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, I'm John Flynn, a portfolio manager here at Pzena Investment Management, and I'm here to talk to you about the second quarter in our small cap value strategies.

Broadly speaking in the market, we saw a market that kind of looked past global uncertainty with turmoil in the Middle East and really embraced all things AI and really a semiconductor and memory-led driven market. Against that backdrop in small cap land, we had a very big discrepancy between small cap growth and small cap value where growth outperformed pretty meaningfully, in our small cap strategies kept up with the value index during the quarter.

If you look at the contributors and detractors, really consumer and industrials, consumer discretionary and industrials were the top contributors, whereas basic materials and technology were the detractors in the quarter. Within consumer, we saw names like Newell Brands and Sensata and Advance Auto Parts as the three top contributing names in the overall portfolio. Newell Brands has continued to execute on a multi-year turnaround that's finally seeming to bring signs of life back to the company and a return to growth hopefully in the second half of this year. Sensata is the sensor company for autos, where they've seen nice cash flow and free cash flow conversion and growth there. And finally, Advance Auto Parts. This is the auto retailer. They are also in the middle of a turnaround here and they actually had the best same store sales they've had in 5 years and continue to execute on that turnaround.

On the detractor side, I'd say there's two things worth talking about. One in the basic material space was a merger between two of our holdings, or an announced merger I should say, of two of our holdings, Olin and Huntsman. The market reception of this deal was a bit of confusion and the stocks were down. Ultimately we think there are several hundred million dollars of synergies here that the company can execute on just on basic back office functions. And so, you know, while the strategic rationale isn't imminently clear between how the two fit together, the synergy opportunity we believe is real and meaningful relative to the value of the companies.

The other detractor to talk about is Concentrix. Concentrix is an outsourced call center business where there's been fears of AI weighing in on their business, and so growth rates have been somewhat muted as a result of this. We think that they are part of the AI solution and deploying the AI tools for their customers, and that it's misunderstood by the market, and continue to own the position.

We also had two new names in the portfolio this quarter that kind of continue on that theme of the AI laggards, and that would be Amdocs and Genpact. Amdocs is a company that does outsourced billing for telecommunications companies. Again, there's fears of AI disrupting that process. Meanwhile, Amdocs is rapidly deploying AI solutions for their workflow. And Genpact is a traditional business processing outsourcer, so all sorts of financial functions, other functions that companies would outsource to Genpact. Again, this is a business that historically has been built kind of as a labor plus type business model. They are transitioning customers to a more AI empowered model, and pretty successfully in the early days. And so again, we think kind of the prospects for the business are misunderstood by the market.

Other things going on in the portfolio during the quarter, we added to PVH, the owner of Calvin Klein and Tommy Hilfiger, on weakness. We also trimmed Sensata on that strength, Bread Financial, the private label credit card company, and Avnet, the semiconductor distributor.

We think the portfolio's valuations today remain very compelling, and while there's a lot of fervor in the market around AI in the semiconductor trade, we think the pockets of the market have been completely ignored as a result of that, and that's where we're continuing to find opportunities in the portfolio. We look forward to updating you next quarter and thank you for your time.

Further Information

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