

Q4 2024 - Mid Cap Value Quarterly Update

Portfolio Manager Ben Silver provides an update on the fourth quarter for our Mid Cap Value strategy.

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Hello again, my name is Ben Silver, and I'm here to, over the next few minutes, take you through the fourth quarter of the Mid Cap strategy. Uh, when you look at, uh, mid cap stocks overall, they were essentially flat for the quarter, uh, underperforming large cap, uh, which—the large cap stocks are really being driven by a few mega-cap growth names. In the quarter, value did underperform, uh, growth, probably on concerns about tariffs and inflation, and we underperformed the, uh, Russell Midcap Value Index, which generally tends to happen in a growth- and momentum-centric market.

Uh, in terms of, uh, sectors, the largest contributing sectors were consumer discretionary and financials, and, uh, the largest detracting sectors were in the, uh, healthcare and basic materials space. The largest detractor in the quarter was, uh, window and door manufacturer, uh, Jeld-Wen, which, uh, declined significantly when they reported a large miss due to weak end markets in the US, uh, and in Europe, as well as the loss of a large customer to a non-domestic manufacturer. Uh, this is quite unusual—it's not easy to transport windows, and historically, this is generally reversed, uh, after some period of time. In addition, later in the quarter, uh, they were forced to sell the Towanda facility at a fairly low price. Uh, while we are unhappy, uh, with the price, it does bring to an end the, uh, legal saga that has been an overhang on this stock. Uh, the company has plans to reduce the number of, uh, uh, manufacturing sites and to take out approximately a hundred million dollars of costs in 2025.

Uh, also detracting was, uh, Dow Chemical, also due to weak end markets. Forty percent of what Dow produces goes into the construction markets, uh, which have been very weak, and, uh, China continues to add capacity, uh, which has—has hurt pricing. I would also say, uh, tariffs have not helped, uh, with sentiment of the stock. Uh, the company is in the process of selling some of their infrastructure assets, uh, which, uh, should—should shore up the balance sheet, and is conducting a strategic review of their polyurethane assets in Europe, uh, due to the—what they think is, uh, permanent, uh, weaker end demand, uh, in the continent. Also detracting was Olin, another basic material stock. Although in some of their end markets there's been some, uh, stability, uh, the stock declined on the announcement of added, uh, capacity by one of their competitors.

In terms of contributors, one of our more recent additions, Delta Airlines, was the largest contributor, uh, in the quarter, as although the, uh, earnings in the quarter were as expected, uh, the thesis is starting to play out as competitors are reducing capacity, and one competitor, Spirit Airlines, uh, went bankrupt. Uh, so this really helped in terms of, uh, reducing capacity, uh, in the market. Um, another contributor was Advance Auto Parts. Uh, they—they announced the sale of their Worldpac division for about a billion and a half dollars, and, uh, at their—uh, their Capital Markets Day and Investor Day, they talked about, uh, reducing their distribution centers from thirty-eight down to thirteen while increasing their, um, product hubs up to sixty, because it

really gets product closer to the customer, as they've had problems with fulfillment, uh, in their, uh, in their inventory. Uh, when you think about it, the business really does have a few tailwinds to it in terms of the aging car fleet, as well as the expense of, uh, repairs going on, so we—there's some nice tailwinds in the business that should really benefit them going forward as well.

Uh, and then, uh, lastly, uh, financials were actually quite strong in the quarter, and Capital One was particularly strong. The recent election sweep by the GOP, um, in terms of reducing regulation, should help—that's—that's talking broadly in financials—and with regards to Capital One, the likelihood of the CFPB, uh, enacting some of their more, uh, recent, uh, regulations is probably lower, and the likelihood of them approving or the government approving their merger with Discover is likely higher. So they were a particular possible beneficiary of the most recent election.

We increased our—some of our position sizes. Uh, one of the biggest increases was in Humana, making it one of the largest, or if not the largest, position in the portfolio. Uh, “U-A” has been suffering from some really, uh, some negative sentiment. There were some recent articles about how they were maybe double-dipping by, um, having a larger amount of veterans in their plans that were also covered by various other healthcare plans. And as you'd imagine, uh, these—these articles tend to be somewhat biased—they don't give you the other side of the story, uh, which is that this is a competitive industry with already significant oversight by, uh, CMS. Uh, we do think that the Medicare Advantage program is—makes sense. There's a lot of value-add in terms of what the country gets from having this, uh, program, in terms of, uh, better care at a, uh, at a lower cost. And we think that Humana, uh, will have the tools to, um, uh, restrict some of the, uh, access and, uh, restore their margins in line with history.

Uh, other additions in the quarter were, uh, Huntsman, um, and that's filling out the position that we started last quarter, as well as Global Payments, which we added to on, uh, on weakness. Um, we trimmed another pos—some other positions and sold, uh, we sold, um, Fidelity National, as well as Gap, and then, uh, uh, trimmed, uh, Edison, CNO, and Equitable, uh, all on, uh, strength. Market reactions in the short term have been quite severe, uh, creating large dispersions. Um, we believe that the portfolio remains well-positioned in terms of, uh, uh, business outcomes as well as our path to normalization for these companies.

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