

Mid Cap Value Outlook

On our February 15th webinar, Stan Majcher discussed current mid cap opportunities and how rising interest rates could impact equity valuations. The following recap highlights his views.



Stan Majcher, CFA
Portfolio Manager

Top Takeaways

- Slower growing sectors such as consumer staples, REITs¹ and utilities reached excessive valuations in 2016, becoming riskier investments in our opinion.
- Approximately 30% of the Russell Midcap Value Index is composed of consumer staples, REITs and utilities, and traded at an average of 25x earnings.
- We focus on out of favor areas, such as financials and energy, while avoiding expensive areas of the market.
- In the first half of 2016, banks underperformed as investors believed rates would remain low; in the second half, financials rebounded as interest rates rose, increasing net interest margins and boosting profitability.
- We believe financials remain attractive as profitability should increase in a higher rate environment.
- With wide valuation spreads in energy, we believe there is ample opportunity to uncover attractive businesses with solid balance sheets and undervalued assets.
- The portfolio's current weight in energy is 19.7%; in 2014 it was roughly half that.
- We believe increased opportunities exist due to passive investors' indifference to equity valuations, which increases price inefficiencies.
- The portfolio holds approximately 60 stocks with solid balance sheets that we believe are attractively valued.
- We believe the portfolio offers unlocked value, as it currently trades at approximately 7-8x normalized earnings compared to 18x for the Russell Midcap Index.

Portfolio/index weights and earnings estimates as of 12/31/16.

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Hotchkis & Wiley Webinar Highlights



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¹ REITs stand for Real Estate Investment Trusts.

The Russell Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book value ratios and lower forecasted growth values. The Russell Midcap Index, an unmanaged index, measures the performance of the 800 smallest companies in the Russell 1000 Index. The indexes do not reflect the payment of transaction costs, fees and expenses associated with an investment in the Fund. It is not possible to invest directly in an index. The Fund's returns may not correlate with the returns of their benchmark index.

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