

INTERNATIONAL SMALL CAP DIVERSIFIED VALUE

MARKET COMMENTARY

The MSCI World ex-USA Small Cap Index returned +16.8% in the second quarter and is now up +20.8% since the beginning of the year. About half of the return for both the quarter and the year is due to currency movement, as the US Dollar weakened relative to a basket of other major currencies by about 7% and 11% for the quarter and year, respectively¹. Even in local currency terms, however, international small caps have outperformed US small caps by a significant margin in 2025. The Russell 2000 Index is slightly negative since the beginning of the year.

Following the so-called “liberation day” tariff announcement on April 2nd, the international small cap index cratered more than -10% over three trading days. The market bottomed on April 7th. The index was down -7% for the year at that point, before returning nearly +30% over the next ~11 weeks to finish the quarter at an all-time high. The primary reason for the recovery seems to be that the market believes tariffs will be less draconian than they appeared originally. Equities rallied when the US Administration showed an openness to negotiate down and/or delay the implementation of tariffs with its major trading partners.

All non-US small cap sectors were positive in the quarter, with technology and industrials leading the way at +22% and +20%, respectively. Less cyclical market segments increased by less, with consumer staples and healthcare the two worst-performers, though they rose by +10% and +11%, respectively.

Despite the strong performance in the second quarter, non-US small cap stocks lag both non-US large cap stocks and US stocks by a meaningful amount over the past 5 and 10 years. We continue to view the opportunity set as interesting, and the portfolio's prospects as attractive. We remain committed to investing in undervalued companies with quality businesses and good balance sheets that are managed in the interests of its shareholders.

ATTRIBUTION ANALYSIS – 2Q25

The International Small Cap Diversified Value portfolio underperformed the MSCI World ex-USA Small Cap Index, and to a lesser extent, the value version of that index (gross and net of management fees). Relative to the broad index, the overweight position and stock selection in energy detracted from performance. Stock selection in financials, industrials, and healthcare were also notable detractors. Positive stock selection in consumer staples and technology helped relative performance, along with the underweight allocation to materials and real estate.

As of 6/30/25, net of fee composite and MSCI World ex-USA Small Cap performance for 1-year and 5-year/Since Inception (7/1/20) periods: 20.04%, 16.30% and 22.92%, 9.82%, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees; the composite includes all International Small Cap Diversified Value discretionary accounts. Additional disclosures provided in Endnotes.

¹Based on the US Dollar Index which averages exchange rates between the US Dollar and a basket of major world currencies.

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Endnotes:

All investments contain risk and may lose value. This commentary is for general information only and should not be relied on for investment advice or recommendation of any particular security, strategy, or investment product.

Portfolio characteristics and attribution are based on a representative International Small Cap Diversified Value portfolio. 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; interaction effect is combined with stock selection. Returns can differ from certain client portfolio(s) due to data differences, cash flows, trading, and other activity (data source: Bloomberg, Russell).

The value discipline used in managing accounts in the International Small Cap Diversified Value strategy may prevent or limit investment in major stocks in the MSCI World ex-USA Small Cap and returns may not be correlated to the index. Composite performance is available at www.hwcm.com, located on the strategy's Performance tab along with important disclosures included in the strategy's GIPS Report; quarterly characteristics and portfolio holdings are located on the 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.

The MSCI World ex-USA Small Cap Index is a free float-adjusted weighted index capturing small cap stocks. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. Any indices and other financial benchmarks shown are provided for illustrative purposes only, are unmanaged, reflect reinvestment of income and dividends and do not reflect the impact of advisory fees. It is not possible to invest directly in an index.

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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

Information contained in this material may represent or be based on forward-looking statements. Due to various risks and uncertainties, actual events/results or performance of the strategy may differ materially from those reflected or contemplated in such forward-looking statements. Information based on forecasts, proprietary or third-party estimates cannot be guaranteed and are subject to change. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness.

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