VALUE OPPORTUNITIES

MARKET COMMENTARY

The Russell 3000 Index declined -4.7% in the first quarter of 2025. The market had been positive until March, when investors appeared to grapple with the uncertainty around tariffs. The decline was led by mega-cap growth stocks. The Magnificent Seven comprised about 28% of the Russell 3000 Index during the quarter and declined -14% collectively. Value trounced growth in the quarter. The Russell 3000 Value Index returned +1.6% compared to -10.0% for the Russell 3000 Growth Index. The 12-percentage point advantage represents value's largest calendar quarter outperformance since the early 2000s. Like then, we observe large differences in valuation across different segments of the market.

Treasuries rallied during the equity market selloff, with the yield on the 10-year note declining from 4.6% to 4.2% over the quarter. The US dollar weakened by about 4% relative to a basket of other major currencies, which along with the absence of the Magnificent Seven helps explain the significant outperformance of non-US equities over US equities. Performance deviations by sector were significant. Only 4 of the 11 Russell 3000 GICS sectors were negative, though these four sectors comprise nearly 60% of the index. Consumer discretionary (11% of index, -13% decline), technology (29%, -13%), industrials (10%, -2%), communication services (9%, -6%) were the decliners. Energy was the top-performing sector (+8%). Oil prices were little changed, but natural gas prices rose in the quarter. Less cyclical sectors also performed well: healthcare (+5%), utilities (+5%), and consumer staples (+5%). While we are underweight this group of sectors relative to the Russell 3000 Value (16% vs. 27%), we have increased our exposure by 4 percentage points over the past year.

The portfolio trades at 8x our estimate of normal earnings, which is right in line with its historical average. The Russell 3000 Value, however, trades at about 17x normal earnings, a mid-teens premium to its historical average. The Russell 3000 Growth, even after this quarter's correction, trades at 29x normal, well above its historical average. Our portfolio's ~9% earnings yield represents an attractive valuation, particularly considering the broad market's valuation. Over the past several years, the portfolio's Fundamental Risk Ratings have remained consistently above average. The portfolio's aggregate return-on-equity, an imperfect though reasonable yardstick for quality, has remained consistently in the mid- to high-teens. The portfolio's balance of valuation/upside relative to risk is attractive.

Ben Graham referred to the stock market as a voting machine in the short-term and weighing machine in the long-term. In the long term, stock prices reflect the underlying businesses' fundamentals.

ATTRIBUTION ANALYSIS – 1Q25

The Value Opportunities portfolio outperformed the Russell 3000 Value Index in the first quarter of 2025 (gross and net of management fees). On a sector basis, the largest contributor to relative performance during the quarter came from security selection in industrials. Security selection in healthcare, technology, and consumer staples also worked well in the period. Conversely, security selection in communication services detracted the most from relative performance during the quarter. The overweight in technology and security selection in materials also detracted in the period.

LARGEST INDIVIDUAL CONTRIBUTORS – 1Q25

Siemens (SIE.GR) is a global leader in electrical engineering. The company focuses on industry (automation, software and drives), healthcare, and infrastructure (transport, building technologies, power distribution). Shares moved higher in the quarter as reported earnings exceeded expectations. Siemens continues to trade at a discount to the market and a significant discount to competitors due to its complexity and conglomerate discount.

(continued)

As of 3/31/25, net of fee composite and Russell 3000 Value performance for 1-, 5-, and 10-year periods: 7.77%, 23.28%, 10.86% and 6.66%, 16.13%, 8.63%, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees; the composite includes all Value Opportunities discretionary accounts. Additional disclosures provided in Endnotes.

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Philip Morris (PM) is one of the world's largest tobacco companies and owns the international rights to the world's most popular cigarette brand, Marlboro. It has a presence in 180 countries worldwide with leading market share in most of its markets. The company's shares moved higher on strong organic net sales and volume gains. We like the diversifying benefits the company provides to the portfolio, in addition to its attractive yield.

Babcock International (BAB.LN) is a UK government outsourcer with ~60% of revenue from Ministry of Defense (MoD) contracts. The company's stock outperformed on prospects of increased defense spending in Europe as leaders grew increasingly concerned about a pullback by the US. The company increased guidance, and current earnings estimates are now in line with our normal estimates, making it increasingly clear that its turnaround is behind the company.

LARGEST INDIVIDUAL DETRACTORS – 1Q25

Workday (WDAY) is a leader in cloud application software for back-office business functions including human capital management, financials management, and ERP (enterprise resource planning). The company's stock price was negatively impacted by a reduction in 2025 revenue guidance. Management noted the pressure on current year sales is macro-related. We believe Workday has a formidable competitive advantage that trades at an attractive valuation for a company with premier franchise potential.

Olin Corp. (OLN) is one of the largest producers of chlor alkali chemicals and chlorine derivatives. The stock price fell during the quarter after posting weak earnings results due to low operating rates, weak commodity prices, and continued destocking in the Winchester business. Chlorine derivative and caustic soda prices should increase over time as the North American chlor alkali industry faces a tightening 5+ year supply/demand outlook. As the swing producer in North America, Olin should capture more than its share of the industry's volume improvement off the trough. Olin's balance sheet is strong, and capital allocation has been shareholder friendly. The company continues to provide diversification benefits to our existing commodity exposure.

Ecovyst (ECVT) is a U.S. based catalyst producer that generates two thirds of sales from the ecoservices segment while one third of sales comes from catalyst technologies. Ecovyst reported an OK quarter, with strength in regeneration services offsetting timing related weakness in hydrocracking catalysts. FY 2025 EBITDA is expected to be ~$248m at the midpoint (4% growth y-o-y), below 2025 consensus estimates of $260m and our estimate of normal earnings. ECVT has pruned its once sprawling portfolio and has used proceeds to pay down debt and issue special dividends. ECVT's two remaining businesses, catalysts and ecoservices, grow organically ~MSD and earn sustainable, mid-30s EBITDA margins.

The specific investments shown are for informational purposes only and represent the top contributors and detractors for the relevant performance time period. The selection criteria used to determine the top contributors and detractors remains the same across performance measurement periods; additional disclosures provided in Endnotes. **Past performance is no guarantee of future results.**

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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 Value Opportunities 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).

Specific securities identified are the three largest contributors (or detractors) to the portfolio's performance, relative to the index, for the relevant performance time period. Other securities may have been the best and worst performers on an absolute basis. The selection criteria used to determine the top contributors and detractors remains the same across performance measurement periods. There is no assurance that the securities discussed will remain in the portfolio or that securities sold have not been repurchased. The securities discussed do not represent the entire portfolio, may only represent a small portion of the portfolio and should not assume the securities discussed were or will be profitable or that recommendations made in the future will be profitable or will equal the performance of the securities discussed. H&W's opinions regarding these securities are subject to change at any time, for any reason, without notice. Certain client portfolio(s) may or may not hold the securities discussed due to each account's guideline restrictions and other relevant considerations.

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 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 Russell 3000® Index tracks the performance of the 3,000 largest U.S.-traded stocks. The Russell 3000® Value Index includes stocks from the Russell 3000® Index with lower price-to-book ratios and lower expected growth rates. The Russell 3000® Growth Index includes companies that display signs of above average growth. The index is used to provide a gauge of the performance of growth stocks in the U.S. 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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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. Investment risk disclosures for the firm's strategies are described in Part 2A of Form ADV of H&W.

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.

The Magnificent Seven represents Meta, Alphabet, Tesla, Nvidia, Apple, Amazon, and Microsoft.

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 March 31, 2025. 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.**