The following transcript was recorded on July 7th, 2026. This transcription is believed to be an accurate summary of the live call, but may contain some minor differences from the speaker's exact language.

Hello, my name is John Flynn and I'm a portfolio manager here at Pzena Investment Management and I'm here today to talk to you about our midcap strategies.

We saw a broad market this quarter that looked through global turmoil in the Middle East and really embraced all things AI, particularly semiconductor and memory related. Against that backdrop, which is albeit a challenging one for value investing, our midcap portfolio actually was ahead of the midcap value index during the quarter. When you look at kind of what was driving that, really it was healthcare as the top performing sector, and you'll see that the big contributors there are all healthcare names, but we also saw strong strength in financials and consumer discretionary. On the negative side, we saw basic materials and IT services as detractors during the quarter.

The top individual contributors during the quarter were Humana, Baxter, and Avnet. Humana is a Medicare Advantage company that has had some troubles losing star ratings recently and had a lot of growth during the last enrollment period where there was fear about the adverse selection and other, you know, potential operational mishaps that might come along with that growth. And I would say we probably exited the first quarter at peak fear on Humana. During the quarter there were two meaningful developments. One, we got a reimbursement rate update from the federal government that was favorable for all the managed care providers, and second, Humana came out and reiterated their full-year guidance, which kind of indication that they have not seen any indications of adverse selection or operational mishaps as a result of the growth that they've been experiencing.

For Baxter International, this is a company where we've been seeing some topline misses for several quarters around their IV solutions in the recovery in the wake of Hurricane Helene, where their facility went completely offline. Despite some of this weakness, the company reiterated full-year guidance and seems to be making good progress on execution under a new CEO, and the stock reacted positively to that.

Then finally, semiconductor distributor Avnet was the third top contributor. Avnet has been benefiting from just the increase in chip demand, and the stock has been strong and we took advantage of that strength to actually exit the position during the quarter.

On the detractor side, Cognizant, Dow, and Olin Corporation were the top three detractors during the quarter. Cognizant is an IT services provider and the real controversy here is around the impact of AI on their business. We actually think AI is an enabler for their business where it will allow them to work with their customers to provide solutions, implement the solutions and really should be a boost to Cognizant's revenue in growth in the long term. A lot of corporates have been slow to actually commit to any spending, and so while Cognizant expects this to come through, it hasn't come through yet in the numbers. And the market is fearful that AI is disrupting and people aren't using Cognizant for these solutions, so you have this fear of the growth not materializing that's being reflected in very low market multiples for Cognizant.

Dow Chemical was weak this quarter as it gave back some of the gains that it had in the first quarter of the year where the conflict in the Middle East led to elevated polyethylene prices. We still think prices will be elevated for quite some time and that generates a very nice cash windfall for Dow that helps delever their balance sheet and help them manage through what still remains a pretty difficult environment for commodity chemicals in general.

Finally, Olin Corporation was the third detractor in the quarter. Olin announced a merger with a competitor, or customer of theirs as well, Huntsman, where, you know, there was a little bit of confusion around the strategic rationale for the combination. They did announce several hundred million of synergies along with the deal that we think is quite meaningful in the context of the market cap of the two companies, and we also think they're pretty reasonable because they tend to be back office related in general, general operating synergies, but that stock was weak just on sentiment around the deal.

During the quarter, we added two names to the portfolio, Workday and SSNC. SSNC is a name we've owned in the portfolio before. It is a software service provider for financial institutions, and similar to what's going on with Cognizant, there's fears around the impact of AI on this business longer term, where we think the business is much more durable. Workday is a software solution provider for human resources. Again, there's AI fears around the impact of AI on software models. Workday is a very sticky solution with the 98% retention rate and we think that the fears around the impact on Workday's growth is misguided. We also added Dollar General during the quarter, the discount retailer, on weakness.

We funded this, we sold out of our position in Webster Bank as they got acquired by Santander, and we exited our position in Avnet, which I mentioned earlier. Finally, we also funded this by partially trimming our position in Humana, though it still remains one of the biggest positions in the portfolio.

Despite the challenging markets around the AI enthusiasm, we think the offset of that is it's created a lot of pockets of opportunity in unloved, underfollowed portions of the market where we continue to invest and find opportunities. And so, as a net result, we're pretty excited about where the portfolio stands today in the opportunity set, and we look forward to giving you an update next quarter when we come back.

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