LARGE CAP DIVERSIFIED VALUE

MARKET COMMENTARY

The S&P 500 Index rose 8.6%, closing the second quarter of 2021 at an all-time high. It is up +15.2% since the beginning of the year. While the threat of new COVID variants persists, vaccination levels increased and new cases slowed. Consequently, state and local governments continued to ease closures/restrictions spurring renewed economic activity. Manufacturing rose and labor markets improved, highlighting the potential for tight supply conditions. Consumer prices rose 5% year over year, the fastest level in more than a decade. In response, Fed Chairman Powell reiterated his view that inflationary pressures would be transitory. WTI crude oil touched $74/barrel, its highest level in more than two years. Corporate earnings continued to show strength, with 86% of S&P 500 companies outperforming consensus expectations.

The Russell 1000 Growth Index outperformed the Russell 1000 Value Index (+11.9% vs. +5.2%) in the second quarter. Even so, the value index has outperformed by more than 10 percentage points over the past 9 months (+36.1% vs. +25.9%). According to data from the Ken French/Dartmouth library, which dates to 1926, the average value-led market[1] has lasted for 33 months and outperformed growth by an average of 55 percentage points. The duration and magnitude of the current rally is far short of that. Nearly all prolonged value-led markets, however, contain stints when growth outperforms value. In perhaps the strongest value rally ever, for example, value outperformed growth by 147 percentage points from March 2000 through December 2006. However, growth outperformed value in nearly one-third of those months (24 out of 82 months). Like that value run, we came from extreme valuation spreads in mid/late 2020 and continue to observe spreads that are considerably wider than average. This gives us confidence that value's advantage this time will persist in a powerful way, for a prolonged period, or both.

Interest rates fell during the quarter, particularly for long-dated bonds (the yield curve flattened). The 10-year treasury note declined from 1.74% to 1.47% over the quarter. Real estate was the top-performing sector in the S&P 500 as REITs often trade inversely to interest rates, though at 2.5% it entered the quarter as the index's smallest sector. Technology, energy, and communication services were next best, each returning more than +10%. The 8 largest individual contributors for the S&P 500 were all technology-driven companies, though technically 3 of them reside in other sectors (Google and Facebook = communication services; Amazon.com = consumer discretionary; the others were Microsoft, Apple, Nvidia, PayPal, and Adobe). Utilities was the only sector that declined in the quarter, though consumer staples, industrials, and materials also lagged.

As measured by any common valuation metric, the spread between value and growth stocks is wide. So too is the spread between the portfolio and the value benchmark, which means the spread between the portfolio and either the core or growth index is extreme. Over the last dozen years, the portfolio's average price-to-normal earnings discount[2] to the Russell 1000 Value has been 49% but today stands at 68%. It has been wider only 13% of the time. We believe this bodes well going forward as value relationships normalize. We continue to focus on companies trading at large discounts to intrinsic value but that have strong balance sheets, quality businesses, and employ appropriate corporate governance—a combination that we believe should continue to benefit our clients.

ATTRIBUTION – 2Q21

The Hotchkis & Wiley Large Cap Diversified Value portfolio (gross and net of management fees) outperformed the Russell 1000 Value Index in the second quarter. Energy was the largest contributor as both the overweight allocation and positive stock selection helped relative performance. Positive stock selection in healthcare and technology, along with the overweight position in financials and underweight position in utilities also helped. Stock selection in financials and communications services, along with the lack of exposure to real estate detracted from performance. The largest positive contributors to relative performance in the quarter were Marathon Oil, Wells Fargo, Hess Corp., APA Corp., and Microsoft. The largest detractors were Discovery, Citigroup, F5 Networks, Corning, and Vodafone.

LARGEST NEW PURCHASES – 2Q21

Credit Suisse Group presents an attractive valuation following large lapses in its risk management (e.g., exposure to Archegos). We expect that fixing its risk management process is well within its ability and doing so will have manageable cost and time commitments. While the potential for punitive regulatory actions and/or litigation exists, this is more than reflected in the current share price. While recent events are a blemish, the underlying franchise value remains intact; Credit Suisse is a high-quality business that should generate attractive returns on capital over time.

CVS Health operates fast growing insurance and pharmacy benefit management businesses. These well-positioned businesses should deliver strong earnings growth. Yet the value of these assets has been overshadowed by concerns regarding CVS' front-end retail business. While the headwinds facing retail are real, this business is ultimately a very small piece of CVS Health's value. We believe that CVS Health's sum-of-the-parts valuation is attractive.

(continued)

[1] A value-led market is defined as one that outperforms growth by at least 10 percentage points.
[2] Calculated as [(Index PE / Portfolio PE)-1], or the portfolio's price return required to make equivalent valuations.

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Raytheon Technologies, post the Raytheon/United Technologies merger, in our view is extremely well-positioned in aerospace and defense and trades at an attractive multiple of its long run earnings power. It has no balance sheet issues, it is diversifying to the portfolio's risks, and it is disciplined about returning cash to shareholders. Risks include a long path to normal profitability and defense budget issues, but we believe these are more than reflected in the current share price.

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 Large Cap Diversified 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 the index, 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. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services, LLC ("S&P") and is licensed for use by Hotchkis & Wiley ("H&W"). All rights reserved. Neither S&P nor MSCI is liable for any errors or delays in this report, or for any actions taken in reliance on any information contained herein. Russell Investment Group is the source and owner of the Russell Index data contained herein (and all trademarks related thereto), which may not be redistributed. The information herein is not approved by Russell. H&W and Russell sectors are based on the Global Industry Classification Standard by MSCI and S&P. Specific securities identified are the largest contributors (or detractors) to the portfolio's performance relative to the 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. The largest new purchases are as of the publication date, but may be sold and no longer held in the Large Cap Diversified Value strategy at any time, for any reason, without notice, subsequent to the publication date. The securities reflected herein are intended to be for illustrative purposes only and are not intended to be, and should not be construed as, investment recommendations or investment advice. Past performance of these securities, or any other investments, is not an indicator of future results. H&W's opinions regarding these securities are subject to change at any time, for any reason, without notice. 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 Large Cap Diversified Value strategy may prevent or limit investment in major stocks in the S&P 500, Russell 1000 Value and Russell 1000 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.

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.

Market Disruption: The global coronavirus pandemic has caused 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 has the potential to negatively impact the firm's investment strategies and investment opportunities.

All investments contain risk and may lose value. 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, 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.

Past performance is no guarantee of future results.