INTERNATIONAL VALUE

MARKET COMMENTARY

The MSCI World ex-USA Index returned +15.3% in the second quarter of 2020, recovering most of its first quarter decline; the index is -11.5% since the beginning of the year. During the quarter, economic activity began to rebound globally. Prices of risk assets, including equities, also benefited from aggressive central bank and government intervention. Volatility remained elevated, however, as the recovery remains uneven and uncertain, with the virus' continued presence complicating reopening efforts.

The MSCI World ex-USA Growth Index outperformed the MSCI World ex-USA Value Index by more than 5 percentage points in the quarter (+17.9% vs. +12.4%). This extended growth's year-to-date advantage to more than 16 percentage points (-3.1% vs. -20.0%) and its three-year edge to more than 31 percentage points (+18.9% vs. -12.7%). The wide valuation gap between international growth and global value is approaching levels only previously observed during the late 1990's tech/growth bubble.

Our estimate of a company's intrinsic value is based on its earnings power over the long term, i.e. over a period of many years. If a company's earnings temporarily contract in any period—as will happen to many of our businesses due to the global pandemic and related recession—it should only modestly reduce our estimate of intrinsic value. The exception is when a company lacks the financial wherewithal to survive the contraction—something we work hard to avoid. We believe that the share price declines for many of our cyclical businesses have meaningfully outpaced the declines in intrinsic value. Meanwhile, companies that are largely insulated from COVID-19's reach, and those that benefit from it in the short term, have seen their stock prices rise considerably. Many of these companies traded at elevated valuations even before this period. We recognize the seriousness of the pandemic, including its extensive impact on the economy and capital markets; however, we view the market's response as myopic. While COVID-19 has taken a painful toll, both human and economic, we will get through it. When we do, we are confident that more rational economics will prevail, and valuations will revert toward more normal relationships—our clients are well positioned to benefit from such a scenario.

The irrational gap between international growth and value indices represent an uncommon opportunity, but in our view, the true opportunity in today's market goes well beyond this simple relative incongruity. The opportunities within value are extraordinary. The portfolio trades at 5.9x normal earnings which represents a significant discount to the MSCI World ex-USA Index, which trades at 13.3x normal earnings.

ATTRIBUTION – 2Q20

The Hotchkis & Wiley International Value portfolio (gross and net of management fees) slightly underperformed the MSCI World ex-USA Index in the second quarter of 2020. The strategy's value bias hurt relative to the broad benchmark as growth outperformed value considerably; the strategy did outperform the MSCI World ex-USA Value Index meaningfully. Relative to the broad index, the overweight position and stock selection in financials detracted from performance. The overweight position in energy and stock selection in technology also hurt. Positive stock selection in energy and consumer discretionary, along with the underweight exposure to real estate helped relative performance. The largest individual detractors to relative performance were BAE Systems, Tokio Marine Holdings, Frank's International, Embraer, and Enstar Group; the largest positive contributors were Siemens, Royal Mail, Magna International, Cenovus Energy, and BNP Paribas.

LARGEST NEW PURCHASES – 2Q20

Quantas. The global passenger aviation industry is suffering an unprecedented business disaster. Qantas is suffering from the impact of the COVID-19 crisis but appears significantly better positioned to cope than other airlines: Australia's mild COVID-19 crisis should lead to an earlier recovery of domestic travel demand. Unlike other non-US airlines that rely on lucrative international routes that will take years to recover, Qantas's international business represents a relatively small portion of its earnings. Qantas's should take meaningful market share through the crisis, dampening the decline in market demand, as its only domestic competitor entered bankruptcy and faces an uncertain future. It is also one of the few airlines to remain investment grade.

RTL Group owns free-to-air TV broadcasters in duopoly TV ad markets including Germany, the Netherlands, France, and Spain. In Germany, its most important ad market, it has been taking material audience share as its largest competitor struggles with fundamental changes to its strategy. Longer-term, there is opportunity to capture more of the ad market as customers upgrade their TVs to ones that enable dynamic ad insertion, which would allow broadcasters like RTL to serve regional ads on its networks. Additionally, the company has also been investing in new digital services that should contribute to growth as these businesses launch and reach critical scale.

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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 International 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 (interaction effect is combined with stock selection), 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 ex-USA 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' 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 International Value strategy may prevent or limit investment in major stocks in the MSCI World ex-USA, MSCI World ex-USA Value and MSCI World ex-USA 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.

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. Growth investing tends to work well during speculative, momentum-driven markets, while value investing tends to work well following recessionary periods. Past recessions and recoveries cannot predict future performance due to different factors and circumstances, including differences in US and international financial markets.

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 June 30, 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. The strategy invests in foreign as well as emerging market 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.