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Hi, I'm Evan Fox, one of the portfolio managers here at Pzena Investment Management on our Small Cap Focused Value product.

We just finished the third quarter of 2025, which was a period that really saw the market step up pretty substantially, especially as we saw the Fed start to lower rates and there was more optimism around companies' ability to offset some of the tariffs and other forces that they're facing.

What we saw during the quarter as it relates to small caps is small caps did outperform large caps, offsetting about half the underperformance that we'd seen earlier in the year. We continue to come through a period where small caps really have underperformed for the past decade, and on a year-to-date basis, it was encouraging to see some signs as we got started in the third quarter here.

When you look at what happened within small caps, value very slightly outperformed growth, and we underperformed the benchmark a bit. In terms of the sectors that contributed the most this quarter for us, it was really industrials and consumer discretionary.

The top individual contributor was a company called **Resideo**, which makes a range of thermostats and alarm systems, and also has a big distribution business involved in climate control within homes and buildings. Two things happened. One is that they paid off a large Honeywell liability — the company had spun out from Honeywell a number of years ago and had a \$140 million payment they were paying for the next couple of decades — and they reached an agreement to pay that all at once and get out from under it. The second part is that they're also spinning their distribution business from their product and services business, which really creates two strong businesses that never had a ton of synergies between them. The market received this very favorably; the stock almost doubled in the quarter, and we did trim back our position.

Another top contributor is office-furniture manufacturer **Steelcase**. Interestingly, Steelcase was acquired by competitor **HNI**. The deal is likely to close later this year. We've sold the position, and I'll just make the broader comment that we're starting to see more M&A going on in the market, which could be beneficial for small caps, as the regulatory burden to get through antitrust seems to be lower and a lot of companies are taking advantage of that.

When you look at what was detracting the most during the quarter, the two sectors that detracted most significantly were basic materials and consumer staples. The biggest individual detractor was **Orion**, which is a chemical company that makes carbon black — used as a filler in tires, as well as in a range of industrial applications. The biggest issue they're facing is that the amount of imported tires has actually been going up, even despite some of the tariffs we're seeing. A lot of this is consumers trading down to lower-priced tires. What we are seeing, though, that makes us feel more positive going forward, is that some of the non-U.S. and Asian manufacturers are opening capacity in the U.S., and the tariffs can help make people pay less money, on a relative basis, for tires made here. So while the company's gone through quite a bit of pressure at this point, we still like the opportunity from here.

The other top detractor was **Robert Half**, which is a staffing company. They do temp labor as well as permanent placement and other advisory services. What we've really seen is that employment has been quite choppy. We haven't seen temp labor pick up, and turnover has been depressed. We're waiting to see companies increase their hiring. We're really in one of the longest cycles we've seen in quite a while, and we really like the cyclical upturn opportunities here. The company has a net-cash balance sheet, so they're well positioned to weather the storm.

When we've been looking at the market this quarter, we've actually found quite a few opportunities that are interesting and added new names to the portfolio. One of the companies we added this quarter is **Samsonite**, a leading global luggage manufacturer. They've been well positioned over time — they've taken share, increased their mix, and improved pricing. They own **TUMI** as well, which is a more premium-priced product. Right now, a lot of the concerns have been around tariffs, since much of their product is produced in Asia. But what we found is, one, they're globally positioned with customers all around the world, not just in the U.S., and two, almost everybody is producing in Asia. So their ability to put through pricing is in line with everyone else, and we do believe in their ability to do so going forward. This is really an opportunity for us to invest in a premium player at a very depressed valuation.

Another one we added during the quarter is **Sensata**, which makes sensors for automobiles and a range of other applications. Some of the challenges we've seen here that led to the stock being weak over the last few years stem from prior management doing quite a bit of M&A over time, as well as having an unclear strategy as the industry transitioned from internal-combustion vehicles to EVs. They spent a lot of money on acquisitions that largely didn't pan out and were not technologies that made sense to use. Now they've brought in a new management team that's really focused on their core franchise, which remains incredibly strong, focusing on their free cash flow. They also have some products that will sell into EVs, which could lead to their content going up quite a bit, but we don't have to give them credit for that for the stock to be quite interesting and attractive. It's really a show-me story, where prior management hurt credibility and it's not being received well by the market — and now it's really a great business that we can invest in here.

When you look at our source of funds, we did exit two companies. One is **Steelcase**, which I mentioned earlier is being acquired, and the other is **SouthState Bank**, a regional bank based in Georgia that announced a merger with **Pinnacle Bank**, a bank based in Nashville. We just see a lot of operational risk as they have very different cultures, and their combined assets are going to go from under \$100 billion for each of them to over \$100 billion, which leads to more regulatory costs and complexity. Given the wider range of outcomes, we exited and redeployed that money into some of our other regional banks and some of the companies I mentioned earlier.

So as we come into the fourth quarter, we continue to be in this environment where small caps are historically cheap. No matter how you look at them, M&A could be a catalyst. We're certainly seeing it in several of the companies I mentioned here today, and we're excited about the opportunity set going forward.

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