

The following transcript was recorded on October 8th, 2026. This transcription is believed to be an accurate summary of the live interview, but may contain some minor differences from the speaker's exact language.

Hi, I'm Evan Fox, one of Pzena Investment Management's small cap focused value portfolio managers. We just reached the end of the third quarter of 2026. And you know, as we came through the end of the summer, this was really a period that saw a reversal of some of the small cap gains that we had relative to large cap throughout the course of the year. Small caps are still up for the year, but as we came through an environment with higher interest rates, we've also come through oil prices, correspondingly gas and diesel prices, it's led to some weakness of small caps throughout the course of this quarter. Within the small cap universe, value did outperform growth and we were roughly in line with our value benchmark.

When you look at the sectors that contributed the most for the quarter, it was healthcare, information technology, and energy. The top individual contributor we had was Varex, which is a company that makes X-ray tubes and the detectors for medical applications as well as a range of industrial applications. And it was acquired for more than 50% premium to where the stock had been. This really is representative of what you sometimes see during these real deep value periods where companies are trading at big discounts and it's an opportunity for other companies to buy them out and you see some crystallization of some of that underperformance from that and so it ended up being a very strong contributor. Another stock that did quite well and was a strong contributor is staffing company Robert Half. Robert Half is a leader in terms of both temporary labor as well as permanent placement. This is a market that's been challenged for a number of years because labor turnover has been low. And what we saw was that the temp labor was less negative than it had been. And permanent placement actually turned positive year-over-year for the first time since 2022. Led to a nice rebound in the stock. And what you see in situations like this is even just seeing less negative news and just some green shoots really can lead to big stock reactions when stocks are really trading down to low levels.

The sectors that detracted the most from performance throughout the course of the quarter were consumer discretionary, industrials, and financials. The biggest individual detractor was Advance Auto Parts. This is the company that sells aftermarket auto parts uh throughout the country. They're one of the four leading players and they sell to a combination of what's called the DIY, the do-it-yourself, and the do-it-for-me, the people like myself who typically would go to an auto shop to do those repairs. What we saw throughout the course of the quarter was there was pressure on uh the business because the consumer confidence, the ability of consumers to spend was leading to people trading down to more value-based products, lower price products. and uh they were a little slower to react to that, but they've since reacted to it. We also saw some weather in impacts, although we always view that as a bit noisy and not a fundamental change and not a great excuse when management blames the weather. When we look at this going forward, it remains one of our highest conviction names because they really have a lot of opportunities to take out costs to become more and more efficient and they'll work through these temporary challenges they have.

Another stock that detracted was MasterBrand. This is a leading kitchen cabinet manufacturer that closed on a merger with American Woodmark, one of their competitors and another

portfolio company that we have owned. These companies are really well positioned as the top three kitchen cabinet companies have combined into two and it increases the ability of them to improve their supply chain, their manufacturing and their negotiating leverage. But of course, what we're seeing is weakness in the end markets because of high interest rates. It's reducing housing turnover. It's reducing what we're seeing in in terms of uh renovations that people are doing in the short term and it's driven the stock down.

In terms of portfolio actions, a new name that we added is LKQ. This is another name that's in the auto space. It actually stands for like kind and quality. What this is that in the US business, if you get in a car accident and there's a fender bender or whatever it might be, you can choose to get the original uh equipment, the OEM equipment to replace it, you can get what's kind of called like kind and quality where you're getting it from an aftermarket provider that can provide the same fender but at a lower cost. Or you can go even lower cost and get a scrap product. This is where someone gets in an accident, their car is scrapped, and they'll buy that car for \$2,000, and then sell 80 to 100 components of it for \$10,000 total. They are a multiple the size of any of their competitors. They have much better fulfillment ability than anyone else, but they're going through pressure on the US side where higher insurance rates, higher co uh co-pays and deductibles are just leading to fewer people getting their cars repaired. This is a normal cyclical trend that we're going through, but they're really still well positioned to work their way through it. On the European side, they're more like an Advance Auto Parts in the sense of selling a wider range of products through retail. And there they've brought together a whole bunch of different acquisitions that they've worked on integrating. As they work through that, they're seeing some new competition from a number of different players, whether it's from Poland, UK, other places. That's led to some price competition.

In terms of funding this, uh, we sold out of a couple positions that have done very well. We sold Myers Industries, which makes a range of plastic-based products including seed bins gas cans, things like that. And we also sold Avnet, which has done very well. They are a semiconductor distributor who really has benefited from some of the price inflation that we've seen in that market.

Small cap stocks remain particularly depressed compared to their larger cap peers. We've seen the large cap part of the market has gotten more and more expensive and especially has gotten concentrated on the high end while many of the small cap stocks have been left behind and now these remain really an attractive opportunity at this point and we're excited about our portfolio as it stands today. It's one of the cheapest portfolios we have across our entire firm and while we don't know exactly when things are turned obviously there's a lot of macro uncertainty and other things that are driving the market. We really feel good about the mix of businesses and the diversification that we're able to achieve at depressed valuations, which is really what we do and what we've been doing for 30 years.

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