

Hi, I'm Dan Babkes. I'm a portfolio manager on the US large cap strategies at Pzena. Today I'm going to give a brief review of Q1 2026 performance. During the quarter, there was heightened uncertainty and markets were softer. The value series outperformed the broader markets and our portfolios were down and underperformed the value series. I would say there's really three themes that drove the uncertainty that caused a decline in markets in the US in Q1. And as I describe what happened within our portfolio, you'll see the connection to these themes in the portfolio as well.

Uh so the first one is technological disruption largely related to AI. Um anecdotally, there were some new product launches from Anthropic that that caused dislocation in certain sectors. So I described that as fear that AI is going to disrupt certain sectors — in particular software was weighing on different parts of the market. Uh second theme, and this is related to the first one, is fears around credit quality more broadly. That's particularly true in private credit. Um and connecting that to the first theme, there's concern in the marketplace that some of the disruption from technology could cause pressure on certain parts of the credit markets as well. The third theme uh is the conflict in Iran and in particular heightened macroeconomic uncertainty from the spike in energy prices.

When I translate that to what happened in our portfolio um you saw some of these fears translate into company specific detractors during the quarter and then we had separately some idiosyncratic developments that weighed on sectors that were a little bit unrelated to those themes. So let me let me unpack those. Um and I'll do that by describing the three largest detractors in the portfolio.

Um so the first largest detractor was actually Humana. Humana is a pure play Medicare Advantage insurer. Um this one was unrelated to the broader market themes. Um but there was a negative idiosyncratic development um over the course of the quarter in in uh two areas. The first one is the um preliminary Medicare Advantage rate update that was released in January disappointed the market. So that drove the entire sector down. And then the second one, the market was concerned about Humana's guidance that the company's growing faster than peers. So there's some concern about the design of their plan benefits. Um I actually gave a 20-minute long presentation at the Value Invest conference in New York as one of our highest conviction ideas at the moment and we did add to that position over the course of the quarter.

Uh the other two which are more connected to some of the themes that we saw in the market. One was Cognizant which is one of the leading global IT services companies. Um Cognizant reported quite a strong quarter and we see the fundamental progress that the company is making as being quite positive. However, the shares were weak purely on negative sentiment related to AI as I referenced earlier. And then the third one was Capital One, which is a large credit card issuer. And I think there's fear surrounding broader credit concerns in the economy, and also more specifically to Capital One, the potential risk that AI could displace labor and result in higher unemployment and credit costs for credit card companies in particular.

So those are the big detractors in the quarter. On the other side which you saw in terms of positive contributors. Um the two biggest ones were Dow and Shell, both related to the spike in energy prices. Dow's a commodity chemical producer where the majority of their footprint is

cost advantaged in North America. So they actually benefit from the spike in oil prices. Um and Shell, an integrated oil producer, clearly benefiting from the commodity moves as well.

Uh in terms of what we've been doing, we've been trying to rotate the portfolio to take advantage of some of the dislocations that that I referenced earlier. So in terms of of AI and that theme, um we did add to our exposure of some companies that we believe the market is incorrectly penalizing the valuations because of fear of disruption. So two examples of that in the quarter we added both Accenture and CDW. Accenture is the bellwether IT consulting and services business that that has a wonderful history of growth and we think is going to be well positioned to help the Fortune 1000 implement any eventual AI investments that they're going to be making. So we think that some of the weakness there has been a bit misplaced. Um CDW is the largest value added reseller of technology products and we think there's some fear of AI disruption in that share price as well in addition to some company specific questions around investments they've been making to broaden out their product portfolio which we think is likely to be uh likely to pay dividends for for shareholders in the future. Um so we took advantage of the market moves to add both of those into the portfolio.

Um, and we added to some of our other holdings as well that have been that have been um that have gotten cheaper in the current market environment. Um, so I mentioned Humana already as one example of that. Another one is Skyworks, which is a component supplier to iPhones um and other smartphones. That stock's been quite weak because there's fear that the memory cycle has been — is going to drive pressure on broader iPhone volumes, and we use that opportunity to add to add to a position that we think is already undervalued.

As far as our outlook going forward, you know, we think recent performance has been a bit challenging. Uh but that's creating quite an exciting opportunity going forward. Valuations in the portfolio look extremely cheap when we look at spreads versus the rest of the universe. Uh that's I think even more so the case and the opportunity set is really been broadening out. So we think it's actually quite an exciting time for our strategies in terms of the go forward opportunity.