INVESTMENT SNAPSHOT

News Corp.
(Nasdaq: NWSA)

Business: Global provider of media and information services primarily in the U.S., U.K. and Australia; key brands include *The Wall Street Journal*, HarperCollins and realtor.com.

Share Information (@5/28/20):

Price	**11.87**
52-Week Range	7.90 – 15.07
Dividend Yield	1.7%
Market Cap	$6.99 billion

Financials (TTM):

Revenue	$9.55 billion
Operating Profit Margin	4.7%
Net Profit Margin	(-9.7%)

Valuation Metrics
(@5/28/20):

	NWSA	S&P 500
P/E (TTM)	n/a	25.6
Forward P/E (Est.)	50.0	23.1

Largest Institutional Owners
(@3/31/20 or latest filing):

Company	% Owned
T. Rowe Price	16.3%
Vanguard Group	13.9%
Independent Franchise Partners	8.1%
Yacktman Asset Mgmt	5.6%
Hotchkis & Wiley	5.2%

Short Interest (as of 5/15/20):

Shares Short/Float	2.2%

THE BOTTOM LINE
Given that it has somewhat of a mishmash of global media and information-services assets, David Green thinks the market isn't appropriately recognizing the company's aggregate value. Using valuation methodologies he considers appropriate to each individual business, he arrives at a sum-of-the-parts value for the shares of around $20.

Sources: Company reports, other publicly available information

it's more about how do the lockdowns play out and what can companies earn, and when, as things open up and we come out the other side.

I'd be somewhat surprised if the volatility of the past couple of months was fully behind us. Part of that is a function of all the uncertainty that's still out there. Part of that is how much money gets pushed around by algorithms and passive strategies with share-price momentum as a key factor. We always prefer the market to be more volatile than less – it gives us active investors more opportunities to find things on sale.

You came into the year owning some Tesla [TSLA] put options. Is it an example of where you believe the market price has gotten quite a bit ahead of the underlying value of the business?

DG: We sold some of our put options in March when the shares were down significantly, not because we didn't think they were overvalued at that point, but because the implied volatility on the puts was so high and we were getting such a high premium that we thought we should take advantage of that.

We still think Tesla is very – even surprisingly – overvalued. [*Note*: The shares, which fell below $400 in March, traded recently at $805 – more than four times their level of one year ago.] Giving full credit for what it's accomplished so far, in the end the company is selling a product against what will be brutal competition from very large, competent and well-funded global players.

That's a particular problem when we don't see stickiness to the buyer. If you own a Tesla and are in the market for a new vehicle, if BMW or Mercedes or Toyota offers you something that is even slightly better, or at a slightly better price, there's really no reason you wouldn't switch. So it's in a brutally competitive business with no long-term moat and an extremely high valuation. That to us is not a good recipe for investment success. VII

VALUE INVESTOR INSIGHT
MAY 29, 2020
"INVESTOR INSIGHT: DAVID GREEN"

PERFORMANCE (%) as of December 31, 2020

	QTR	1 Yr	3 Yr	5 Yr	10 Yr	Since 12/31/02
H&W Value Opportunities Fund – I Shares	29.15	5.35	5.60	9.87	10.95	11.76
Russell 3000 Value Index	17.21	2.87	5.89	9.74	10.36	9.00

The performance shown represents past performance. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Investment results and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. To obtain performance data current to the most recent month-end, access our website at www.hwcm.com.

The Fund's total annual operating gross expense ratio as of the most current prospectus is 0.97% for I Shares. Expense ratios shown are gross of any fee waivers or expense reimbursements. I Shares sold to a limited group of investors. Periods over one year are average annual total return. Average annual total returns include reinvestment of dividends and capital gains. Expense limitations may have increased the Fund's total return.

You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. This and other important information is contained in the Fund's summary prospectus and prospectus, which can be obtained by calling 1-800-796-5606 or visiting our website at www.hwcm.com. Read carefully before you invest.

The fund is non-diversified and may invest in foreign securities, junk bonds, derivatives, or small/mid cap companies. Please read the fund prospectus for a full list of fund risks.

The Russell 3000® Value Index includes stocks from the Russell 3000® Index with lower price-to-book ratios and lower expected growth rates. The index does not reflect the payment of transaction costs, fees and expenses associated with an investment in the Fund. It is not possible to invest directly in an index.

Top 10 holdings as of December 31, 2020 as a % of the Value Opportunities Fund's net assets: Microsoft Corp. 8.2%, General Electric Co. 7.8%, Wells Fargo & Co. 5.6%, American Int'l Group Inc. 4.3%, Goldman Sachs Group Inc. 4.3%, Amerco 4.1%, News Corp. 4.0%, Bank of America Corp. 3.7%, Triple-S Mgmt Corp. 3.7% and Oracle Corp. 3.7%. Portfolio weightings, sector allocations, and/or fund holdings are subject to change and should not be considered a recommendation to buy or sell any security. Opinions expressed are those of the author and are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice. References to other products should not be interpreted as an offer of these securities.

Free cash flow is earnings before depreciation, amortization, and non-cash charges minus maintenance capital expenditures; Return on capital measures how effectively a company uses the money (borrowed or owned) invested in its operations; Dividend yield is calculated by annualizing the last quarterly dividend paid and dividing it by the current share price. The dividend yield is that of the securities held in the portfolio; it is not reflective of the yield distributed to shareholders; Market capitalization of a company is calculated by multiplying the number of outstanding shares by the current market price of a share; Price-to-Earnings (P/E) is calculated by dividing the current price of a stock by the company's trailing 12 months' earnings per share; Forward P/E (Est.) represents the current market price per share divided by a company's estimated future earnings-per-share. Projected earnings are consensus analyst forecasts; actual P/E ratios may differ from projected P/E ratios; TTM-Trailing Twelve Months; Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock; Standard deviation is a measure of risk that an investment will not meet the expected return in a given period; M&A (Mergers & Acquisitions); EV-to-normal-EBITDA (Enterprise Value-to-normal-Earnings Before Interest, Taxes, Depreciation and Amortization) multiple is a ratio used to determine the value of a company; and **EPS and P/E growth is not representative of the Fund's or underlying securities future performance. Diversification does not assure a profit or protect against loss in a declining market.**

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