Original Live Stream: July 10th, 2025 7PM ET
Moderator: Paul Whymper-Williams, Director of Business Development & Client Services
Speakers: John Goetz, Co-CIO; Evan Fox, CFA, Portfolio Manager

Paul Whymper-Williams: [Music] Okay. Well, I think we uh I think we we will get things started. Uh welcome everyone and uh and thank you for for joining us for Pzena's 2025 midyear webinar where we're we're diving into one of the most pressing concerns for investors today—
that being market volatility—and and and we'll be exploring what does history tell us about these turbulent times and more importantly how should long-term investors respond.

Uh my name is Paul Whymper-Williams and I'm based in Sydney and look after a number of our Australian and New Zealand clients, and I'm delighted to be joined by two of my colleagues, John Goetz and Evan Fox.

John is co-founder, co-CIO and uh co-portfolio manager on our Global, International, European, and Japan strategies. Welcome John.

John Goetz: Thank you. Thank you, Paul.

Paul Whymper-Williams: And Evan joined us in 2007 and uh is co-portfolio manager on our US small and mid-cap strategies along with Global small cap. Welcome Evan.

Evan Fox: Hey, thanks Paul.

Paul Whymper-Williams: So before we kick off, uh I'd like to start with some housekeeping. Uh we have some prepared comments to start with, uh but we'll be opening up for questions at the end. But please go ahead and submit questions throughout the webinar by clicking on the button at the uh the bottom of the screen and we'll aim to to answer as many of these as we can. And for those we don't have time to, we'll follow up with you post-event.

Also feel free to pass on uh your comments or thoughts to your Pzena representative or send them through to info@pzena.com.

So to provide uh just a little bit of background to those of you who are less familiar with Pzena, we're in our 30th year of business applying our classic value philosophy whereby we use a fundamental bottom-up approach and process to to unearth deeply undervalued businesses. And we've consistently applied our classic value approach with with no style drift since the inception of our firm.

And as of the end of June, uh we're managing uh 76 billion US dollars on behalf of clients around the world. Uh we're headquartered in New York where approximately 140 of our colleagues including our 30-person research team is located. Uh and that's out of uh 165 people across the firm. We all also have teams in Australia, the UK, and Europe.

Okay. Um so let—that's the introductions out of the way—let's let's get into it. Uh let let's start with with the obvious. Um the second quarter, in fact much of this year, felt like a roller coaster. Um we had fears over trade wars, then a rally, and then more turmoil driven by uh by es—by the escalating conflict in in in the Middle East.

John, I'm going to start with you. Um, how do you, as the great English poet Rudyard Kipling put it, keep your head when all about you are losing theirs?

John Goetz: Yeah. Well, let me just start by saying there's a lot going on and it's not easy to keep your head because I think we're all humans. But—but I'll say how we as a research outfit uh keep our heads.

First of all, let me acknowledge that there are so many vectors of uncertainty right now. Uh it's—it's really a cocktail of—of things. Obviously, the tariff uh announcements that come like every three days uh during the entire quarter uh were one source of tremendous even day-to-day volatility uh in the world and uncertainty because we—we don't really know where the tariffs are going to end up yet. You saw what just happened with Brazil. I'm not sure Donald Trump knows where the—the tariffs will end up. Uh so—so that's going to remain a big uncertainty.

But obviously as you mentioned, we have Middle East conflict, we still have the Ukraine uh war effects, especially in Europe. Uh but there's a lot of other idiosyncratic uh fears out there which we see at the industry and company level. Uh so there's a lot going on.

Now the way we deal with this is to uh use the volatility and the uncertainty in the market to to find the best investments. So I—I sometimes—I—I hesitate to say it, but there's—there's like an element of challenge and—and—and almost uh joy if I can put it that way to you in terms of sorting out uh these challenges that are that are in front of us. Uh and obviously tariffs is a big one.

So we're—we're going to face these challenges the way we've always faced it. You already alluded to it. We have a very disciplined process—both a screening tool but then very uh detailed company-specific um, you know, opportunity uh analysis.

Uh now what—what I wanted to say right at the outset is—it isn't as if we end up with a crystal ball where we know what the outcome of tariffs are or the outcome of Middle East conflict or all these other uh scary things that are happening. What we can do is company-level research and understand the impacts of these various—various uncertainties and, as I like to say, uh get through to the other side by—by underpaying where the uncertainty is exaggerated uh in—in—in the valuation.

So—so that's our job, you know, as—as—as value investors. Uh but this—this is a crazy period.

Uh so I actually want to turn it back to Evan because we've had a lot of crazy periods at Pzena. Now you mentioned our 30 years uh Paul and as you know we'll all be celebrating our 30-year anniversary later this year together. Uh and—and during that 30 years obviously we had the Asia crisis, dot-com, uh the—the GFC financial crisis as well as co—all monsters. This is another thing that's—you know—winding up to be an incredible un—uncertain period.

Uh, but I want to turn it over to Evan here because actually Evan joined us just before uh the GFC and I—I—I think he should share his perspective on—on how that uncertainty looked going in versus how he looks at it now uh with his veteran uh experience.

Evan Fox: It's great to talk about because I actually look back at how I started in 2007 and was covering life insurance companies globally. So financials, right as we were going into the financial crisis. And I always look back at those years cutting my teeth and saying I'm so glad that I experienced that for the whole rest of my career to have had that perspective—because it really was an extreme environment. And I learned a lot in terms of stocks, in terms of our process, and just seeing how our whole team dealt with it.

Because it was really this period where there was so much uncertainty across what was going to happen with recessionary losses, with real estate, with liquidity—a whole range of things. And I do think what I was really learning was, one, how much we were focusing on the long term—because our focus on everything is having that 3 to 5 year holding period. What is the long-term valuation of these companies? But also thinking about what is the risk of permanent impairment? What could what could go wrong? And I think what was especially interesting in that period that helped during COVID and through tariffs now is just understanding what risks aren't fully analyzable. Right? I think we did see back in 2008 2009 time frame when the government did side decide that Lehman could fail but other banks couldn't. Right? There's you can say was there a real easy way of understanding what the run on the bank would be? What would be the line the government would draw? unclear. I think with COVID there are a whole range of risks that were unanalyzable of where we were going to go, but we could really look at companies and say how much liquidity do they have? How long could they handle having zero sales if nobody does whatever they're doing? And even as we come into tariffs, as much as you'd like to think that all tariffs are fully rational and are based on what the best econom economic outcomes are, I think any of us without getting into the politics can agree that there's a certain amount of uncertainty there. And so we can really fixate on not what the exact outcomes are going to be, but how our companies can be positioned in that wider range of outcomes.

Paul Whymper-Williams: Okay. So, so that that set the scene, but but John, what about uh how this period has stacked up uh or differed versus past periods of of volatility?

John Goetz: Yeah, let's just say that you know the volatility is based upon you know uncertainty which is itself a form of fear that the future isn't going to look like the past otherwise it would be knowable and so every one of these is different. What we've done is if you go to the data side of this of understanding you know how it's worked out in the past even though these fears are all different uh we've studied 17 periods where we would say there's extreme volatility going back you know 50 plus years and and and those events are always different. Let me just let me just say that right right off the bat. And this is a as I said I think this is a cocktail you know of of of issues uh that we're facing today. But when you look at these these 17 periods that are top desile uh volatility periods, they start to rhyme. So So I think that's one of the things that's that's important, you know, whether it's geopolitical uh or economic recession or or or regulatory change, whatever the heck it is, that behavior uh does begin to rhyme. It's the run out of the stocks that rhymes, right? the panic, the fly flying to safety that that is in common um you know for to these 17 periods.

Paul Whymper-Williams: Yeah. Okay. Um and you know picking up on that um fear dominates in the short term but it it would be interesting to to uh hear here hear you expand on on what happens afterwards. I mean Evan perhaps this one for you.

Evan Fox: Sure. Yeah. Yeah, I mean I think what's interesting as John said, we had 17 times uh going back over the last 50 years when we had these high volatility periods and markets were down in 15 of them. Not particularly surprising and in 12 of them value underperformed. So this is really that investors were fleeing to safety. They were nervous about value stocks. The really important and interesting part of it as we look at it is we look at the five-year forward performance from when that volatility crossed that threshold of being in the top decile and value stocks basically had double the performance of the broader market even including that down cycle along the way. And so what you really see is that markets overreact in the moment but those who really keep to their value discipline are rewarded over a longer period of time.

Paul Whymper-Williams: Okay. So, so, so let's let's turn our our our attention to timing, which is something I've struggled with from my uh my personal investing experience.

John Goetz: Yeah.

Paul Whymper-Williams: Um can or should investors wait for the the dust to settle before jumping back in?

John Goetz: Yeah. uh you know that that marks obviously the the opportunity uh the mark of it is when that volatility peaks and Paul I know you know the answer uh to your own question there but but for the audience you know the reality is it goes way back to actually the founding of Vanguard if you remember uh one of the things that that that the founder of Vanguard actually pointed out in some of his early research was that time weighted returns which is how we report our performance as professional investors actually exceed asset weighted returns of individuals maybe even whole funds and the reason for that is doing I call it doing it backwards right in fear waiting for dust to settle that that's one metaphor wait for the dust to settle and then come back in but what you did by waiting for the dust to settle is you waited for volatility and fear to disappear And it's the disappearance of the fear that then drives the recoveries that everyone was talking about in the value stocks. So, so basically you can't wait to feel comfortable to make investments. And that's one of our disciplines. Even internally, if you asked each of us individually on our 30 person research team, you would find that all of us are somewhat nervous and need the process to to drive us to do it in a disciplined way, right? I'm sure when Evan when you were first doing those insurance stocks and we went into the GFC, I mean, you had to be afraid. I don't know what you told Mindy when you went home at night, but you know, the reality is I I suspect there's a lot of fear in that. You don't need to answer that because I know the answer. But I just want to say to everyone that humanness is what we overcome with this discipline. Both what do we look at? You know, where what are the most undervalued companies no matter where they are in the world, but then what are the the fear vectors that are driving the valuation and can we bring some analysis to to bear on that?

Evan Fox:

And I think the one thing I'll add on that is it's not so different from one of the questions we get on individual stocks of what is the catalyst, right? And so often when we look at companies, we don't know what the catalyst is going to be because by the time you see the catalyst, you've already missed on a lot of the performance. And I think it's the same thing here when you're in these periods of peak volatility and fear. If you really wait for them to abate, you're going to miss out on those early returns that tend to be some of the biggest returns.

Paul Whymper-Williams: Yeah, it always amazes me just how quickly uh sentiment can shift. Um, John, what what's the Pzena research playbook when markets start going crazy like this?

John Goetz: Yeah, and it's always been the same and as Evans said, it took him a while to adjust to it, but now he he's got it. And that is that our playbook is to use the discipline both for our current portfolio, but also for the new opportunities that hit our screens, right? Because it's the fear. I like to say we're looking at the newly collapsed stock prices, right, every day in our screen. And our job then is to go into that I'll call it rich universe of of opportunity and say hey what are the best riskreward trade-offs with the least risk of impairment. You know Evan Evan mentioned that by permanent impairment we mean an actually uh permanent structure change an issuance of equity obviously a bankruptcy at at at getting wiped out completely as zero. doesn't happen uh very frequently in public heavy markets, but but we we really want to do the the analysis.

So, so what's—what's the playbook there? It's not to say we're going to outpredict Trump's tariffs and state. It's actually looking at individual companies and asking ourselves the question: What does it look like if the tariffs are this bad? And what does it look like if the tariffs, you know, mean-revert in some way to something more sensible?

But usually what you find in these companies—in the first quintile—is it isn't even just one problem. It's more than one issue. Um, so, so I think the key is we have to look at this on a company-by-company basis and, as I like to call it, do the math.

Paul Whymper-Williams: Okay, thank you. Um, changing gears and turning to how this has manifested itself at a holdings level—could you, John, provide an example of a stock in the portfolio and how that's being impacted by tariffs?

John Goetz: Yeah. So, so tariffs is one of the, you know, uncertainties. And I'm—I'm going to use, uh, a company—an example of a company much maligned even before the tariffs, for a bunch of reasons. So, I'm going to talk a little bit about Michelin, the tire company based in France.

Uh, so before tariffs ever hit, we had this myriad of issues—economic issues in, in, in Europe; labor issues in Europe—you know, can you fire people, unions, you know, all these—I'll call it dark clouds. And we're coming out of COVID, which was a very dark cloud, which is, well, we don't need to drive our cars because we're not leaving our homes.

Uh, you know, so there is a lot of fear. And then the automotive sector has all these controversies. So what we find is that a company like that comes into an incremental fear—like tariffs—and people are like, "Oh, that's it. I've kind of had it." And people run from this.

What we have to do is say, "Okay, let's analyze Michelin. What do we expect the tariff outcomes to be?" And—once in a while—I make this a short story because I always make the stories too long, Paul. Uh, you know, the reality for Michelin after we did the research is: actually, the tariff imposition, relative to competition, might actually enhance their position a little bit.

So that really helps you a lot, because then when you do a negative case, you're like, "Wow, they're a little better positioned than competitors." So as we are forced to raise the price on goods, you know, in response to tariffs—it's like a tax—actually, it might help them.

So the clear case here is that one of the difficult actors in the tire industry globally comes from South Korea and China. So if you think of them—the Chinese and the Koreans—as overweighting their production and exporting a lot, and Michelin is more located, you know, throughout the world—that includes operations in China, Europe, United States—and sells more where they produce, relative to the average of the tire industry.

You could say, "Wow, maybe the downside—even though we might go into a recession, and there's some price elasticity in tires—that tariff downside isn't much different. Maybe even better than a recession downside without tariffs."

So, so I think that that's what we have to do at the company level—is look at that case, do the case knowing we don't know the long-term outcome for tariffs, but understand what the, uh, bad case looks like. Obviously, I'm excited about Michelin because it's one of those companies you can buy without certainly knowing, you know, the end-end state of tariffs.

Paul Whymper-Williams: Yeah. Thank you. And Evan, what about small-cap stocks? Have they—have they too been impacted by all this tariff talk and changes?

Evan Fox: Oh, for sure. There's been so many that have been impacted in different ways. Maybe—one of the examples I'll give is a company, HD Furniture. Uh, this is a residential furniture store chain that's based in the southeastern United States, and we actually added this position late last year. And really the thesis was more that, as you can imagine, when housing turnover in the U.S. hit a 30-year low last year—fewer people are moving, interest rates are higher, turnover has gone down quite a bit—so people are buying less furniture. Right?

When do you buy furniture? When you move or when you decide that something looks ugly and you want to change out the style. And the moving is the bigger chunk of it. So the fact that turnover is low leads to lower volumes.

Well, then you tie that into tariffs—where this is a company that's over 100 years old. They're not actually making any of the furniture—they're sourcing it. And rewind 25–30 years, most furniture was made in the United States for the U.S. market. Over that period, we've actually had net deflation, where pricing has come down because most production was moved to China. Then, during Trump's first administration, when tariffs were added, a lot of it was moved to Vietnam.

So, so what's—what's the—what's the playbook there? It's not to say we're going to outpredict Trump's tariffs and state. It's actually looking at individual companies and asking ourselves the question: what does it look like if the tariffs are this bad? And what does it look like if the tariffs, you know, mean-revert in some way to something more sensible?

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And now there's discussions as to what the tariffs are going to be from Vietnam. Originally, it was announced in the high 40s. Now we're at 20%. And so there's this broader question of: Will people be able to afford furniture, and is that going to cut into the demand that we're seeing?

I think in reality what we'd actually find is that:

One, the bigger factor is how much are people moving.

And two, that because these are products you're buying every 10 years, most people don't even know exactly how much a couch cost 10 years ago and what it should cost today.

So if you raise the price five or 10 percent and a couch is $3,000, that may or may not sound like a lot of money. But the fact that it was $2,800 last year versus $3,000 — this isn't eggs that you're buying every day.

What I'll also say is they skew to upper-middle market to higher market. And so what we see is: at the low end, when people are used to the $999 living room set with loveseat, couch, end tables, everything else — and that goes up to $1,100 — maybe people will feel it more. At that higher price point, it's less of an issue.

The other point I'll really mention is that, you know, we've talked a couple times about downside protection. This is a company with no debt, with a ton of cash. And if you look — go back a couple months ago when we were adding to the position — just the value of the cash on their balance sheet plus their real estate was about two-thirds of the market cap.

So you're barely paying anything at all for the business. Now we're able to get the business at a huge discount. We know what the pressures are. We understand the headlines around tariffs — that's probably not even the number one issue. And it's a pretty attractive opportunity that really goes right into those fears where people don't quite understand everything that's going on.

Paul Whymper-Williams:

Yeah, sure. Thank you. Let's transition now to where we're finding value today. John, let's start with you on that one, please.

John Goetz: Yeah. Yeah. Um... I mentioned a myriad of pain points. Some of this is a little bit counterintuitive — even to me — until we did the research. So it might be a little bit counterintuitive to the audience.

The reality is: tariffs — when you think about tariffs, you think about physical goods, and therefore you think of tariffs and recessions as being similarly related to physical goods. The reality is — and go back to the prior crisis: we had the GFC, then we had COVID — and both of those were horrible for what I'll call interest rate-sensitive industries.

By that, I mean the financials and... I still remember like yesterday that April oil price future that was negative — negative price for oil in the futures market. Dark moment for oil. Obviously, no pun intended.

But you know, the reality of that is we ended up with a bunch of oil in our portfolio — oil-related industries — and a bunch of financials. The oil is mostly gone in our global portfolios. The financials have also been de-weighted because they've been working.

So what's interesting, coming into this downturn — or world economic whatever-you-want-to-worry-about — is that we have a mix, or a myriad, of things that have been impacted.

The biggest one I see — in our European portfolio but also in our international/global portfolios — is healthcare. Counterintuitively. I wouldn't expect a deep value firm to say, at this point in the economic cycle, that you'd have a lot of healthcare, because usually healthcare is a little bit loved, relative to our pricing screen.

One example of that — which is a COVID-related event — is Fresenius, which is a German-based blood dialysis company, which we think is well positioned to do well going forward. It's in the portfolio partly because of the legacy of all the pain from the COVID impact on dialysis. So you get these long-running pain-driven opportunities — and that's still in the portfolio.

The portfolio is quite diverse. The other mention I'll make of diversity, besides healthcare, is consumer staples. Normally you wouldn't think of us owning many consumer staples either — but there's lots of fear in different places. We still have a very substantial position in Sainsbury's in the UK.

Normally, grocery — not something you'd expect in a deep value portfolio — but there's this fear, right? There's ramping up competition and pricing in the UK grocery market. And we're all over that.

So I'll just mention those things. I don't want to take the time for everyone to go through all the pieces — we obviously do that with our clients during meetings — but I'm excited because there are two things about the current environment outside the United States.

One, it has none of that overvaluation effect of the market cap indices that are driven by the overvalued companies in the US market. They don't have any of that optimism embedded — and that's what's kind of fun about looking out.

The other thing is geographic. And I can't leave this call without mentioning that at times, different geographies are absolutely hated. And China still falls into that bucket, partly because of tariff fears — that it's going to wreck their economy.

But to Evan's point: now less than 4% of their GDP is even related to US exports. So it's kind of like that already happened in the prior Trump reign. More importantly, the economy has been slow and there's a lot of geopolitical stuff.

And just so you folks know — here in the US — one of the debates on the investment committees I sit on now is, "Well, is China uninvestable?" You know, because of the political stuff. So there's just absolute outflows from Chinese investments — which is increasing the opportunity there.

I'll pause there just to give you geographic flavor, but also the elements of specific industries.

Paul Whymper-Williams: I appreciate it. Thanks, John. Evan, as you talk about where you're finding value, can you address the chart that we're about to put up on the screen?

It's been 20 years since small cap has outperformed large cap for a sustained period. What do you think of the notion that the small cap premium no longer exists?

Evan Fox: Yeah, it's a great question, and one that we look at all the time. Even just today, the cover — top article of the Wall Street Journal — was how Nvidia's market cap hit $4 trillion.

Pretty incredible when you consider that the entire market cap of the Russell 2000 — the 2,000 small cap companies — is $3 trillion. So you have one company that's a third bigger than 2,000 small cap companies.

We're at a point where, if you look historically, the Russell 2000 has been, say, 11–13% of the S&P 500 — and it's less than half of that today.

What this chart shows is the relative valuation of small caps versus large caps. The blue line is the US, where we have data going back to the '60s. The orange is global. And you can see it's very, very similar — we see small caps are at a huge discount versus large caps.

The kind of numbers that we've only seen in the 1970s during the Nifty Fifty or the peak of the dot-com bubble. It's really been something like 14 years of underperformance.

So you ask the question: is there a small cap premium? How do you think about that?

We're at huge small cap discounts — and that's what really creates the opportunity set going forward. We can buy all these companies at big discounts versus any time that we've really seen in the past, and that's something we're excited to take advantage of.

Paul Whymper-Williams: Yeah, thank you. And perhaps an example of a small cap stock that we've been buying? And if you can — AI has come up a couple times during the conversation this morning — is there a stock that leaps out that we've been buying that's AI-related in some way?

Evan Fox: Yeah, it's an interesting question because there's been so much concern about AI disrupting the world. How do we look at that and find opportunities?

One that we actually added is a company called Concentrix. This is a call center operator with operations around the world. So you can be interacting with someone in the United States, the Philippines, Costa Rica, India — wherever they might be.

This is a stock that was destroyed a couple years ago because of the view that, with AI, customer interaction is going to be so much more efficient. No one's going to need to talk to someone anymore. Problems are going to be solved instantaneously.

And so who's going to need to do online chat with a real person, or a call with a real person?

In reality, it's not that simple. Right? If you have a problem and, Paul, you call someone and get a robot, you know what you actually do? You say, "Operator, operator, operator," or you press 0-0-0-0 until you actually get someone.

What we've really seen is that people still want to reach out to humans — but with AI, the humans can be more efficient. Meaning that when they do call, AI is listening at the same time…

Evan Fox: They might even do some accent smoothing, which is pretty incredible that they could do that. But they can also be figuring out what the problems are and then recommend to the person how they should answer those questions. So it's less likely that you'll have to talk to their manager or go to that tier two or tier three support. Now this isn't free. Running AI models actually does cost quite a bit of money. So it is a more expensive proposition.

I think the stocks really traded down to something like five times earnings because people looked at this said it was going away and at the same time there was just a natural slowdown in demand for this because there are cycles, right? Coming out of COVID, people were shopping at home, interactions were going up on phone calls, and then over the last couple years a lot of that reversed a little bit. So the sales turned slightly negative and we looked at this at five times earnings and said, "We don't know 10 years from now, 15 years from now, what's going to happen, but this is incredibly cheap today, and even in the worst case scenario, we should be able to earn our money back over time."

I think what really came to be interesting and why the stock has done well, although it's still cheap, is that they actually came out last quarter and said that more than half their clients are already using AI. And those customers are growing faster than the ones that aren't because what clients are finding is, if you're a retailer or a telecom company or whatever it might be and you see how efficient they could be with AI, you're actually likely to outsource more of your call center to Concentrix or Teleperformance, a company we own in our European portfolio, because it's harder to do this in-house and only about a third or just under a third of the market is actually outsourced.

So, it's one that we really like the idea. It's been a pretty successful investment over the course of this year so far. And it really speaks to how, you know, we can be the idiots in the room that are buying the company that's disrupted by AI and actually have pretty attractive opportunity sets.

John Goetz: Well, that—and just to put a point on that, Paul—you know, AI right now, we have two things. We have all the negatives in the market. We've talked about some of them, but there's a big pause in the market, which is some companies are going to be huge beneficiaries of AI, right? Nvidia is a beneficiary of AI. But the way we run our process, we're never guessing whether Nvidia is going to get to five trillion, right?

To Evan's point earlier, the reality is we are looking at the companies where the market has deemed that AI is a problem. That's what we get to look at. So we're not going to buy all the businesses where AI is a problem because for some of them it's a real problem. But what Evan's saying is we have to find the ones where that problem is a little bit misinterpreted in terms of the impact on the business.

That’s just so typical of things we look at. You know, one of the things that still is in my memory is the fact that we thought electric vehicles would be bad for the tire market. And actually, electric vehicles are great for the tire market, as an example.

So, you know, I think it's interesting—to Evan's point—that you have to do the work to figure out: what is the range of outcomes for an individual business when you have a big disruption? That’s really our job.

Paul Whymper-Williams: Yeah, completely. No, thank you, John. Um, so we're now sort of well over the half hour mark. So let's turn to Q&A.

We've had some questions coming in and actually the first one here is sticking with the AI theme to a certain extent. So I'll direct this one to you, John. The questioner asks: When valuing companies, is history still relevant in the current environment where AI could displace business models overnight? Is investing based on asset value or book value still a viable strategy?

John Goetz: Yeah. Thank you for that, actually. It's one of my big points that I like to make to illuminate what we do.

Clearly, even if you have all the data in the world, the data is historical, right? Factual data is historical. So what the screening tool does for us is it tells us what's the biggest dislocation between the valuation and what history would say about the business, the cash flow, etc.

We don't really use book value. We use a predictive model of the future—profitability, growth, all those things. And what our model is doing is just pointing out, wow, there's a big gap between the valuation and what the model says the future is.

Book value isn't great, because software businesses don't even record the book value. They expense. It's actually true in some of the other businesses that we own today, like pharmaceuticals—they expense a lot of the R&D.

So it isn't really a book value screen. It's a comparison of the stock price to the future. Now, the model isn't clairvoyant. So that's what our job is on our team: to look at the ones where that valuation is more representative of a good deal versus the businesses that are going to zero.

The thing that really jumps out to me—since we own Alibaba today in China—is that physical retail will be way less in the future than it was historically. So it isn't that we went running after physical retail because it screened up in the model. We know the future for that business is much worse than the past. So that's our job—to look out the windscreen and say, even though the model said to look at this, we have to do the work on the range of outcomes with reasonable analysis of what the future actually looks like.

One of the things I tell—Evan knows this—one of the things I tell young people coming into the firm is: every company going to zero is going to come through our screen. So the permanent capital impairment is the work we need to do.

You know, Havity—a furniture supplier that's supplying furniture out of Asia—you could easily say without doing any work, well, that's a zero, right? I mean, it's pretty simple where the fear comes from in a lot of these stocks. We just have to figure out what that actual range of outcomes is likely to be.

Paul Whymper-Williams: Thanks, John. Another question—this one changes direction a bit. This person's interested in your view—and I'll put this to you, Evan—your view on whether the US market has gone through a structural change in the last five years, where price volatility is driven higher by passives and pod shops, and whether that means fair values need to be assessed more often?

Evan Fox: It's an interesting question because we're definitely seeing where passive is driving the market much more. And it does feel, when you have fewer fundamental analysts and companies that are investing and looking at those valuations, that you see bigger swings.

I'll say you especially see that in the small cap market, where there's fewer and fewer even sell-side analysts—I think since MiFID II and some of the other changes have been made. There's so many companies where there's no analysts that are looking at it. It's very few people.

And what we get to do is take advantage of that. The fact that there is noise and volatility doesn't change what the fundamental valuation is at all. If anything, it means that we can take advantage of that. When stocks go down a lot, we can buy more. When they go up, we can trim them.

You know, an anecdote that I just find so interesting in the small cap world is: there was a company that we've owned for a number of years that put out a regulatory filing that their president was leaving—one of these one-sentence ones. So it didn't say they were fired, they were taking another job—it was particularly vague.

And I called the treasurer of the company to ask, "Can I get some more color as to what's going on?" He gave a little bit of color—but pretty vague, as you can imagine in a situation like that.

And I hadn't seen any news about this. I hadn't seen anyone publish on it. I asked the question, "Have you gotten a lot of calls about this?" She said, "Well, my regulars have called." I said, "Oh, how many have you spoken to?" She said, "You were the one who called to ask the question. Nobody else has even bothered to notice it."

And the fact that we're investing in some companies that just aren't being fully understood means that it's just that much more important that we really dig into them, understand them, and take advantage of the price moves that we see.

Paul Whymper Williams: Great. Thank you. Another one—and I mean this either of you can answer this. Somebody said—you have—okay, this is probably John for you, given it's referring to our larger cap global portfolios.

You have 24% exposure to financials in your global portfolio, but no names in the top 10. How are you thinking about the sector?

John Goetz: Yeah. Well, I alluded to it earlier. The valuations globally in financials have fared fairly well…

So, that's been more a source of cash. Uh, so we're shrinking those positions—some of those positions. I mean, the good fortune is, if you have 2% in a position and it goes up by 50%, you now have 3%. You sell it to 2%, but it looks like you have 2%—do you see what I mean?

So, so that's one of the drivers there. But also giving more historical context: we had decided in the financial portfolios globally that some of the idiosyncratic risk of some of the companies meant we wanted that financials portfolio to be a little more diversified, given the magnitude of the opportunity in the first quintile—to be more diversified.

Uh, that's actually, you know, worked out fairly well for us, interestingly. Um, you know, versus, say, taking a very concentrated position in one company and then finding out that the executive just got fired, or, you know, something purely idiosyncratic hits you.

Uh, we were betting that the headwinds that were facing the financial sector—going all the way back to GFC and really accumulating during negative interest rate policy periods, uh, particularly in Europe—that those policies were adding weight, along with Basel III and IV raising the equity requirements. So, spreads going down, equity requirements going up—returns by definition going down fairly significantly.

That was the main—that was an element of the bet. But that's maturing. That's what I'm saying. It's, like, pretty cool. I know 24% doesn't sound like a tiny number, but relative to where the screens got to post-GFC—up to 50, 60% of the first quintile was financials at one point—you know, I would say it's now getting much lighter, and we've been monetizing some of the gains there to put it elsewhere.

That's kind of the fun part about today's more diverse market.

Paul Whymper-Williams: Yeah, thanks, John. And we're—we're getting close to the end of today's session, but perhaps just one more question from the audience. This one again for you, John: How concerning has global equities concentration risk become?

John Goetz: Oh, wow. You—you hit my hot button. Good one to finish on here.

Uh, you know what I like to say—and I see this again—I just, you know, it's all public information in terms of where I help out with asset allocation decisions on investment committees. And, you know, when I sit there on the opposite side listening to the consultants come in and talk about asset classes, the one thing that feels a little bit bad is people say, "Well, we have to allocate to alternatives, because if you look at global ACWI," and you ask a consultant, they say the expected return is in the 5 to 6% range.

Um, you know, that sounds pathetic. I would not recommend you take public equity risk for 5%. So—so what's going on there?

Well, what's going on there is they haven't really—they're looking at a cap-weighted index. And the cap-weighted index is more concentrated than it's been for decades and decades. And the last time it was this concentrated disproportionately relative to GDP was actually Japan in the late 1980s. Japan stocks were the ones with high valuations. Now it happens to be all U.S.

So—so what I want to remind people is that 5% expected equity return is a consequence of that chart that Evan showed you earlier, which is the market cap-weighted indices are distorted, right? By a limited set of companies.

So I want to say to everyone that our expected returns—what we're looking at, what everyone looks at in small cap, or what I'm finding throughout Asia or Europe or Japan—looks more typically like what we've found historically. We're not sitting there saying, "If you invest in our portfolios, you should expect pathetic returns." That's not—that's actually not what we're doing.

Uh, we're seeing very normal expected returns, you know, in terms of things we’re looking at today.

Paul Whymper-Williams: Thank you. Um, okay. Um, just before we do wrap up, perhaps—uh, any final—I’ll ask you for any final thoughts, Evan? Perhaps start with you.

Evan Fox: Yeah, I will just comment that we're certainly coming through periods of uncertainty, and those are the exact opportunities that we’re positioned to take advantage of. These periods of fear are when you really see these bigger dislocations come through.

And the fact that we have our 30-person analyst team with very long tenure who has seen this before and can really bring in that long-term perspective is just something that makes me really proud—to be part of this team, and just to see the opportunity set going forward is, uh, you know, quite an exciting time for us.

John Goetz: Yeah, I’ll just echo that as my closing remark. You'll get our newsletter soon, right? Because we were just working on it. But the reality of the second quarter is this big rebound, again, is more AI-hope related than it is fear dissipation.

There's still tons of fear, right? In tariffs. Tons of fear in, I’ll call it, geopolitical, you know, war-related areas. But then there’s even, you know, other things in the healthcare industry that have been as big a fear as we’ve ever seen in certain sectors of healthcare.

So that fear is still all around us. The dark clouds are all around us.

Uh, so—so I like to say, keep your seatbelt on, right? Things will, I think, continue to be volatile. Uh, we just cherish the opportunity to look at that volatility in a systematic way.

Paul Whymper-Williams: Great. No, thank you. And—and we’ll—we’ll end there.

Um, huge thanks to John and Evan for their insights, and we hope you found this helpful, our guests. And be on the lookout, as John mentioned, for the upcoming newsletter and a recording of this webinar, which we’ll shortly be distributing alongside posting it on our website.

Thanks to you, our listeners, and everyone who’s worked on this behind the scenes. And depending on where you're located—either have a great evening, or have a great day. Thank you.

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