Title: Mid Cap Value Update 2Q2025

Description: Portfolio Manager Evan Fox, CFA provides an update on the second quarter for our Mid Cap Value strategies.

Transcript: Hi, I'm Evan Fox, one of the portfolio managers on Pzena Investment Management's mid cap products.

We're now just finishing the second quarter of 2025, which was quite a volatile period. It started off at the beginning of April with Liberation Day and the announcement of a range of tariffs that were going to substantially impact all of global trade. And throughout the course of the quarter, we saw a lot of the market rebound, reflecting some changes and reductions in the amount of tariffs that we expect to see.

Throughout that period, mid cap stocks underperformed large cap stocks, and we saw value underperform growth across market caps, as markets really went back to rewarding some of the more expensive growth stocks, focusing less on value opportunities.

We underperformed slightly during this period, with some of the names in our portfolio impacted by some of the macro concerns that we saw—particularly in chemicals and staffing. When you look at the sectors that detracted the most in the period, it was basic materials and industrials. Particularly, chemical companies Huntsman and Dow were both down on weaker demand, which has hurt pricing. These are both companies very well positioned in their respective products, but as demand for construction and other uses of their products occured, that just led to the stocks trading down. Huntsman also had some unplanned outages during this period. The companies are working through these, putting off some of their capital expenditures as they make sure to be well-positioned going forward.

Another detractor was Robert Half, which is a staffing company that was down as temporary labor markets have been particularly weak. This is one with a very strong balance sheet and an opportunity for us to top up a bit.

When you look at what the contributors were, the biggest contributing sectors were consumer discretionary and technology. One of the names that really led was Dollar General. This is the retailer that targets lower-end consumers throughout the United States, especially in more rural markets. We saw particularly encouraging same-store sales trends and gross margin, with middle-income consumers increasingly trading down into the lower-end market. We also saw shrink improving, meaning that there's been less theft going on. And what's interesting is the nature of their product base—they're less exposed to imports than some other retailers.

Another stock that did particularly well was auto parts retailer Advance Auto Parts. What we saw here is management has been working for the last couple of years to really improve the portfolio and reposition it after mismanagement for a number of years. They're pruning some markets where they were subscale, they've been improving profitability, and the stock reacted very positively to some of the green shoots that we're seeing.

In terms of new names, a new name that we added during the quarter is specialty vehicle manufacturer Oshkosh. They have a range of businesses, but they make aerial work platforms—these are some of the scissor lifts and things like that you'd see on construction sites. They also are in defense and vocational trucks, such as fire trucks and some of the vehicles you'd see at airports or even garbage trucks.

We're at a point where the aerial work platform business is at a low part of the cycle and is particularly depressed, and their defense business has been declining as they had a contract loss. We actually feel really good about the opportunity set from this point, with the aerial work platform positioned to eventually recover, especially as the fleet is aging and there's a replacement cycle. They're also ramping up a new post office vehicle contract for the USPS, which will really become quite substantial going forward and throughout the next decade.

During the period, we also took advantage of some weakness in Skyworks and in health insurer Humana, and we funded that by trimming Dollar General and exiting door and window manufacturer JELD-WEN.

I would say markets have really been volatile as government actions and macro uncertainty have led to fear. This is not abnormal for periods such as these, but we continue to feel particularly positive about our portfolio, which is positioned to more economically cyclical names. Valuations remain quite attractive, and we're glad to be able to take advantage of this by really focusing on the long term and looking through some of the short-term volatility.