

Hi, I'm John Flynn, a portfolio manager here at Pzena Investment Management, and I'm here to give you an update on our large cap value strategies for the fourth quarter of 2025.

From a high level, 2025 was a pretty remarkable year for the markets. We had another very strong year in equity markets. But beneath the surface, it was a market defined by what I think are two broad characteristics. One is narrow leadership. Once again, you had seven stocks accounting for just under half of the performance of the overall S&P 500. And the other characteristic we saw a lot in the market was just a very momentum-driven, short-term focus, where things that were working continued to work. And when companies ran into problems and you saw either earnings misses or beats, you saw very big reactions in the short term.

We saw a bit more broadening out of the market in the fourth quarter, and our portfolios actually outperformed both the value indexes and the broader market. But that wasn't enough to put them ahead for the year. We did lag for the full year both the broader market and the value indexes.

When you look at what worked in the fourth quarter, consumer discretionary, financials, and consumer staples were all strong contributors. And the really weak point in the portfolio, and the one industry that was a detractor, was healthcare.

When you dig deeper and look at what was going on within the contributors and detractors, the top contributor in the portfolio was Dollar General. This is a discount retailer. They had another strong earnings event where they beat earnings, really driven by increased traffic year-over-year. Consumers are continuing to trade down from the grocery channel and from the pharmacy channel. And also, they've had a lot of issues historically with shrink, which is a combination of stealing and spoilage within the stores. And they've really started to get their arms around that, and that continues to be a margin tailwind as they go forward. And they expect that to continue in 2026.

Another top contributor was Citigroup. This is the bank where we've had strong capital markets combined with really an inflection in the investment they've been making in the infrastructure at Citigroup, where it seems that investment is peaking and should come down in 2026. So you've got both strong capital markets, expenses inflecting, and a nice return to shareholders through dividends and buybacks driving that stock higher.

And the last stock I'll mention is Cognizant. This is the IT services provider. Cognizant's stock, for quite some time, has actually been weak as they've had some self-inflicted challenges on the growth side. That seems to be behind them now. They actually had best-in-class organic growth in the quarter, and that drove the stock higher. And this is against the umbrella of Cognizant and other IT service providers, where really the market's

questioning how they play in the IT transition to AI. We think they are going to be winners and contributors in that process, but that's another issue facing the stock despite its outperformance.

On the negative side, I'd say the biggest detractor in the quarter in the healthcare space was Baxter. Baxter is one of the largest positions in the portfolio. And upon the earnings announcement, they cut their dividend in the quarter to one cent. And really, they missed earnings on two factors. One would be the slower normalization of IV fluids. If you recall back, Hurricane Helene over a year ago hit their biggest facility. They're the largest IV producer. And people went to rationalizing IVs in hospitals, finding alternative sources. That process is still playing out, and those volumes are coming back. There's historical precedent for the volumes coming back with Hurricane Maria, but it's not there yet, and it's probably taking a little bit longer than the market would like, and so that weighed on the stock.

They also had a voluntary recall last quarter of one of their pumps that continues to weigh on the top line. It's not a huge revenue number, but that's going to trickle into 2026 as well. So I think the combination of the dividend cut and both the slower IV recovery and the pump recall continuation kind of drove the negative sentiment that drove the stock down. We continued to do work into those issues and got comfortable that, yes, we do think that the IV business will normalize, that the pump recall is manageable, and so we actually added to our position in the portfolio on this weakness. And as I mentioned, it's one of the biggest positions in the portfolio today.

The next two companies that showed up as detractors were actually pretty interesting because they had positive results and positive news in the quarter and kind of had a sentiment overlay that drove the stocks lower.

So the first is Skyworks. This is a company that does RF technology in cell phones, so signal processing. They actually announced in the quarter that they're the number two player and they're acquiring the number three player, Qorvo. And this merger was actually positively received by the market. The stock was up on the news, and subsequently, as the quarter progressed, I think there was a little bit of skepticism that they'll get the deal through on an antitrust basis, and the stock drifted lower. We do think this is a very positive combination should it go through, and hopefully things are moving in that direction over time.

The other name that was weak in the quarter as a top detractor was Fresenius. This is the kidney dialysis company. We actually saw a beat on the EPS front driven by strong cost controls and pricing actions, but I think the underlying volumes still haven't returned to pre-COVID levels, and there's a little bit of skittishness in the market around that. And that's

been weighing on the stock despite the self-help actions the company has taken to rationalize their cost footprint and take pricing where they can. So we continue to think that's an attractive place to be in the market.

Overall, I would say healthcare in general we view as probably the most attractive part of the portfolio. That's been a rotation you've seen away from financials over the past several quarters.

When we look at the actual actions in the portfolio, I mentioned we bought more Baxter in the quarter. We also continued to build out our position in PPG, the architectural coatings company, and added to our position in Tyson, that's the protein company—chicken, pork, and beef. And then we funded that with trims in the things that have been working in the portfolio: Dollar General, Citigroup, TE Connectivity, Wells Fargo, Magna, all on strength, and redeploying that into the cheaper opportunities.

I started off saying that the market had a record year, but it was very narrow leadership. We think that sets up a very attractive opportunity for value. We still see very wide valuation dispersions in the market and think we have a very attractively valued portfolio despite the aggregate valuations of the market looking quite lofty. And so we'll continue to do what we do, hunting in that cheapest 20%, and I look forward to coming back to you next quarter with an update.