

Hi, I'm Dan Babkes. I'm a portfolio manager on the global strategies at Pzena. Today I'm going to give a brief overview of Q1 2026.

Global markets were down in the quarter. Value stocks outperformed, our portfolio was down and outperformed the broader market, but actually underperformed the value series.

There are really three themes that are driving the market and you'll see those as I describe what happened within our portfolio. The first theme is really technological disruption. So a lot of fear around the impact of AI and how that may disrupt different industries. The second theme, and this is closely related to the first one, is concerns around credit quality. In particular the private credit markets became an area of particular concern to the market, and in particular there's a perception that the private credit lenders have overexposed themselves to some sectors that are prime for disruption like software. The third theme is of course the conflict in Iran and the potential risk to economic growth from the spike in energy prices. So those are really the three themes that we saw play out in the quarter.

In terms of our portfolio, our performance relative to the value series was negatively impacted by some detractors we had in the US. A couple of those are related to these themes and some of them were more idiosyncratic. In terms of the idiosyncratic detractors, the biggest one was Humana. Humana is the Medicare Advantage insurer and I recently gave a 20-minute presentation on this at the Value Invest conference in New York. So I won't describe our entire thesis here. Basically this is a high conviction name. We added to it on weakness in the quarter. But there was a negative development over the course of Q1. First, the preliminary rate update for Medicare Advantage for 2027 was lower than the market had been anticipating. So that caused a sectorwide disruption to managed care stocks that have MA exposure. And then number two, the market reacted unfavorably to Humana's quarterly earnings where they disclosed that they're expected to grow materially faster than peers. There's some concern that the benefit designs in their Medicare Advantage plans are too generous given the cost environment which could pressure margins. Those idiosyncratic issues weighed on Humana's share price over the quarter. But we actually added to the position as I mentioned because we think this is a deeply undervalued situation at this point.

The other detractors are more closely connected to the broader themes that I mentioned. One is Cognizant which is an IT services company. The fundamental performance of Cognizant has been quite strong and we saw that when they reported Q4 during the course of this quarter. However the stock price declined despite their strong quarterly earnings purely in response to negative sentiment around fears of AI disruption. And then the third one is Capital One which is a US credit card issuer. I would say that is tied to the broader concerns around credit quality and also as it relates to AI there's some concern that broader AI adoption may lead to rising unemployment and heightened credit costs for credit card issuers in particular. So I think that's what was weighing on the share price for Capital One despite the fact that in their quarterly earnings credit trends actually looked quite positive.

On the other side in terms of the contributors, Dow and Shell were two of the largest contributors, both benefiting from higher oil prices. Shell is an integrated oil company — that's probably rather intuitive that they benefit from the spike in oil prices. And Dow is a commodity

chemical producer that has the majority of its footprint in North America which is cost advantaged and actually benefits from the spike in energy price as well. And the third contributor was Samsung which has been benefiting from a booming memory cycle in semiconductors and a rapid increase in spot memory pricing.

In terms of what we've been doing within the portfolio, we've really been making the types of rotations that you would expect. We've been trimming some of our outperformers to add to exposures where we have conviction in stocks that have underperformed. In terms of stocks that we trimmed, Samsung and Dollar General would be two examples. Samsung, for reasons I already mentioned, has been approaching fair value and Dollar General outperformed really on positive developments around some of the company specific issues that had weighed on the income statement over the last couple of years. We redeployed that capital into some of the underperformers. Humana as I already mentioned, and then another example is Skyworks which is a component supplier into smartphones. Interestingly the fear in Skyworks that was weighing on the share price over the course of the last quarter was that the elevated memory prices is going to lead to weakness in iPhone volumes and potentially squeeze out the non-memory component suppliers. So we took advantage of that to rotate — trimming Samsung, buying Skyworks on weakness.

As far as the outlook, I'd say we're quite excited by the opportunity set that we see in the portfolio. There's a broad set of company specific opportunities where we think the valuations are really dislocated and we've been using the current environment to try to take advantage of that.