

Q4 2024 - International Small Cap Value Quarterly Update

Portfolio Manager Jason Doctor provides an update on the fourth quarter for our International Small Cap Value strategy.

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My name is Jason Doctor. I'm one of the portfolio managers on our International Small Cap product, here to talk a little bit about our performance during the fourth quarter of 2024. The fourth quarter of 2024 was generally a difficult time for the indexes, as share performance in Europe was quite weak across pretty much all of the eurozone, especially Northern Europe. That was really driven by concerns around the continued economic and political stability in those countries, both the issues surrounding the automotive industry as well as some real issues surrounding political stability in Germany and France.

If you look at the product itself, we did outperform the indexes, and I think the contributors to the portfolio are a great example of the idiosyncratic bets that we're able to take. The three best performers were THK, a Japanese industrial company, where we benefited from some changes to corporate governance and improved capital returns. We also benefited from Ferrexpo, which is really a little bit of a bet on the Ukrainian conflict, and as people got excited about the potential for some kind of end to the war there, the shares performed really, really well. And finally, we benefited from offers being made for both Anima, an Italian asset manager, as well as Direct Line, a UK auto insurer, which really just shows how cheap these cash flows are in these businesses that their peers and competitors are looking at today as a time to try to buy them at the current prices.

If you look at where the portfolio underperformed during the quarter, I think one of the best examples of that would be our two agricultural exposures, Elders and Origin Enterprises. Here you have a combination of bad weather in the northern hemisphere impacting Origin, but both businesses are still continuing to deal with the impacts of a pretty fierce inventory cycle around COVID, as well as a decline in farmer profitability.

When we think about the portfolio going forward, we're really excited about it. International Small Cap for us at Pzena is a really interesting place. It lends itself well to our process—it's a place without a lot of sell-side coverage, so it really is a place where we can create a lot of idiosyncratic alpha in the product. Additionally, if you just take a bigger picture and say what has been hot in the markets over the last several years, it's really US large cap. And here we are talking about non-US small cap, so it's a pretty good contrarian place to be right now. When we look at the portfolio and we look at our investable universe, we see it as being materially cheaper than pretty much any other product that we have at the firm.

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