PZENA Investment Management

Pzena SMID Cap Value

Returns are in USD As of March 31, 2025	1Q 2025	YTD	One Year	Annualized Returns Three Year	Five Year	Since Inception 6/1/2019
Pzena SMID Cap Value Composite — Gross	-6.4%	-6.4%	-8.7%	4.4%	21.5%	11.4%
Pzena SMID Cap Value Composite — Net	-6.6%	-6.6%	-9.2%	3.8%	20.8%	10.7%
Russell 2500® Value Index	-5.8%	-5.8%	-1.5%	2.3%	16.7%	8.5%

Past performance is not indicative of future results.
Periods greater than one year are annualized in USD.
Returns could be impacted, positively or negatively, by currency fluctuations, where applicable.
Gross rates of return are presented gross of investment management fees and net of the deduction of transaction costs. An investor's actual return will be reduced by investment management fees. Net Returns are derived using a model fee applied monthly to Gross returns. Pzena uses the highest tier fee schedule, excluding performance fees, to illustrate the impact of fees on performance returns. As product fees change, the current highest tier schedule will be in effect.

Markets declined to start 2025, as tariffs and their corresponding impact drove weak economic sentiment. While full tariff details were not announced until after the quarter-end, proposed changes throughout the period negatively impacted almost all sectors, and led to mid and small caps continuing to underperform large caps. Value outpaced growth in the quarter, and our portfolio slightly trailed the Russell 2500 Value Index.

Consumer discretionary, industrials, and basic materials all detracted from performance this quarter. Consumer products company Newell Brands was weak, despite earnings beating expectations, due to a slightly weaker-than-expected demand outlook and fears around the impact of tariffs. Chemical producer Olin reported solid quarterly earnings but lowered 1Q 2025 guidance. The company cited lower-than-expected chlor-alkali demand from customers driven by the impact of Winter Storm Enzo. Automotive seat supplier Adient traded down on tariff concerns and their potential to negatively impact automotive production and profitability. Most of Adient's production is co-located with customers, but they, like competitors, have components that are subject to tariffs. Additionally, broader auto demand could be weakened if OEMs have to increase pricing to offset costs.

The only contributing sector this quarter was technology. The top individual contributor, contact center operator Concentrix, reported slightly better-than-expected sales. More importantly, the company has demonstrated its ability to grow even as more than half of its customers have implemented AI solutions, demonstrating Concentrix's value-add and leading to a short squeeze on a stock with a highly depressed valuation. Life insurer Globe Life posted better-than-expected earnings. The company continues to repurchase shares and has not suffered from accusations made by short sellers last year. Discount retailer Dollar General rose after posting an earnings beat due to stronger same-store sales and positive progress on reducing shrink.

We initiated a position in Robert Half, a leading provider of staffing and consulting services focused on finance and accounting functions. The share price has been impacted by low job turnover weighing on demand for staffing services, creating an attractive value opportunity. We also added LKQ Corp., which is a leading alternative auto parts distributor, holding #1 positions in the collision and salvage markets in North America, as well as in the hard parts market in Europe. After benefiting from supply chain disruptions post-COVID, margins have come under pressure, as insurance companies have written off more cars as totaled, putting pressure on repairs. We believe that these headwinds are manageable longer-term, and the company is well-positioned to benefit from an eventual rebound.

We added to the positions in Dollar General, dental product manufacturer Envista, auto parts retailer Advance Auto Parts, medical products company Baxter, and smartphone component supplier Skyworks, on valuation. We exited fashion retailer Tapestry and title insurer Fidelity National, both on strength. We trimmed insurers CNO Financial and Equitable Holdings, fund administrator and transfer agent SS&C Technologies, and window and door manufacturer JELD-WEN, on valuation.

The period has remained particularly challenging for mid and small caps, but uncertainty in the market continues to create new opportunities. The portfolio remains positioned towards more economically sensitive and cyclical names, as we believe valuations remain quite attractive.

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