

INTERNATIONAL SMALL CAP DIVERSIFIED VALUE

MARKET COMMENTARY

The MSCI World ex-USA Small Cap Index increased +10.5% in the third quarter of 2024. Small value stocks outside the US outperformed small growth slightly in the quarter and remain ahead of growth by about one percentage point year-to-date. This is opposite of what has occurred in the US, where small value is ahead of small growth year-to-date by about 4 percentage points. The MSCI World ex-USA Small Value Index trades at less than 13x next year's earnings, which is a discount to its 10-year average of 15x. Other segments of global equity markets trade at frothier valuations, even relative to their own histories. The MSCI World Index, for example, trades at more than 20x next year's earnings, which is a premium to its 10-year average of 18x. The portfolio, meanwhile, trades at just under 10x.

Ten of the eleven MSCI World ex-USA Small Cap Index sectors delivered positive returns during the quarter, with energy the lone exception. Real estate, consumer staples, and consumer discretionary led, while tech and energy lagged. Easing of inflationary pressures paved the way for lower interest rates, benefiting rate-sensitive market segments and stocks with high leverage. Our portfolio is underweight the latter, which weighed on relative performance.

We remain partial to financials and are invested through broad regional diversification across banks, insurers, and other financial service companies. We are underweight real estate as we find fewer compelling risk adjusted valuation opportunities. We modestly underweight materials for the same reason, which is somewhat countered by the modest energy overweight.

We remain committed to identifying businesses with durable balance sheets, sustainable returns on equity, stable free cash flow, and attractive valuations relative to normal earnings power. We believe our investment strategy, centered on identifying undervalued assets and effective risk management, is poised to generate consistent long-term returns.

ATTRIBUTION ANALYSIS – 3Q24

The Hotchkis & Wiley International Small Cap Diversified Value portfolio underperformed the MSCI World ex-USA Small Cap Index in the third quarter of 2024. Stock selection in industrials was the largest detractor from relative performance. Stock selection in consumer discretionary and the underweight in real estate also weighed on relative performance. Stock selection and the overweight in energy detracted as well. Positive stock selection in financials helped relative performance. Stock selection in real estate and utilities also contributed positively in the quarter.

Net of fee composite performance as of 9/30/24: 23.24% and 16.29% for 1-year and Since Inception (7/1/20), respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees. Additional disclosures provided in Endnotes.

Past performance is no guarantee of future results.



INTERNATIONAL SMALL CAP DIVERSIFIED VALUE

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 MSCI World ex-USA Small Cap Value and MSCI World ex-USA Small Cap Growth Indices are free float-adjusted weighted indexes capturing small cap stocks, exhibiting overall value or growth style characteristics, respectively. The MSCI indices represent stocks across 22 of 23 Developed Markets (DM) countries, excluding the United States and include reinvestment of dividends, net foreign withholding taxes.

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.

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 for full disclaimer.

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. Investing in smaller and/or newer companies involves greater risks than those associated with investing in larger companies, such as business risk, significant stock price fluctuations and illiquidity. Investing in foreign as well as emerging markets involves additional risk such as greater volatility, political, economic, and currency risks and differences in accounting methods.

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. Investment risk disclosures for the firm's strategies are described in Part 2A of Form ADV of H&W.

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.

Portfolio managers' opinions and data included in this commentary are as of September 30, 2024. Any discussion or view of a security, an asset class/segment, industry/sector and/or investment type are not investment recommendations, should not be assumed to be profitable, and are subject to change without notice.

Past performance is no guarantee of future results.

©2024 Hotchkis & Wiley. All rights reserved. Any unauthorized use or disclosure is prohibited.

WWW.HWCM.COM