The following transcript was reproduced from a live Pzena Investment Management webinar, originally conducted on July 6th, 2026. This transcription is believed to be an accurate summary of the live call, but may contain some minor differences from the speakers' exact language.

ANDY: Hello everyone and a very warm welcome to our midyear global outlook for value. My name is Andy Williams. I'm a director of uh of client and portfolio services here at Pzena and it's a real pleasure to have you with us here today.

Now we're at the halfway mark of the year and the first half has not been short of surprises. We've had the conflict in the Middle East. We've had growing concentration risk in emerging markets. Uh and the so-called SaaS-pocalypse and software. Uh and finally, this extraordinary kind of melt-up in semiconductor stocks.

Now, given uh the date and time that we're broadcasting this webinar, it would be remiss of me not to mention the World Cup. Now, the tournament is well into its knockout stages, and to borrow a metaphor from the beautiful game, I'd like to set this midyear webinar up like a half-time team talk. But let me first be clear. This team talk is not for predicting the final score. Nobody knows what the second half of 2026 holds. Uh and none of us on this call are going to pretend otherwise. What we are going to do is take stock and have an honest look at the run and play so far. What's been working? What hasn't? And what do the company fundamentals and valuations actually tell us?

Now, fortunately, I'm joined by two people who spend their days on exactly these questions. Rich Pzena needs little introduction. He founded the firm in 1995 and is our chairman, co-CIO and portfolio manager on the US value strategies. I'm also delighted to have Akhil Subramanian with us as well. Akhil is a portfolio manager on our emerging market strategies and he's been very close to both the semiconductor story and the software names that that we're going to get into. So Rich and Akhil, thank you both very much for joining me today.

RICH: Pleasure to be here.

AKHIL: Thanks for having me.

ANDY: Uh, and just a little reminder before before we get into it, for everyone that's dialed in, you can submit your questions throughout the webinar, please go ahead and do that and I'll do my absolute best uh to weave them into our conversation as we go. Now, before we get into the dressing room and really start talking tactics, I think it would be really helpful to frame this discussion through a longer term lens. Now, Rich, your investment career spans four decades. Uh and over the past 40 years, there have been several occasions when the market has been gripped by a narrative that technology was about to sweep away entire industries. Uh that was true in the dot-com bubble. It was true in the fintech boom. Uh and and today we have AI. So standing here at half-time in 2026, you're in this really rare position to be able to tell us firsthand how today's sentiment compares to those earlier periods. So perhaps you could share some lessons that you've learned and how they might help us today when we're thinking about, you know, what happens next.

RICH: Sure. And thank thanks Andy. And I'll add my welcome to everyone. Um yeah, one of the things when you get old is you get to to be the wise old man. I don't know how wise, but we've been through a lot. Um I would say since the founding of our firm over 30 years ago, this is the third technology cycle. Um and they seem to rhyme very much. They have common threads. We we get extremely excited about the new technology. Obviously, the first one that we're discussing is the internet bubble from 1998 through early 2000. Um, then we kind of had a fintech bubble which was a a smaller version of the same kind of concept and now we're into AI.

The the common theme in all of those is that there were halves and have nots. The halves are the new entrants and the market loves new entrants. Um and when new entrants come in with with disruptive technology um we assign very high valuations to that and we get very fearful about the disruptees. The problem is you don't exactly know who the disruptees are going to be, and the world seems to see the the the the the events broadly differently. The people who are tech oriented see see the wonders of the new technology and how the it will change the world. And I'll call it the customers of that technology also see the technology as fantastic for their businesses and strengthening for their franchises. The market however generally doesn't. The market sees it as great for the new entrants and poor for the incumbents.

Um so in the dot-com era and and some of these are you have to stretch to understand where where how this plays out because it's not new technology versus old technology. It's new it's the purveyors of the technology versus the customers of the technology. So in 1998 and 1999 you had um the Cisco of the world who were building the infrastructure for the internet which was going to change the way business was done and you had the people doing the business. In this case, it was manufacturers and it was really western manufacturers because the the late 90s was also characterized by a giant collapse in Asian currencies which really made a caused a striking difference in manufacturing costs between the established incumbents and the Asian manufacturers who were now going to be able to come to market through a new technology called the internet. Um, and so you could buy any Western manufacturer, really any, for something like five times the earnings power that it had over a full economic cycle. These are cyclical businesses.

Um, and meanwhile, the the the the new entrants were priced as if we knew that they were going to take over the world. So, what what's amazing though is when you went to visit uh uh one of the CEOs of these companies, and they all had the same story in their own words. Um they all said, "We're not going to lose any business to the to to the to the new entrant Asians because the reason people are buy our products have nothing to do with technology. The reason people buy our products is because we have a 100-year history of reliability, quality, service. Our sales engineers are embedded in the manufacture in the plants of our customers because the design and operation require the collaboration of a long trusted partner and an existing dominant franchise. Um, and and the one thing our customers don't care about is where the product is made. And we can make it in Asia, too. There's nothing um proprietary about your manufacturing location."

So, you could either invest in the technology and which which was everyone was doing and they did it before they knew who the winners and the losers were. they just awarded everybody the win. Um, everybody didn't win and you had a a collapse. Um whereas ev I'm going to say every obviously every is not true the right word but virtually every dominant manufacturing franchise remained dominant, strengthened their positions by investing in the technology and becoming the customers of these companies and wound up with margins that were higher than the past margins as a result of implementing the technology. and the stocks were doubles and triples and quadruples.

And then you had the financial the fintech revolution. If you remember, the banks were just coming off the financial crisis and we're now in 2011, 2012 and we had these um you name it. You didn't need a bank. You could transfer money on your phone. You could you can do credit card transactions. You could apply for loans. you could trade stocks. Um you can open accounts and there was no need for a bank. Um and and I I'll relay a conversation I had with the with the Citigroup CEO at the time. Um and and this was actually a retrospective. So in 2017, he was talking about five years ago, which would be 2012. "In five years ago, I had an endless stream of 28-year-old CEOs of startup fintech companies coming into my office telling me they were going to put me out of business. And I would think, 'Wow, you're a very smart um motivated person with great ideas and good technology. Do you know what a bank is? Do you have any idea what a bank is? Because if you had an idea, you probably wouldn't want to be one.'" Um, and now in 2017, now I have a new crop of 28-year-old CEOs of startup fintech companies who are coming to sell me their technology because they understand they don't want to be a bank. And the way they make money is by selling the technology, not by putting the customers out of business.

What happened? The big dominant um uh banking franchises that were able to afford the technology and buy into it widened their lead over their competitors, gained market share of deposits and wound up with a margin structure higher than it was before the technology was evolved, and obviously you can see the comparisons to today.

ANDY: Fantastic Rich and there are a bunch of things that I'd love to come back to. You mentioned the halves, the has nots, the winners and the losers. But before we do that, perhaps we could put uh some of those lessons to the test with some of the most extreme examples of exuberance that we're seeing today. Uh and that's just got to be in the semis and memory stocks in particular. Um so this question is is for you Akhil. So there's absolutely no doubt that the the numbers these companies are putting out are extraordinary. Um, but here at Pzena, we've made the case that, you know, while AI will change the world, it isn't going to negate the cyclicality of memory demand. So perhaps you could just help us understand, you know, what has happened to margins at these businesses and how durable do you think they really are?

AKHIL: Sure. Thanks, Andy. Um, so I'm going to start by going to my kids. So I have an 8-year-old and a 5-year-old. My 8-year-old has lived through three memory cycles. He was born, there was a peak, then a trough, then a peak, then a trough, then we're at a peak. My 5-year-old has lived through a cycle as well. She was born, there was a trough, and now there's a peak. She was born at the peak.

So, why I'm illustrating this is over a very short period of time, the memory industry — of which you know the big players are Samsung, SK Hynix, and Micron — uh, this industry is very cyclical. As much as it is a three player market, what you see over time is there is an exuberant source of demand. Everybody builds supply, then the demand gets offside, then we have too much supply because the demand has come down or the supply is too high, and the margins end up being quite volatile.

So take a company like Micron today. Um 2 years ago, 3 years ago, the gross margins were basically break even, and that was kind of at the trough of the cycle where we had too much supply, not enough demand, and they were barely break even on a gross profit basis. And you fast forward to today, we're seeing sort of the opposite of that where there is seemingly insatiable demand. the supply has not caught up, and so we're seeing these companies such as Micron, you know, guiding to 85% gross margins. We're going to talk about software later. Software is an asset light business where the marginal cost of selling software is very low and those margins are 80, 85%. And here you have an asset heavy business such as memory where the gross margins are in some cases higher than software businesses which are asset light and have basically no marginal cost of distribution.

So to set the scene today, we're seeing the strong demand for AI and what that's leading to is currently in memory. Memory is the bottleneck. And so what we're seeing is above normal, basically peak gross margins, um because they're exploiting the fact that there is a lot of demand out there and there isn't enough supply to meet that demand.

ANDY: So to to use your wonderful example to answer ask my next question. So are your children likely to see, you know, any more uh are they likely to experience as many peaks and troughs as they have in the early part of their life? My actual question was, you know, why is this more likely to resemble a peak than just a new plateau, which frankly quite a lot of people are saying this is a new plateau for memory?

AKHIL: Yeah, they are. And and to boil it down, they say the um forward phrase, which is this time it's different. Um, and so we're living in a moment now where people believe that this time it may be different because what they're seeing on the ground is insatiable demand. People are entering into long-term contracts. People um are desperate to secure memory. Um people who provide things like laptops are going to customers and saying, "I can secure memory for you because I'm a large enough buyer." So we're living in a moment where the demand is insatiable and everyone believes that this might be a plateau and we may not go back to the past cyclicality.

What we try to anchor ourselves to is what is the normalized earnings power of this industry based on competitive dynamics. So when we say normalized earnings power, we're talking about 5 years out on a midcycle basis when the environment is neither terrible nor amazing. what is the you know midcycle gross margin of the business or the midcycle EPS based on the supply demand fundamentals and the competitive dynamics — and on that basis, given the industry structure, given the possible entrant of Chinese players — I'm sure we've all seen in the news that Apple is considering buying memory from CXMT, which is a fourth Chinese player — it's not entirely obvious to us that this is a new plateau and things should stay here based on what the market structure is. We may actually end up fragmenting from three players controlling 90% of the market to maybe four, maybe five. You may have architectural changes to the way chips are constructed and how much memory is on them. Um, and that may lead to lower demand or you may to see straight up demand destruction.

Again, you would have all seen in the news yesterday or not yesterday, I'm sorry, last week, Apple announced that they were raising prices. Apple is one of the best buyers of memory, one of the largest uh you know manufacturers of handsets in the world, and they have a really strong lock in into their supply chain, and by Apple saying the cost of memory going up is leading to increased prices may lead to demand disruption. So it's possible we might be at a plateau today but it's probably fair to say the earnings are at a peak. We're in an earnings bubble or an earnings upcycle.

Um and given the fact that you could have potential supply coming on and potential demand destruction by people who make handsets raising prices, that it's not obvious that we should stay up here. We may end up going lower. and and you know the really striking fact for us is whether it's Micron or Samsung or SK Hynix, they have higher gross margins than Nvidia and say TSMC, which are perceived as monopolies. They're perceived as companies with a better market structure um higher barriers to entry and therefore a wider moat, and those companies have lower gross margins than these guys who are currently facing a very um you know positive demand environment.

ANDY: That's a pretty compelling case. Uh if come back to you Rich, something you said in your earlier answer, you were talking about the the winners and the losers. Um and I think while we don't know who they are today at the midpoint of 2026, you the market has decided, um so my question to you is you are investors correctly assessing uh where value will ultimately accrue.

RICH: Well I mean the only answer that you can reasonably give is I have no idea. Um I don't know why anybody thinks they have an idea. Um, you know, I'm I'm I I I'm bring myself back to the late 1990s where, you know, we were all certain that Netscape would be the dominant internet browser and Alta Vista, who nobody even remembers the name of it, would be the dominant search engine. Um, and now we have all of these companies vying for dominance and spending lots and lots of money, which is necessary. It's hard to argue the case that there's strong demand. Um, the the the unknowns that you have are huge. And when you have unknowns, generally the people have who are the most optimistic wind up setting the price.

I have I mean this is a totally unrelated um um example from my early 20s when I was a I was an analyst um working for an oil company during the time when we thought oil we were going to run out of oil. And in 1980 when I joined the oil company, their forecast, their 20-year oil price forecast was for $200 a barrel in the year 2000. And the actual was 20 or something like that. And um I was working on a on a offshore exploration team that was looking for oil in the Gulf of Mexico and I was running the numbers. Um, and this group had a had a a block of of acreage they wanted to bid on. And I did my numbers, which at the time you had no idea what you were going to discover because the technology at best gave you a 10% probability of finding anything. And I came up with a $1.2 million valuation for this block. And our committee had a million dollars of spending authority. So, we passed it up to the next level who had 5 million and they wanted to bid six who and passed it up and passed it up to the board who bid $93 million on this, and the bids were opened, sealed bids were opened in the Superdome, and we won. Um, the second highest bidder was $800,000.

So, the point of that story is I don't know how anybody thinks they know what's going to happen. Um, we didn't know in the late 90s, we didn't know in the 2010s about fintech. We don't know who the winners are going to be today. Um, we know all the people that are vying for the leadership position. We know who has won in the past and we assign all of them trillion dollar plus valuations. It's kind of inconceivable that that's going to be correct.

ANDY: Brilliant. Thank you, Rich. Uh I want to now turn to to software, and we've actually already had a question uh in on this as well. So it's uh it's clearly on on some of our our clients minds as well. If I turn back to to you, Akhil, and dig into some of those um perceived losers. So, you know, software broadly speaking has sold off dramatically because the market believes that AI has just broken some of these business models. Perhaps we'll we'll get into that in a little bit, but perhaps could you first start by just outlining exactly what this SaaSpocalypse moment is?

AKHIL: Sure. Um and and I think you're right to point out that you know this industry which was previously perceived as bulletproof has been undergoing a lot of pressure um for the reasons you mentioned. So what is SaaSpocalypse? SaaSpocalypse has been um a series of concerns around the software industry because of the advent of AI.

So one of them is vibe coding. So people think that instead of Salesforce spending a decade building their product, with the advent of things like Claude Code and Codex we can vibe code a competitor over the weekend. The other concern is around competition. If we can vibe code, maybe there'll be a lot more startups and maybe the competitive dynamics will change. and sort of tying into this whole competitive aspect is in the past most software companies, not all, sold um based on a per seat pricing model. So for a firm such as ours, they would have said you can have 50 seats at $250 a year and every year they pushed through a 7% price increase. And so for someone who was in the software 24/7, yes, that was good value. for someone who opened the software once a month. Um, that was very good value for the software company because they were selling a seat that was barely used. So the risk here is AI is leading to more competition, a lot of pricing pressure on the per seat business model, maybe a transition into per outcome. Um, and the collection of all of these things has led to a very jittery market at the moment where if a company guides to 25% revenue growth and heads a number that's 24, the stock will be down a lot because people are conflating potentially the issue of AI um as the reason why it's growing 24. And so we've seen the entire SaaS sector come down. Some of them are still expensive by the way. We've seen the entire sector come down because of these new competitive threats that are emerging. Um, and seemingly every week there is a new tool by Anthropic or OpenAI that seems to invalidate another huge part of the software subsectors.

ANDY: Something you touched on there, but so fieldwork is a pretty important part of our process here at Pzena. I know you've been out to the west coast recently seeing some of these affected companies. You — was that a fruitful trip? uh and if so you know where are we finding uh the opportunities uh in software at the moment.

AKHIL: uh yes you're right, I was out on the west coast um meeting with companies um and you know during this whole period um as one might expect of a value manager such as ours, when we see entire you know an entire sector selling off um we want to start doing work. um we very much base our approach on fundamental bottom-up analysis, and so we have to be very choosy in the investments that we make, and it's fortunate to have an entire sector to sort of re-rate downwards because you can be quite selective. You can look for rifle shot opportunities.

So what we do in general is spend time with lots of management teams, meet with them, try to understand their business models, calling back to what Rich said uh you know 105 minutes ago, trying to understand what does the future look like, how are they leveraging the technology, do they expect to gain or lose market share. and so you know sometimes that's meeting with people who are coming through town, and sometimes it's doing a field trip to where these companies are, meeting with companies, customers, competitors and things like that. Um, so we've been out doing a lot of this since the SaaSpocalypse has happened. Um, and we're starting to make investments uh, in some of these companies. And I'm happy to get into that if if you want to do that.

RICH: Now, Andy, I just add — I would just add though — that when you talk to the CEOs of these companies, and and by the way, we talk to the customers too, um, uh, to try and verify what the CEOs are are saying. But when you talk to the CEOs, they see the world very very differently than the market is seeing it. Um they see their franchises as being very solid. They see the technology as being a giant boon for them. they they view their their knowledge of the specifics um as and their big customer base over which to amortize the costs, as a as being the provider of the AI solution for for their customer base rather than um everybody just doing this themselves. um or that or or a new entrant somehow being able to gain a foothold in these well-established businesses. So I I think the frame — the common frame of the present and the past — is how these businesses see themselves and actually for the most part how the customers see their engagement with these companies.

ANDY: Fantastic. And Akhil, I think that's the perfect uh setup uh for you to tell us what you really learned on the west coast and what some of these CEOs were saying to you.

AKHIL: Yeah sure. So let's use a couple of examples. So um you know we have um become a shareholder of Workday um as an example. Um so what is Workday? Workday is a SaaS company that was born maybe 15, 20 years ago. They do something that's called ERP, enterprise resource planning. So Workday's competitive advantage and the reason that it's been able to gain share is that it's a really good tool for businesses that are people centric. So think Chipotle, Walmart. These are companies that need to hire thousands of people a week. They may keep them for a long time. They may be temporary labor that's gone the next day. And they're are global businesses in many instances. um Workday manages the entire human capital management, or HCM, part of this uh you know aspect of Chipotle's business for example, and integrates that into financials. so what that means is from hiring, onboarding, training, retraining, promoting, retiring, terminating, plus all the financial aspect of it — payroll, accounts receivable, closing the books — um this is a mission-critical software that is deeply embedded within its customers.

And just as an example, when you do an implementation of Workday, it can take 6 to 18 months to actually get it into your business and and for you to actually operate it in a way that drives value for the business, which is basically agility, speed, and closing books. Um, you can see this in the retention rates. Uh, the retention rates are 97, 98%. And what that means is before a price increase or before an upsell or a cross-sell there's 2% churn, and that churn is typically business failure, company goes under, or company gets taken over. So this is a mission-critical ERP business um that is not just tied in as a way for clients to be more efficient, but it's also something that is so important that you can't close the books without using the software. So in terms of AI competition ripping and replacing it, it is a lot of headache and a lot of a pain in the neck to say I want to switch my ERP vendor.

We've had a chance to buy this business because it has sold off. It um you know it's not growing as fast as a growth investor would like to. So growth investors don't love it, and they've had a history of spending and developing the product. So the margins aren't that high. So in some sense value investors may not love it. Why do we think this is an interesting investment opportunity? It's for the reasons that Rich mentioned. I think the company understands that, you know, the addressable market has started to near maturity, but they're seeing some new ways in which they can help customers by leveraging AI. For example, they have a conversational AI tool. So, when the local Chipotle store gets 2,000 job applications, they can find a way to filter without even using a human who should be brought in for an interview, who should be trained. And that is a huge productivity gain for their customers that they're able to offer by leveraging AI to generate new products.

On the flip side, to Rich's point about costs, you know, one of the biggest buckets of cost for a software company is R&D, product development, a bunch of engineers cranking out new features. AI is a way for these businesses to become more productive by leveraging all the tools we talked about earlier, Claude Code, Codex. And so what's exciting about this moment in Workday is you have a company that has an ability to use AI to improve value for customers, and also an ability to use AI to improve the cost structure and the speed and the agility by which it develops new products and new features. And so given what's happened in the SaaSpocalypse, we have been talking to — as we mentioned — the company, its customers, its competitors, to try and understand, you know, what is the sum total of what they can offer in 5 years time, what is the earnings power of the business? And we made the investment because we think that it is a very compelling investment opportunity at the moment.

ANDY: And you mentioned that it's it's more kind of rifle shot at the moment. Are there any other companies in the space that that are interesting?

AKHIL: Yes, another one is a competitor of theirs in the ERP sector. So again, enterprise resource planning, and that's SAP. Um to be honest, if any of you on the webinar are familiar with the SAP of 15 years ago, it's still the same company. They do enterprise resource planning and they focus on companies that are supply chain and manufacturing intensive. So, think about companies like BMW, um, Mercedes-Benz. They're managing their supply chain all the way through to the financials, closing the books, paying people the right amount based on wage rates in different countries. And so, SAP has also befallen this SaaSpocalypse. But again, it's a business that's highly mission-critical. Um, customers um do not get off unless they have business failure or they're acquired. Um and the company's again leveraging AI to be more productive in software development and uh you know come up with new tools and new features uh to sell to their customers.

The other very interesting thing about SAP is it's a very old business, and they have talked about basically shutting down some of their very very very old software products. So there's one called ECC that is basically reaching an end of life, and what they're seeing is within their customer base of people who are on ECC, the majority of them are willing to move to SAP's next generation as this product reaches end of life, and that will be a big revenue uplift for the business. This is something that the market is wrestling with — like, you know, if you're terminating a product at end of life, isn't that a competitive opportunity for people to move away — but if you look at the momentum, the layer cake of customers who've talked about where they want to move in the future, they want to be within the SAP environment because the business is already running on SAP and configured for it. So it's another example of a business that's mission-critical. they're capturing multiples of revenue um as they migrate end of life products onto their current generation. Um and it's at a very compelling uh you know valuation based on our estimate of their midcycle earnings power.

ANDY: That certainly shows the value of our fundamental bottom-up approach. Uh I'd like to actually turn away from developed markets to emerging markets, and something we touched on very briefly at the start but I'd like to come back to, and that's the concentration of the index itself. Now in emerging markets that's very much related to the memory boom. Um and interestingly now that concentration issue for the index runs both through the main index but also the value index as well. Um so I've got some stats in front of me that — and a lot of people watching this will already know — but I think they're worthwhile repeating. Um so we know that just a couple of AI linked semiconductor businesses, you know, are driving the lion's share of returns in emerging markets. So now you just have just two stocks, uh, TSMC and Samsung, that make up over 21% of the MSCI uh emerging markets value benchmark. Uh semiconductors have swelled to roughly twice the index weight of software. Um and quite recently Taiwan and South Korea now account for more than 50% uh of the EM value index. Uh which is is quite extraordinary considering the what the index looked like you know relatively recently. So think with that context, you know, for an active value manager uh I suspect this this is a challenge, uh but I also just like to ask you how you think about that index — index concentration, if you think about that index concentration — um and what does that mean for how the emerging markets portfolio is positioned.

AKHIL: Um yeah, so you brought up some great points. Um just the very simple uh conclusion of what you mentioned is Taiwan and Korea are larger weights in the index than China, which is quite extraordinary. We never thought we'd ever see that. Um but you just think about Taiwan and and China, right? Like this little island is a larger weighting than its neighbor that has a billion people. Um it is a headwind to our performance because what we've seen is extreme concentration in EM and extreme price performance in these largest companies. Um if you add SK Hynix to your mix then three companies are more than a third of the index at the moment.

But how we think about it is all the areas of EM that have been neglected, right? You know, beyond things like these top three, or Taiwan and Korea, there are entire countries where there are companies that may have accelerating or okay fundamentals but their stock prices are going down um because the concentration is accruing in a few names. Um if you look at data for example um that shows the performance of equal weighted versus cap weighted, you see extreme divergences at the moment. And so what that means for us is we are finding interesting opportunities in the forgotten or unloved areas of EM which are basically not the IT sector or not Korea and Taiwan. To be honest, we're finding ideas in Korea outside of the IT sector. But just for us as a value manager, when you see this kind of concentration and this kind of performance, we see interesting opportunities in all the areas that are unloved. For example, we're underweight India. Um and at this point in time TSMC is a larger weight than India in our universe, and India is a country that we view to be somewhat expensive. So never say never. We might see more Indian opportunities. We're certainly seeing more opportunities in other countries. But that's how we view this kind of moment in time when there's extreme concentration. You kind of can look at all the things that are being left behind because nobody wants to focus on them.

RICH: I I would just add to this, if you don't mind, because the — we we've been talking about a lot about technology and including the opportunities that we've seen in technology. But the reality is that that's not where the opportunities are. the opportunities are in companies that have nothing to do with the changes in technology, and and that's what most of our portfolios contain throughout the world. So this is an interesting topic and and very topical, but it always struck me as quite amazing because the goal of pretty much every technology company is to displace the prior generation of technology, and we put high multiples on that somehow thinking that these will not be displaced. It's like one of the more incredible things you see in the world. And meanwhile, the customers who get strengthened by the new technology sell off because nobody is interested in them whatsoever. Not because of anything other than that.

ANDY: I'd just like to ask a question that sort of get goes in between those two answers, really just to get just deep dive into the nuance a little bit. I'm gonna be slightly provocative. Um but there — we're arguing against this. There's certainly this you know a narrative uh that you know value managers are you know sitting out this AI rally, and this is particularly true I think uh in — but it's true everywhere. Um and the question is you know how do we square the fact that you AI has genuinely lifted some of these companies' earnings power but but while maintaining that discipline uh of not paying up uh to own them.

AKHIL: Oh yeah I can take that one. Um, we're we're obviously aware of the fact that just take a memory stock for example, they're over earning and their their high earnings we believe relative to their midcycle earnings power. In our valuation framework, we give them credit for that. So for a company like Samsung or SK Hynix, we will give them credit for the supernormal year of profit this year and the supernormal profit next year. um and and then we normalize it back to what we think is the midcycle earnings power of the business based on the ind — industry fundamentals, based on the supply, based on the demand. But even on that basis, the stocks are not that cheap. So we give them credit for supernormal earnings. Um but at some point you have to revise it down based on fundamentals.

And if you think about the game that you're playing when you say this time is different, you're monitoring data points like the one that came out overnight that said Samsung might raise prices 20% quarter over a quarter. A quarter ago it was 50% quarter over a quarter. So you start to get into this area where you're trying to say what is the duration of this upcycle, and it's just not a natural place for us to play in as a value manager because there are so many other interesting opportunities beyond hoping that a duration bet can persist for longer than people think. So we're happy to think about today's peak demand and what that means, but it cannot be the permanent run rate. The permanent run rate has to be a function of what are the supply demand fundamentals, what is the industry structure.

Um, if we truly believed that the memory business has become supremely better versus 2 years ago when Micron had zero gross profit, then we would have to say 85% gross margin is the new normal. And again, going back to Rich's point about technological change. The one thing that we've been very impressed by in AI is when there is a bottleneck, people swarm around it and try to alleviate the bottleneck. The bottleneck was GPUs, the bottleneck was something else. Today, the bottleneck is memory. And there are so many different ways in which companies are exploring ways to reduce the usage of memory in AI. And by the way, AI is, you know, not even a quarter of demand. But let's just assume that it is a big part. People are looking for ways to cut off this bottleneck. And so if that really is the case, the duration bet of 85% gross margin is just not something we as a value manager would make, given that we have so many other interesting investment opportunities, whether it's within it or just even outside of the information technology sector.

And I I just answer the question philosophically rather than analytically, which is it's not hard to sit this out. Um you know it's it's this is not what we do. So the idea that we should try to do something that we don't do because it's going up is just not in our DNA. Um our DNA is to find opportunities where you have a giant skewing of outcomes in your favor. Meaning that the market has priced these things on the downside case and ignores the upside case, instead of the other way around. Um, and if you do that consistently over long periods of time, it will work. That's our philosophy.

So, you know, there there's questions that — about, of course, if you use high enough growth rates and high enough margins, you can make anything look like a value. Um, because you know, we get the question we get is value dead? Well, value can't be dead because value just means buying for something for less than it's worth. It's just a question of how you def — how you calculate what something's worth. And and if you have to use assumptions that are really out of touch with long-term historic norms about what business, what giant businesses with billion or trillion dollar market caps, um what growth rates you have to believe to justify the valuations. Um we we just pass and we say that's somebody else's game. Um, our game is very interesting right now. Um, and it doesn't lead to 20% annual gains over the long term. Um, it it leads to a pretty normal set of environments at better than normal prices, a normal opportunities at better than normal valuations, and that's where we stand today.

ANDY: Well, I think both the uh the technical and the philosophical answers there were were extremely strong. So, we will move on. And actually, Rich, you said something there. We're talking about something which actually makes up quite a small part of of our portfolios today. Um so, perhaps we could turn to all of those areas that have been forgotten, that are unloved, that haven't been swept up in in this mania. You know, where where would you highlight as an area where we're where we're seeing particular value at the moment?

RICH: Well, in the US markets, um there's a lot of value in healthcare. Um we we've talked a lot about um Humana over the past six months. Humana has corrected a lot. Um but it but it's still one of our the cheapest stocks out there given the franchise and given the the corrective actions that the managements are taking. And like any value opportunity that's compelling, you have a business that has a a dominant position, earns good returns, has good growth rates, hits a stumbling block, and the market can't see through to the adjustments that the managements are making to restore the earnings. So, Humana is in the process of restoring their earnings. They haven't even — they barely begun. the stock has rallied dramatically off of its lows, but it's still very cheap.

You have other companies like Baxter, which hasn't rallied really, and and has has a very strong um set of businesses that have earned high margins, strong free cash flows, modest growth rates, um that have run into problem after problem after problem that the former management team was unable to solve. and the new management team is in the process of solving, uh and yet um the val — they they they haven't taken off. Baxter looks like it's a stock that could go up substantially from here, but more importantly is the skewing of the upside versus the downside. Um it's priced as if they're not going to succeed. Um and so if they if they do, you make a lot of money. if they don't, you don't lose a lot of money. Um, those are the kinds of thing opportunities that we seek. Healthcare happens to be one area where there's a lot of those today.

ANDY: This ties in with a couple of questions that we've had as well. Uh, and it may not not necessarily pertain to healthcare, but but it can do if you like. You know, how do how do you make sure we're buying, you know, issues that are cyclical and fixable um and not businesses that are genuinely, you know, structurally broken?

RICH: Well, of course, you don't really know. I mean, you have to you have to accept that fact. Um um if if a business is in decline, um there it's a tougher, it's a tougher um um bet to make. But if you have a business, let's just go to back to Humana, it's been growing double digits for four decades. and the factors that has ma — have made it grow have not disappeared. Um so it's not structurally impaired. Um it's operationally impaired. It's currently impaired. They've made some bad decisions. Um they've mistimed the market. The market has changed. I mean all these things have happened but it's not structurally impaired. So the the the point is that when you when you compare the upside against the downside, that you get skewing. That's what we're going to bet on. And if if you can, if you can be 50-50 in your bets, meaning 50% chance that the good outcome happens and 50% chance the bad outcome happens. and you have a positive expected value from that situation, and you believe you can get yourself to 60-40 by doing the intensive research that we do. If you hit those, you'll have great returns. Um, and nothing nothing has changed in that in my in my whole investment career. um different companies, different parts of the world, different industries. But the reality is when people are are uninterested, unhappy, unenthusiastic or scared, they price things down emotionally. Just like Humana got to 150 and it's nearly 400 in like three months. It doesn't make sense, right? nothing has happened — nothing of substance has happened in that period of time. They just get priced. And so that's all we do — is invest in skewed outcomes recognizing we don't know what the future is going to be. And the people who think they know um and put high prices on things are making the tougher bets. Doesn't mean they can't be successful. It's just tougher.

ANDY: I think that's a great segue into a client question that that we've had uh come in. Uh I'll group a few together here. But to to put it plainly, the question is after another stretch of underperformance against the index, you know, is value investing broken? Why shouldn't investors just buy the index? Rich, you touched on this, I think, uh a few minutes ago, but perhaps you could expand on that a little bit.

RICH: Look, value — value investing can't be broken. I'm sorry to say that it can't be broken. You can do it poorly and you can accuse us of doing it poorly, but it it can't be broken because if you do it right and buy things for less than they are worth, you will win. Um so the — but cor — you are correct to point out that the index has outperformed traditional value for a long time now, and that's led people to say I'm giving up. Um but nothing has changed in value. The returns for the last 10 years are the same as the prior 10 and the same as the prior 10 before. And you can go back and even use quantitative tech tools to come up with value, which is not what we do. Um, and you would see you get much generally more consistent and higher 10-year kind of returns than you get in the S&P, S&P. Um, but what a — what a manager does, what a — what a professional investor does is compare the current price to the expected future earnings stream and decide whether they're going to get a good return.

And when you underwrite that properly, um, and and what's interesting is if you look backwards in our own success, and we're typical of value investors, um, you would say that there's been nothing broken in our underwriting. Um, what we didn't do in our underwriting is bring into play the the market's increase in multiple and valuation that happened at the same time that there was a decrease in valuation and multiple in value investing. And on a go forward basis from here, where you have to already pay the higher value for the index and you get to pay the lower value for the um for the — for a value portfolio — the idea that the market S&P is going to be — e — is going to beat expectations like it did over the last decade by an even wider margin over the next decade seems like a tough bet. Most people are doing it. Um it's just a question of what — but when you build a portfolio, how much exposure do you want to have to that versus how much exposure do you have to what we do? The idea that you should have no exposure because value is broken, I think is just wrong. Um value is working like it's always worked.

ANDY: Fantastic. And Akhil, listening to that, is there any observations you'd make, but particularly around the EM index uh today um and potentially the uh the market pulling forward returns there as well. Uh and I promise I'm not asking you to get out your crystal ball. Uh just uh wondering if you've got any thoughts.

AKHIL: I'll just keep it short and sweet because I would — I think Rich summarized it. I think you know the — what we are paying attention to is the fundamentals of the business, trying to look at a moment in time where the business is under pressure and do the deep research to figure out what is the midcycle earnings power. What do they earn when things are okay, not amazing, not terrible? um that can't go out of style if you're paying a low multiple of midcycle earnings.

ANDY: Uh and perhaps uh as a follow on to that, uh for either of you actually, why — why might that matter in particular, and perhaps what I'm thinking about is valuation spreads as well. I think it'd be quite helpful for people to put the the rating of the market into context with where we are in terms of valuation spreads, both in in developed and emerging markets.

RICH: Well, I mean in the US in particular, the value — um our our portfolio, I'll say — sells at about 20 or 30% below the valuation. And this is simplistic PE, forward-looking PE, than it did

10 years ago. Um, and the market is — I don't have the numbers off the top of my head, but roughly 30% higher um than it did 10 years ago on the same metric. So, uh, the spreads are as wide as they get and the absolute level of opportunity is is above average in on in the value world.

AKHIL: Yeah. And in EM that's true, but there is the distortion that we discussed earlier of memory stocks look optically cheap on current earnings because they have 85% gross margins, not the long-term average of 40. And just to like hit the point home, if your gross margins go from 40% to 85%, it it doesn't mean your pricing doubled. It it actually means your pricing went up 5 to 6x. So Samsung earned more in the first quarter of this year than all of last year. So there is that optical distortion, but again that's why we always believe in the fundamental bottom-up analysis and looking 5 years out and trying to say what is the mode what is the midcycle EPS.

ANDY: Fantastic. Thank you. Well, we're we're running out — running out of time now. Um I've done my absolute best to weave in the questions that we've had. If we haven't got to them, we will certainly get back to you after this. Um, so that's that's where we'll leave it, but I just want to say a huge thank you to to you, Rich, and to you, Akhil. I think that was a fantastic tour of where we are at the halfway mark in 2026. Um, for those of you that have dialed in, thank you all for joining us, and as I said, for those those wonderful questions. Um, if you have any feedback or any points to follow up on, please do get in touch with your usual uh, Pzena representative. Um, and we all look forward to the second half of this year. uh and also indeed to the business end of the World Cup. Uh and with that, I wish you all the very best.

investment process. They do not represent all of the securities purchased or sold for our client accounts during any particular period, and it should not be assumed that investments in such securities were or will be profitable. Samsung Electronics, Taiwan Semiconductor Manufacturing Co, Alphabet (Google), Tencent Holdings, HDFC Bank Limited, Ambev, and Shenzhou International were held in one ormore of our Emerging Markets, International, and/or Global strategies as of May 31, 2026. PIM is a discretionary investment manager and does not make “recommendations” to buy or sell any securities.

All investments involve risk, including loss of principal. The price of equity securities may rise or fall because of economic or political changes or changes in a company’s financial condition, sometimes rapidly or unpredictably. Investments in foreign securities involve political, economic and currency risks, greater volatility and differences in accounting methods. These risks are greater for investments in Emerging Markets. Investments in small-cap or mid-cap companies involve additional risks such as limited liquidity and greater volatility than larger companies. PIM’s strategies emphasize a “value” style of investing, which targets undervalued companies with characteristics for improved valuation. This style of investing is subject to the risk that the valuations never improve or that returns on “value” securities may not move in tandem with the returns on other styles of investing or the stock market in general.

The specific portfolio securities discussed in this document were selected for inclusion based on their ability to help you better understand our investment process. They do not represent all of the securities purchased or sold during the quarter, and it should not be assumed that investments in such securities were or will be profitable. PIM is a discretionary investment manager and does not make “recommendations” to buy or sell securities. Holdings vary among client accounts as a result of different product strategies having been selected thereby. Holdings also may vary among client accounts as a result of opening dates, cash flows, tax strategies, etc. There is no assurance that any securities discussed herein remain in our portfolios at the time you receive this presentation or that securities sold have not been repurchased.

This recording does not constitute a current or past recommendation, an offer, or solicitation of an offer to purchase any securities or provide investment advisory services and should not be construed as such. The information contained herein is general in nature and does not constitute legal, tax, or investment advice. PIM, the speaker, or any other person does not make any warranty, express or implied, as to the information’s accuracy or completeness. Prospective investors are encouraged to consult their own professional advisers as to the implications of making an investment in any securities or investment advisory services.

For EU Investors Only: This marketing communication is issued by Pzena Investment Management Europe Limited ("PIM Europe"). PIM Europe (No. C457984) is authorised and regulated by the Central Bank of Ireland as a UCITS management company (pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011, as amended), with additional authorisation for management of portfolios of investments, in accordance with mandates given by investors on a discretionary, client-by-client basis, where such portfolios include one or more of the investment instruments listed in Section C of the Annex to the MiFID (Markets in Financial Instruments) Regulations 2017 (S.I. No. 375 of 2017), as amended), and investment advice concerning one or more of the instruments listed in Annex I, Section C to Directive 2014/65/EU (MiFID II). PIM Europe is registered in Ireland with the Companies Registration Office (No. 699811), with its registered office at Riverside One, Sir John Rogerson's Quay, Dublin, 2, Ireland. Past performance does not predict future returns. The value of your investment may go down as well as up, and you may not receive upon redemption the full amount of your original investment. The views and statements contained herein are those of Pzena Investment Management and are based on internal research.

For Australia and New Zealand Investors Only: This document has been prepared and issued by Pzena Investment Management, LLC (ARBN 108 743 415), a limited liability company ("Pzena"). Pzena is regulated by the Securities and Exchange Commission (SEC) under U.S. laws, which differ from Australian laws. Pzena is exempt from the requirement to hold an Australian financial services license in Australia in accordance with *ASIC Class Order CO 03/1100* and the transitional relief under *ASIC Corporations (Repeal and Transitional) Instrument 2016/396*, extended through 31 March 2027 by ASIC Corporations (Foreign Financial Services Providers) Instrument 2025/798. Pzena offers financial services in Australia to 'wholesale clients' only pursuant to that exemption. This document is not intended to be distributed or passed on, directly or indirectly, to any other class of persons in Australia.

In New Zealand, any offer is limited to 'wholesale investors' within the meaning of clause 3(2) of Schedule 1 of the Financial Markets Conduct Act 2013 ('FMCA'). This document is not to be treated as an offer, and is not capable of acceptance by, any person in New Zealand who is not a Wholesale Investor.