Hi, I'm Evan Fox, one of the portfolio managers on Pzena Investment Management's small cap products. We're now at the end of the fourth quarter of 2025. And, you know, this was quite an interesting quarter and year that was another period where small cap continued to underperform large cap more broadly, but also one that was particularly challenging for active managers, and for us specifically.

This was really a very speculative-driven market, where some of the best-performing stocks in small cap were unprofitable companies rather than ones that really had good fundamentals. For us in this quarter, what we really found was that relative performance in October was quite challenging due to a number of names where, when the markets did have challenging results for individual companies, there were just no bids. And it really felt that a lot of small cap stocks were having big overreactions.

The good news about that is that we were able to take advantage of some of it. And so when you look at where our portfolio stands today, it's actually at the cheapest valuation of any of the portfolios we have anywhere around the world. And while it's been a challenging period for relative performance, we're really excited about the outlook from here.

When you look at what happened during the quarter, the sectors that detracted the most were consumer discretionary and industrials. The biggest individual detractor was Advance Auto Parts, which is a leading retailer that sells aftermarket automotive parts. And what's interesting is this is one that really represents some of the volatility we've seen in the market.

They're going through a range of restructuring actions. They brought in a new management team a little over two years ago, and they're going from really having gone through a lot of operational issues to now turning that around. It was actually one of the top contributors earlier in the year as we saw nice early momentum, and then they talked about how they saw some concerns around consumer sentiment—people delaying some of the improvements in their cars—and the stock took a big leg down.

What this really shows is people are not focused on the long term. They're really focused on the short term, and some of that creates trading opportunities for us.

Another detractor was Adient, which is a seat manufacturer for automobiles. They gave weaker-than-expected guidance, but that really just reflected what the auto manufacturers—Ford, General Motors, et cetera—are expecting for sales next year rather than anything specific to them. But the market really got spooked, and again the stock had a big reaction to the negative.

When you look at some of the contributors, financials were really the strongest sector, with the top individual contributor being Bread Financial, which is a private-label credit card company. And what we're really seeing is that credit trends have been much stronger than people expected during this quarter.

We did add two new positions. One is RV and boat manufacturer Winnebago. What we've really seen is industrywide pressure, where people have struggled to buy expensive discretionary products like RVs. The beauty of the RV industry, though, is the top three players are about 85% of the market. It's a very consolidated market.

Winnebago has one of the strongest brands in the industry. And while they've had some self-help issues that they've worked through, they're really well positioned to capitalize on a rebound in demand. And we can be pretty conservative in what we think normalized demand will be in the future and still see this as a very attractive name.

Another one we added is Myers Industries. This is a diversified, plastics-based material handling and protection business. They're in a wide range of businesses, but what we've seen over time is they did quite a few acquisitions and didn't focus enough on organic growth opportunities and internal investment. They had a management change just over a year ago at this point, and we really feel they're well positioned to take advantage of the portfolio that they do have, as they can capitalize on earnings and deploy capital better.

To fund these purchases, we sold out of hospitality REIT DiamondRock, on relative valuation, as it was one of the more expensive stocks that we owned. And we also trimmed back some of the stocks that had done well earlier in the year, including Resideo and Trimble, noting that both of those later trended down in the fourth quarter and are really examples of how we take advantage of price dislocations—both buying names that underperform and trimming some as they do better.

We continue to see really attractive spreads between value and growth stocks. And we've come through this challenging period of relative performance in a way that really sets us up with an attractive opportunity. And so while we're not sure exactly where the economy is going during all these periods of uncertainty, what we do know is that we're invested in some fantastic franchises and we've taken advantage of some of the weakness to build even bigger positions in them.