

## Mid Cap Value – 1Q2025

Hello, I'm John Flynn, a portfolio manager here at Pzena Investment Management, uh, here to give you an update on the first quarter mid cap strategies. As everyone knows, there was a lot of noise in the market during the quarter, as there was speculation around what tariffs would look like, and while we didn't get the final resolution—or we're yet to really get a final resolution there until after the quarter end—it certainly weighed on markets.

So what we saw in the portfolio is that kind of our more immune-from-tariff names in the consumer staples and healthcare space did well, whereas the more economically sensitive consumer discretionary and cyclical names kind of weighed on performance in the quarter. The net of it was that the portfolio ended up a bit behind the index, but we continue to feel good about the positioning.

When you look at specific names and what worked and what didn't—on the negative side, again with these sort of more cyclical names, we had Delta Airlines, where the demand outlook for travel weakened and the stock reacted accordingly. Newell Brands, where actually we've talked about this name in the past—operationally, things are in pretty good shape, and they think they're coming to a bottom in terms of the sales declines—but again, sort of, I would say, slightly misunderstood tariff fears around Newell and their manufacturing base, and kind of just the general consumer economic outlook, weighed on the name in the quarter. And then also PVH was one of the detractors in the quarter—this is the Tommy Hilfiger and Calvin Klein brands. And this also related to tariffs, but they also got placed on the Unreliable Entities list in China. They're yet to understand what that really means in terms of what the government's looking for for remediation, and to date, it hasn't really impacted their sales, but obviously there's concern that there could be some business disruption there. I would note there that China's 6% of sales, 16% of operating profit—the share price reaction has been outsized relative to that exposure, but definitely something we're monitoring and keeping on top of.

On the flip side of the ledger, looking at the contributors in the quarter, the top contributor was Dollar General. This is the low-cost retailer, where, you know, there was some concern in the second half of last year around same-store sales and growth. That started to improve; you started to see customers trade down into the store, so their outlook for the full year was positively received. Concentrix was another top contributor—Concentrix is an outsourced call center company. There's been fears that AI has been adversely impacting their business. They came out with some good earnings that beat expectations and commented that they've got 50% of their customers already using AI tools, and that was positively received. And then finally Baxter—this is a medical device company, another top contributor—really a case where earnings were better than feared. They had had some disruptions in the second half of last year from hurricanes impacting their IV bag facility, and those impacts are now behind the company and not weighing on earnings anymore.

When it comes to additions in the portfolio during the quarter, we added to Advance Auto Parts on some weakness, also added to Skyworks—which is a chip company that goes into iPhones. We had added to Dollar General earlier in the quarter and also added to PVH on the weakness. This was funded, for the most part, by trimming our position in SS&C—this is a financial services company—where there's been decent strength, and taking advantage of that strength to fund some of these new buys. During the quarter, we did add one new name to the portfolio, that's LKQ. This is an auto parts distributor, both in the U.S. and Europe, and really when you look at what's happened to their business, they had a very big surge post-COVID, where both revenue and margins went up. We've now seen kind of a normalization of the business, and then some top-line weakness and margins coming back in. There have also been some headwinds from the number of collisions and vehicles deemed totaled by insurance companies, and we think those are manageable and that things should stabilize. But that pullback from the COVID highs has given us an opportunity to buy the stock in the portfolio.

So that's the first quarter. Obviously, post the end of the quarter, there've been some pretty big moves in the market related to tariffs, and we continue to evaluate and assess how that impacts the portfolio. We look forward to updating you in a quarter when we have some more, hopefully some more visibility around what things look like and where things are headed.

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