

International Value 2017 Commentary



December 31, 2017

MARKET COMMENTARY

In US dollar terms, the Russell Developed ex-US Index returned +25.9% in 2017. In local currency terms, the index returned about 10 percentage points less because the US dollar weakened by about 10% relative to a basket of other major currencies. Equities were driven by strong corporate earnings, an improving economic environment, and accommodative central banks. Following the rally, the overall market's valuation appears above normal but not wildly so, considering continued low interest rates and the healthy outlook for earnings growth.

We are optimistic as we look forward to 2018 and beyond. The portfolio trades at a large valuation discount to the market. We have been able to identify interesting valuation opportunities on a selective basis, particularly in insurance, banks, and communications equipment—the portfolio's largest industry exposures. Further, the businesses in our portfolio are expected to continue to grow their value per-share. We believe that we own businesses with good balance sheets, led by strong managers that are well-positioned in their end-markets. While some of our companies may be contending with temporary difficulties—the reason they are undervalued—we have identified the paths to improved profitability and we are confident that we have the time to get there.

The portfolio trades at 8.5x normal earnings and 1.2x book value, a notable discount to the Russell Developed ex-US Index at 15.1x and 1.7x, respectively. We continue to believe that markets can be driven by fads and temperament in the short run but fundamentals and valuation prevail in the long run. Accordingly, we commit to maintaining our unwavering dedication to the principals of long-term, fundamental value investing.

ATTRIBUTION: 2017

The Hotchkis & Wiley International Value portfolio (gross and net of management fees) underperformed the Russell Developed ex-US Index in 2017. The portfolio's value approach detracted from performance as growth stocks outperformed value stocks across the globe. Stock selection in consumer staples, materials, and financials detracted from performance in the year. Currency was a modest headwind as the underweight to the Yen hurt relative performance—the Yen appreciated relative to other major currencies. The overweight allocation to technology and industrials helped relative performance, along with positive stock selection in telecom, energy, and consumer discretionary. The largest individual detractors to relative performance were ARRIS International, Ophir Energy, Barclays, Enstar Group, and Danieli; the largest contributors were WorleyParsons, WestJet Airlines, CNH Industrial, Bouygues, and Nippon Electric Glass.

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 intraday trades, cash flows, corporate actions, accrued/miscellaneous income, and trade price and closing price difference of any given security. Portfolio attribution is based on a representative International 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. Equity performance attribution is an analysis of the portfolio's return relative to a selected benchmark, is calculated using daily holding information and does not reflect management fees and other transaction costs and expenses. Specific securities identified are the largest contributors (or detractors) to the portfolio's performance relative to the Russell Developed ex-US Index. Other securities may have been the best and worst performers on an absolute basis. 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. Quarterly characteristics and portfolio holdings are

available at www.hwcm.com, located on the strategy's Characteristics 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, please contact H&W at hotchkisandwiley@hwcm.com. Portfolio information is subject to the firm's portfolio holdings disclosure policy.

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