VALUE OPPORTUNITIES

MARKET COMMENTARY

The S&P 500 Index rose +6.2% in the first quarter of 2021. Another round of fiscal stimulus was signed and delivered. The $1.9 trillion bill raised the total COVID fiscal response to $5.3 trillion; this sum equates to about 25% of pre-COVID GDP or roughly $16,000 for every American. The bill's passage was widely anticipated and consequently sparked little reaction from equity markets. The acceleration of vaccine availability prompted investor optimism as it was announced that all Americans 16 and older should be eligible by May 1st. On the economic front, the labor market showed signs of improvement as initial jobless claims fell to the lowest level since the pandemic began. The housing market continued its upward trend and consumer confidence also hit its highest level in a year. WTI crude oil prices rose 22% in the quarter, closing the quarter at $59/barrel after peaking at $66 in early March. Corporate America performed well, as more than 80% of S&P 500 companies exceeded consensus earnings expectations during the quarter. The signs of near-term recovery, coupled with the Fed's expanding balance sheet, have stoked inflation expectations. The gap between the 10-year treasury note and 10-year TIPS, a proxy for expected inflation, finished the quarter at its highest level since mid-2013. In response to increased growth and inflation expectations, interest rates rose with the 10-year treasury yield rising from 0.92% at the beginning of the quarter to 1.74% at its end.

Value stocks outperformed growth stocks for the second consecutive quarter; the Russell 3000 Value Index returned +11.9% while the Russell 3000 Growth Index returned +1.2%. Over the past six months, the value index has outperformed the growth index by more than 17 percentage points (+31.1% vs. +13.7%). The continued reopening of the economy 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 common valuation metrics.

The portfolio usually trades at a discount to the value index. Therefore, when value outperforms growth that serves as a tailwind for us relative to the value index. Since January 2003, for example, the strategy's composite, net of fees, has returned +282% cumulatively compared to +222% for the Russell 3000 Value during quarters when value outperformed growth (+17.6% vs. +15.2% annualized). Conversely, when growth outperforms value that is a headwind. Yet, we have actually been able to beat the value index during these periods as well through positive stock selection. During quarters when growth outperformed value, the strategy returned +141% compared to +64% for the Russell 3000 Value (+9.2% vs. +5.1% annualized). Over the entire period, the strategy has outperformed our benchmark (+821% vs. +428%) despite growth outperforming value by a substantial magnitude (+761% vs. +428%).[1]

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 Russell 3000 Value is notably higher than its long-term average (16x vs. 13x) while the P/NE of the Russell 3000 Growth is significantly higher than its long-term average (33x vs. 20x). At 9x normal earnings, the portfolio trades higher than its historical average (7x) but remains at a meaningful discount to the value index and a significant discount to the growth index. This highlights that despite some richly valued publicly traded 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 Value Opportunities portfolio (gross and net of management fees) outperformed the Russell 3000 Value Index in the first quarter of 2021 by a wide margin. Security selection drove about three-fourths of the outperformance. Security selection was particularly beneficial in communication services, industrials, and financials. The overweight exposure to energy and the underweight exposure to health care also helped. Security selection in energy and technology were modest detractors. The largest positive contributors to relative performance in the quarter were Royal Mail, Discovery, News Corp., Wells Fargo, and Amerco; the largest detractors were Cairn Energy, Microsoft, Freddie Mac (preferred), NOV Inc., and F5 Networks.

LARGEST NEW PURCHASES – 1Q21

Berkshire Hathaway is a collection of good businesses—durable assets with attractive reinvestment outlooks—that trade at a reasonable multiple of earnings. We believe that the current valuation does not adequately consider that the company is likely to sustain returns above its cost-of-capital for a very long time. This will drive growth in earnings power and intrinsic value. While there is some uncertainty regarding succession planning, we are comfortable that Berkshire Hathaway will continue to be capably managed by prioritizing growth in shareholder value.

(continued)

VALUE OPPORTUNITIES

F5 Networks provides software and hardware that ensures both traditional and modern applications are efficiently and safely deployed, both on-premise and in public and private clouds. The company is typically viewed as a traditional IT hardware vendor, and critics often highlight the company's secularly declining on-premise appliance business as a key risk factor. This perspective underappreciates the stickiness of F5's software and services which almost always migrate to the public cloud in tandem with F5's loyal enterprise customers. It also underappreciates F5's strong market position in infrastructure and security software for rapidly growing modern applications. We believe downside is protected by a net cash balance sheet, growing cash flows from F5's traditional businesses, and a renewed focus on shareholder return through share repurchases, which gives this position an attractively skewed risk/return profile.

Philip Morris International ("PM") is one of the world's largest tobacco companies and owns the international rights to the world's most popular cigarette brand, Marlboro. The company has a presence in 180 countries worldwide, a 15% or greater market share in 100 countries, and the #1 or #2 market share in most markets. PM's strong brands enable the company to gain market share and improve pricing even within the slowly shrinking tobacco market. The success in iQOS reduced risk products, already a quarter of its business, helps offset continued declines in the conventional cigarette business, and could aid in continuing the trend of growth in operating income. PM is trading at 15x of our view of normal earnings, has a stable cash flow profile, and a strong commitment to returning cash to shareholders through a large and growing dividend.

[1]Investment returns include reinvestment of dividends, interest and capital gains. Valuation is based on trade-date information. Net performance results are presented after actual management fees and all trading expenses but before custodial fees. The VO strategy's returns for different time periods and market cycles can result in significantly different performance results. Value stocks following a recession may start from a lower market value than growth stocks which can contribute to their outperformance. An account's investment guidelines, timing of transactions, market conditions at the time of investment and other factors may lead to different performance results. The H&W VO composite, net of fees, and Russell 3000 Value Index through March 31, 2021: 19.82%, 88.66%, 14.68%, 12.35% and 11.89%, 58.38%, 11.87%, 10.91% for 1Q, one-, five-, and ten-years, respectively. Other performance disclosures are included in the strategy's GIPS Report.

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. 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 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 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.

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 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 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.

Past performance is no guarantee of future results.