Q1 2024 - Large Cap Value Quarterly Update

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I'm Rich Pzena, and I'm going to be covering our Large Cap Value investment performance in the first quarter. It was a bizarre quarter. In the first quarter, we had interest rates trending up steadily throughout the quarter, the economy was really strong in terms of GDP growth and job performance, inflation didn't behave in the fairy tale way that everyone thought it would, and earnings expectations actually decreased somewhat during the first quarter. And yet, the S&P 500 was up over 10%. If we had actually earned half of the returns that we earned in the first quarter, we would have considered it a good quarter and been happy with that. So, this is about as good as you could hope to get.

The strength in our portfolio in the first quarter was concentrated in financial services. Our best-performing stocks and the biggest contributors to our investment performance were Citigroup and Wells Fargo, partially because the environment became a little more benign and the fears of credit losses faded. But also, particularly in the case of these two restructuring banks, they took major steps in their restructuring. Citigroup announced that they were at the peak of their expense structure during their restructuring. Disney, also a recent addition to the portfolio, turned out to perform quickly and was one of our biggest contributors as the company started to address the issues facing its media business.

On the detractor side, the biggest detractor for us this quarter came from Charter Communications, the cable TV operator, as they reported for the first time in a long time a slight decline in subscriber count. This happened because of strong competition from what's called fixed wireless service—this is internet service that's provided by the wireless carriers for home internet service. Verizon and T-Mobile had been particularly aggressive in undercutting prices for service that uses the mobile spectrum. We understood that this was happening, and this is part of the thesis for investing, because Charter Communications is cheap due to these fears. We believe that the capacity for this service to have a substantial impact on the market is limited. So, while we're in this kind of tumultuous period and it's uncertain whether this is a permanent slowdown or a temporary slowdown in Charter's business, we think the risk-return is skewed in our favor. That's why we own it and have been increasing our exposure to it.

Turning our attention to our outlook for the future, the environment feels very normal. The economy feels very normal. Almost all aspects of economic activity are on or close to trend. The investing environment looks normal to us, at least for the stocks that we invest in. We're paying the same kinds of valuations that we've paid over our history. The issues facing these companies are very normal. All in all, the best way to describe our outlook for the coming years is that we expect it to be like the past—very normal.

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