

Q4 2024 - Global Value Quarterly Update

Portfolio Manager and Co-CIO John Goetz provides an update on the fourth quarter for our Global Value strategy.

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Hi, I'm John Goetz. I'm one of the global portfolio managers here at Pzena Investment Management, here to talk a bit about the fourth quarter of 2024. Just to set the tone for this conversation, I will say the fourth quarter of 2024 turned out to be a very rough, controversial quarter, and most of those controversies and fear are really outside the United States. Emerging markets was tough—a couple of markets there were down in the 20% range, which is pretty dramatic. Also, Europe continues to struggle with some political issues and economic issues. If you were sitting here in the United States and just looking at the US index, you might say, “Oh, it was a fine quarter,” but really there's a lot of controversy and fear raging around the world. That's an opportunity for us, in the main. We like those periods to restock our portfolios with less expensive ownership positions in companies.

In terms of the actual performance, a negative quarter for us. If you look at a global index, you'd say, “Well, it wasn't necessarily negative,” but if you look underneath that, what you see is additional concentration of performance in the world. Obviously, the Magnificent Seven has been talked about a lot—that's still where people are putting their hope, and that's about where the only place there is hope.

In terms of what happened specifically in our portfolio, we had some nice contributions from the financial sector. Interestingly, Capital One, Citi, and Wells Fargo were all the biggest contributors. That's pleasing to us because we've been in financial investments for quite a while in a number of places around the world, and it was nice to see some good performance there and to take some money off the table.

Where's the difficulty? As I mentioned, markets outside the United States were negative, but the individual stocks that were the biggest negatives in the portfolio were actually in the health care sector. We've been talking about that for a few quarters now—we're finding opportunities in the health care sector. Along with Murphy's Law, what can go wrong is going wrong there. CVS, one of the detractors, actually came under additional pressure; the election didn't help, because if you listen to some of the rhetoric, health care companies like CVS are talked about as inherent evil, when actually our view is they're providing the service of managing health care costs. So what happened at CVS? There's additional controversy over their company direction, and the CEO actually left. In addition, the PBM part of their business, the pharmacy benefit manager, also came under additional criticism. Last but not least—and we've been talking about this for a couple of quarters as well—it's been tough in the health care business in Medicare Advantage, where Medicare Advantage rates have not kept up with skyrocketing costs since the end of COVID.

The other negative in the quarter that was pretty significant was at Baxter. Baxter's most simple product is actually their IV bags, which they sell to hospitals for surgeries, etc. They had an additional issue in Q4, which was Hurricane Helen shutting down one of their major production

facilities, so they couldn't even keep up with supply and ended up having some losses related to that facility. They came out of COVID with some difficulties—which is what we're investing on—such as when surgeries ramped up really quickly, their costs ramped up even more, some of that just the inflation in plastics costs for their IV bags. We're excited about this, actually, because if you look at the health care sector, it's been a diversifying portion of our total global portfolios. We continue to have confidence in the turnaround in CVS and Baxter, so it gave us another opportunity to put some more money to work. I will say that controversy and fear is our friend, and right now, when I look around the world, we have a lot to choose from, and our expected results from that are as good as they've been in our history. We're pretty excited about the outlook, even though when you look at performance this quarter, it is certainly negative, and it's something that we need to build on into the future.

Stay tuned. I think that we are excited about the opportunities and the diversity in the portfolio. We still have some cyclical investments, but if you remember, we mostly monetized our energy positions, and now we're monetizing some of the financial positions, so we're moving into new opportunity areas—one of which is health care. Thank you, and stay tuned.

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