

INTERNATIONAL VALUE

MARKET COMMENTARY

The MSCI World ex-USA Index rose +4.0% in the first quarter of 2021. The acceleration of vaccine availability in the UK prompted investor optimism, though certain areas in Continental Europe experienced some delays. Brent crude oil prices rose 33% in the quarter, closing the quarter at \$64/barrel after peaking at nearly \$70 in early March. Corporate earnings were strong, as 72% of MSCI World ex-USA companies exceeded consensus earnings expectations during the quarter. The signs of near-term recovery coupled with supportive fiscal policies seemingly point to increased inflation. In response to increased growth and inflation expectations, the yield on most medium/long duration government bonds increased.

International value stocks outperformed international growth stocks for the second consecutive quarter; the MSCI World ex-USA Value Index returned +8.3% while the MSCI World ex-USA Growth Index returned -0.4%. Over the past six months, the value index has outperformed the growth index by 17 percentage points (+29.2% vs. +12.2%). In a trend we believe likely to endure, the continued reopening of global economies and the prospect for higher inflation and interest rates has benefited value stocks relative to growth stocks. Despite value's recent outperformance, the valuation gap between growth and value remains considerably wider than historical norms based on any common valuation metric, which highlights the extreme levels reached in 2020.

Price-to-normal earnings ("P/NE") is one of our preferred metrics because it adjusts for the peaks and troughs of business cycles. The P/NE of the portfolio is 8.3x, which is a substantial discount to the MSCI World ex-USA Index at 15.1x. This highlights that despite some richly valued international stocks, we have been able to identify interesting risk-adjusted opportunities trading at attractive valuations not only on a relative basis but also on an absolute basis. The portfolio exhibits somewhat of a cyclical tilt—this is where value opportunities disproportionately reside—but this is offset by investing in good businesses that are well-capitalized and prudently managed, i.e., companies that can endure cyclical downturns. As we look forward, we believe our clients will continue to benefit from this simple and time-tested combination.

ATTRIBUTION – 1Q21

The Hotchkis & Wiley International Value portfolio (gross and net of management fees) outperformed the MSCI World ex-USA Index in the first quarter of 2021 by a wide margin. The portfolio's value focus helped relative performance in the quarter as international value stocks outperformed international growth stocks considerably. Positive stock selection in industrials, financials, and technology contributed to relative performance, along with the overweight exposure to energy and financials—the two top-performing sectors during the quarter. The underweight exposure to the Japanese Yen also helped relative performance as the Yen depreciated by more than 7% relative to the US Dollar. Stock selection in energy and the overweight exposure to consumer staples were modest performance detractors. The largest positive contributors to relative performance in the quarter were Royal Mail, ING Groep, Frank's International, CNH Industrial, and Magna International; the largest detractors were Credit Suisse, Cairn Energy, Tokio Marine, Heineken, and Babcock International Group.

LARGEST NEW PURCHASES – 1Q21

Points International provides sponsors of customer loyalty programs such as American Airlines' frequent flyer program a technology platform to manage the purchase and redemption of loyalty points/miles with third parties such as hotels and rental cars. Points enjoys strong relationships with virtually all the major global airlines and has experienced renewal rates over 90%. Its business was significantly impacted by the slowdown in global air travel, providing an attractive valuation, which should recover once the pandemic resides.

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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. 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'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 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 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 Portfolio 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, 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 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, 2021 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.