

Hi, I'm Evan Fox, one of Pzena Investment Management's portfolio managers on our midcap focused value product. We just finished the first quarter of 2026 which was quite a volatile period where the first half of the quarter really started off pretty nicely and then as we moved through the period there were a lot of incremental concerns that came up around AI and how that's going to impact a range of technology companies, in terms of private credit and what that's going to do to the financial services industry, as well as then the situation in Iran that led to a lot of volatility in terms of energy prices.

As we came through this period, what we did find is that broadly midcaps did hold up better than large caps did. A chunk of that is actually having less of the technology exposure that really pulled down some of the large cap benchmarks. And we did find that value more broadly held up a bit better than growth, although we did underperform our benchmark during the period.

When you look at the detracting sectors for us during the quarter, the two biggest ones were healthcare and technology. Within the healthcare space, one stock that particularly impacted the portfolio was Humana. This is a Medicare Advantage health insurance company. What we found was really two things negatively impacted them. One is that the initial government reimbursement rates that were announced for next year were lower than expected and it leads to concerns around more broadly the administration's view of this and how they're going to approach it. What I will say is that actually already in the first few days of April they revised that and did bring them back up partially. So, it's still one where would have wanted even more increases, but the insurance companies have advanced notice and can adjust their policies for it in terms of how they price.

The other thing that occurred is that there's been a lot of insurance companies that have been pulling back on benefits because of pricing and profitability concerns. Humana was actually a year ahead of everybody else in doing this. And because they didn't pull back as much this year while everyone else did, they actually grew much faster and gained more shares than expected. While we do believe they should be able to work through this, you know, it's whenever you have these periods where you have any sort of insurance company that's growing faster than others, there's naturally operational risks that occur along the way. Despite this, we feel the stock really reacted so negatively that we took it as an opportunity to buy more.

On the tech side, we had a couple examples that traded down largely on artificial intelligence concerns. Whether it be Concentrix, which is a contact center company, or Cognizant, which is an outsourced IT services business. Both of these are ones where they're impacted in different ways. When you look at Concentrix, the contact center operator, there's concerns of whether the industry will have lower volumes going forward because AI makes it so more problems can be solved without needing to talk to a human. They've done a really nice job of implementing AI into their solutions. And in that only about a third of contact center volumes are outsourced today, they're actually growing with a lot of their customers who are using Concentrix as its own AI as they bring more products to outsourcing and do less in house.

When you look at Cognizant, this is looking at really the IT spend that a lot of corporates are doing. And while people think that AI is going to make all this lower, there's actually so much work that needs to be done to get data available and set up in a way that it can be used that it

actually could end up being a tailwind for some time rather than a headwind. And we took that as an opportunity to buy more of Cognizant during the period.

When you look at the sectors that contributed the most, the two notable ones were basic materials as well as consumer discretionary. In the basic material space, this is one where the situation that we see in Iran has actually had a pretty direct impact. The stock that was up the most in our portfolio is Dow. This is a chemical company. They make chemicals that go into plastics and other applications. And they're really a direct beneficiary of higher oil prices because as their feedstock and energy source, they're using natural gas in the US while many of their competitors are using oil as their sourcing. And so as oil prices go up without natural gas going up in a commensurate way in the US, they've actually been able to put through a huge amount of unprecedented pricing that puts them in a really good position as they had been in a tight spot with really low profitability compared to history. And this really offsets that pretty quickly and puts them in a better position. Pretty similarly, we own Olin, which is another chemical company that benefits from this feedstock advantage.

The company in consumer discretionary that are — call out is Advance Auto Parts which is an auto aftermarket retailer and they've been working on a number of internal initiatives over the course of the last couple years as they're seeing more progress in that they're seeing their margins start to tick up and while their margins are still at a huge discount compared to larger competitors like O'Reilly and AutoZone, more credibility that the management team builds that they can work their way through this, the better the stock is going to do and the more excited we are about the opportunity here.

When you look at the portfolio actions that we took during the quarter, we initiated a position in CDW, which is a leading IT distributor. They sell to over 250,000 customers. Historically, they were more hardware focused. This is if you needed really any sort of computers or any technology for an office, you might go through them. But what we've seen over time is they've increasingly become a solutions provider that have a lot of expertise. They can figure out whatever the solution might be for your business. This is another one where there's some AI fears that what we might see is less hardware spend as things go to the cloud, although they're actually still capturing a lot of the economics as things go to the cloud because they're facilitating that and they're helping coming up with these important solutions and given the weak valuation we were really excited to add this to the portfolio. We also added to some of the weaker stocks during the quarter that I mentioned earlier such as Humana and Cognizant.

When you look at the source of funds, I would say we did exit one stock, FMC, an agricultural chemical company, where what we found over the last year or two is they really mismanaged some destocking that they had as well as loss of exclusivity and given a lot of the operating issues they've had there and the much wider range of outcomes at this point, we did exit out of the position. We also did trim a few of the stronger companies that we've seen such as Dollar General and Avnet, both of which have done well recently.

So now as we look at the rest of the year, we really feel that our portfolio and the opportunity set on a price normalized basis is one of the cheapest we've seen in quite a while. There's such a huge discount in the market and we're taking advantage of some of these dislocations to top up

on some of the stocks that have traded down and to find new opportunities that have been misunderstood by the market.