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Hi, I'm Dan Babkes. I'm a Portfolio Manager on the U.S. Large Cap strategies at Pzena, and today I'm going to give an update on Q3 2025.

Markets broadly were higher in the quarter, and that was really driven by two things. Number one is just continued optimism around AI — so the technology sector really drove the broader market. Um, and then also expectations for lower interest rates, including, um, the interest rate cut that occurred in September.

As far as our portfolios, they were all higher in the quarter but failed to keep up with the broader market. Um, that was really driven by a couple of company-specific factors. So our biggest detractor in the quarter was Baxter, which is a healthcare equipment manufacturer. Um, and really Baxter, um, had a couple of discrete issues that came up during their quarterly report that caused them to lower their guidance.

So the first one is they issued a voluntary product recall for a new product that had been launched recently that has been driving some growth. Um, and then secondarily, their IV fluids business, which had been impacted last year by Hurricane Helene, um, has been a little bit slower than they anticipated to recover.

The stock had, had, uh, had quite a significant decline as a result of these two issues. Um, we think both of these are transitory issues, and the stock price decline — the magnitude of it — was actually significantly more than the earnings impact. So we used this as an opportunity, uh, to increase our position size in Baxter. Um, we think it's extremely attractive at these levels. It's trading at nine times current earnings, and we expect to see both growth and margin expansion, um, going forward from here. So even if we're wrong on that, it's nine times current earnings, um, and we do think that there should be significant earnings growth over the long term.

Our biggest contributor in the quarter was Croup. Um, it's been a pretty strong environment for the financial sector more broadly. Uh, credit costs have remained benign, and they've been actually benefiting from some of the volatility in, um, the macro environment. Um, Croup, uh, participated in that and had quite strong revenue growth during the quarter. Um, and the company's been showing pretty good progress on their expense base, which has been one of the key issues for them over the last several years.

So the combination of that strong operating leverage and significant beat to earnings expectations in the quarter, which drove the stock higher — that's, that's primarily the reason why it contributed.

As far as the outlook going forward, the valuations in the portfolio look extremely attractive. Um, I gave one example of Baxter, but we've actually seen over the last several quarters, um, a lot of opportunity in the healthcare space. So that's been, um, one significant rotation that we've, we've made in recent quarters — is we've been taking advantage of some of those opportunities.

A little bit of that is sector-wide — there's some regulatory uncertainties going on in the healthcare landscape — but I would say more so, we're finding really attractive company-specific opportunities in the sector.

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