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Hello, my name is Caroline Cai. I'm one of the co-PMs on our global strategies here at Pzena Investment Management.

In the third quarter, global equity markets reached new highs — a combination of easing trade tensions, continued enthusiasm over artificial intelligence development, as well as rising expectations of central bank interest rate cuts. All of these things contributed to a buoyant equity market.

Emerging markets performed particularly well relative to the developed world. And interestingly, China, which not so long ago was viewed as almost uninvestable, was a real star in the third quarter from a market returns perspective.

Growth, given the background around artificial intelligence and rate-cutting expectations, drove a lot of the market returns and outperformed value by a very wide margin.

Now, in our portfolio specifically, our holdings in financials, consumer discretionaries, and technologies contributed positively to returns. On the other hand, our holdings in healthcare and communication services detracted from performance in the quarter.

On the contributor side, Alibaba, the Chinese e-commerce company, and Samsung Electronics were at the top of the list. Alibaba is benefiting from rising enthusiasm over its AI capabilities and the potential for it to be the national champion for AI development in China.

For Samsung specifically, investors are getting more positive about the memory cycle as well as Samsung's prospects for winning HBM — high bandwidth memory — market share within AI data centers. So both stocks in many ways benefited from really company-specific developments but also positivity around investments in the AI ecosystem.

On the detractor side, Baxter, the medical device company here in the U.S., was a key detractor. The company lowered guidance when it reported Q2 earnings. The combination of the lingering effect from Hurricane Helen, which happened last year, and ongoing operational issues all contributed to the weaker earnings. The company has a new CEO in place with a very strong track record on execution, and we do see multiple self-help opportunities and a very attractive valuation for Baxter at this point. We actually added to the position in the quarter.

Charter Communications was another top detractor in the quarter. The company reported disappointing subscriber losses, some of which can be ascribed to the one-time effect of government subsidies rolling off here in the U.S. However, we did see rising competition in the broadband space driven by increased fiber investment by telcos as well as further growth in fixed wireless. As a result of this change in long-term earnings assessment, we made the decision to reduce our exposure to Charter Communications in the quarter.

One of the new investments in the quarter was Universal Health Services, an operator of hospitals as well as inpatient behavioral service facilities in the U.S. The current margins at UHS have been pressured by high cost inflation — really an aftereffect of COVID — and the ongoing uncertainty in overall healthcare budgets in the U.S., along with some operational issues, have led to pressures on the valuation.

We see earnings upside at UHS over time, and we value the shareholder-friendly capital return policies and discipline they've exhibited over time. Trading at slightly over eight times price to our normalized earnings estimate, we find UHS a very compelling new addition to the portfolio.

This is consistent with what we've observed over the last two years, where the healthcare space has become a much more interesting corner of the market for us to find deep value opportunities. If you look at our portfolio, this is probably the one sector that has gone up the most in terms of absolute exposure for our strategy over the last few years.

Along with that, we also see more opportunities in the staples area as well, having added a position in Centuri in some of our global strategies in the last quarter.

Overall, we continue to see this broadening of valuation opportunities across a range of sectors — especially in staples and healthcare that were not value sectors going back four to five years.

At the same time, when we look around, we still see uncertainties from a macro standpoint, and we take comfort in the fact that as value investors, we're really focused on businesses with self-help opportunities and making sure that we're paying a low price relative to the long-term earnings outcome of the business.

I think what happened in China in the last quarter is a particularly good example of what can quickly change from investors' perspective as it relates to macro drivers. But as valuation-focused people, it's really been helpful in guiding our actions and navigating through fairly volatile equity markets over the last two years.

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