Looking out onto the landscape of US markets, we wondered to ourselves what might have changed in the last quarter to push market concentration to this high a level, further surpassing previous peaks back to the 1960s.[1] We saw enough of a difference between the Growth and Value components in the market that we were curious where in the data that might be evident. Perhaps not surprisingly given our past commentary, we saw no data that would account for the performance of the top of the market in the second quarter. As shown in Figure 1, economic data look marginally negative over the last year. Interest rates are higher, unemployment has risen, and CPI has broadly averaged 3.2% during the last two quarters.

Figure 1: Inflection Point?

	2Q23	**1Q24**	**2Q24**
Fed Funds Rate	5.08%	5.33%	5.33%
10-Year Treasury	3.75%	4.21%	4.31%
CPI	3.1%	3.5%	3.0%
Unemployment	3.6%	3.8%	4.1%

	2Q23	**1Q24**	**2Q24**
Russell 1000 Value	1,556	1,766	1,718
% Change y/y			*10.5%*
% Change q/q			*-2.7%*
Russell 1000 Growth	2,770	3,394	3,670
% Change y/y			*32.5%*
% Change q/q			*8.1%*
S&P 500	4,450	5,254	5,460
% Change y/y			*22.7%*
% Change q/q			*3.9%*

In the second quarter, the Russell 1000 Growth rose while its Value counterpart declined. In an environment where returns are attributable to only a small number of companies, we do not expect to look correct. When a momentum trade where high-multiple stocks become even-higher-multiple stocks powers the market to a record high with limited fundamental support, it is all but certain we will look wrong.

Right now, the market is concentrated, hyperbolic, and on edge. A handful of massive American businesses are driving index performance. Furthermore, valuations of several of the largest technology businesses, as well as those in tertiary sectors, are being driven by hype swirling around AI. The market also seems to be waiting expectantly for any word on the Fed's rate path, unemployment, or consumer spending, reacting strongly in

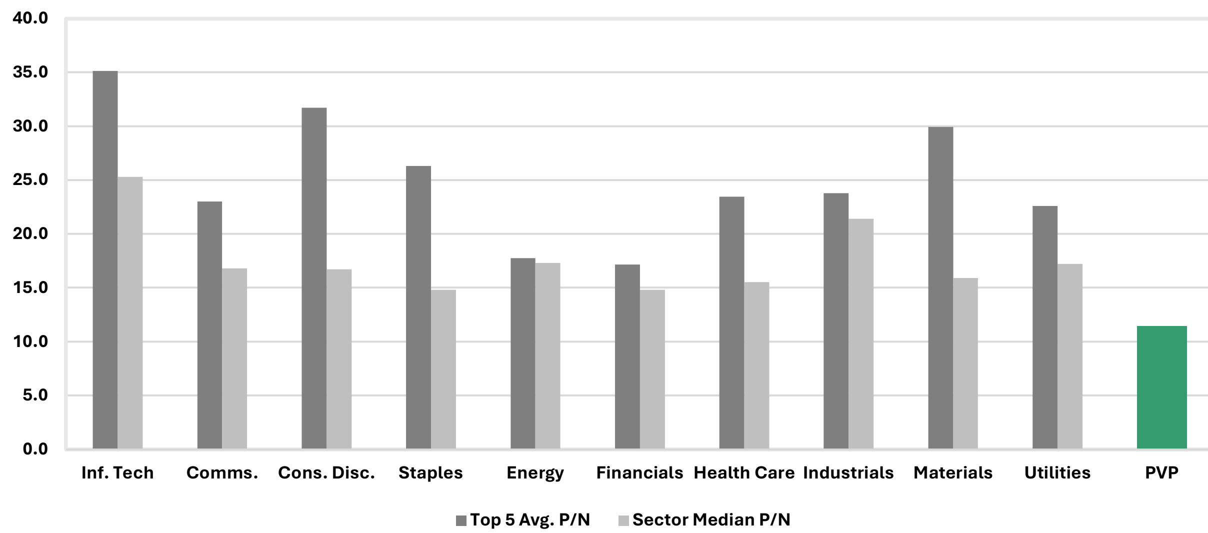
[1] https://www.morganstanley.com/im/en-us/individual-investor/insights/articles/stock-market-concentration.html

both directions to even minor changes. In our view, these and other factors are juicing prices for high-flying tech companies while leaving some great businesses behind.

To an extent, this is always the case; markets often overreact in both directions to both good and bad news, and there are always companies which are over- or undervalued. But as we have discussed in previous letters, today's distortions seem particularly large, even approaching bubble territory. We have reached a stage where the valuations of *power utilities* are being impacted by their proximity to AI. At the same time, we have seen the share prices of several of our holdings restrained by their distance from the "AI trade" and the perception that they are no longer deserving of a valuation that reflects their enduring competitive and financial strengths.

As one might expect from contrarian value investors, our view is different from the market's. As shown in Figure 2, PVP's two portfolios comprise a select group of companies trading well below the market and sector averages despite being strong businesses selling essential products and services with entrenched market positions, sizeable barriers to entry, and good returns on capital. To be sure, we are not taking credit away from the excellent businesses that Silicon Valley has built in the last 30 years, nor are we suggesting that they do not create significant shareholder value. At the right price, our investment framework allows us to consider businesses in any industry. Indeed, we own Meta Platforms (META) in our PVP Diversified Value Fund, having purchased shares at a compelling valuation. But as fundamental, price-sensitive investors, our process will always steer us away from companies with prices that reflect neither the underlying range of outcomes nor the risk of permanent capital impairment.

Figure 2: Sector Price/Normal vs PVP



Last quarter was the first in which we underperformed our benchmark since our inception in 2020. In the last three months, we have looked wrong more than we have looked right. Despite that, long-time investors in our funds will know that our investment process does not hinge on short-term market fluctuations. We do not base our decisions on stock price declines in any given quarter, month, or year. We do the math, and we stick to the math. Whether we look right or wrong at any specific point in the life cycle of an investment is a function of Mr. Market's emotions and – sometimes – pure luck.

However, we feel that the best way to evaluate the success or failure of an investment is the long-term growth of capital invested in each company at the time of our eventual exit. In this case, choosing an endpoint in the middle of an investment seems arbitrary at best, and counterproductive at worst. All companies, even great ones, face constantly changing circumstances, new challenges, and unexpected events. Our belief is that quality businesses tend towards better outcomes, and our investment process embraces that philosophy by keeping us focused on the "Normal" environment, which we define as the steady-state, through-cycle economic picture and return profile of a business.

Our portfolios include investments at distinct stages. We own companies which we have purchased in the last year and which have not yet progressed to our expected Normal state, we own some which have been in our portfolio for years and are on the path to Normal but which have not yet completed their journeys and which the market still underestimates, and we own yet others which have nearly achieved our expected Normal state and are trading at a Price/Normal EPS (P/N) multiple nearing the midpoint of our universe.

To us, this is not unexpected. We believe that there will always be a mix of investments at different stages in our portfolios. What we do not and will not attempt to control or predict is the mix of companies at any point in time. In our process, the starting and finish lines are defined by P/N. We only enter a position when a company is trading in the bottom quintile of our universe on a P/N basis, and we exit when a company's valuation reaches the midpoint of our universe on the same basis. Our job is to remain vigilant regarding our expectation of the Normal fundamental picture over the life of an investment and to be honest with ourselves about changes. Unless our thesis breaks and the Normal EPS turns out to be dramatically different than our initial expectations, we have not failed. We remain always on watch for changes to our businesses but never with itchy trigger fingers, poised as others might be, over the big red button marked "Sell."

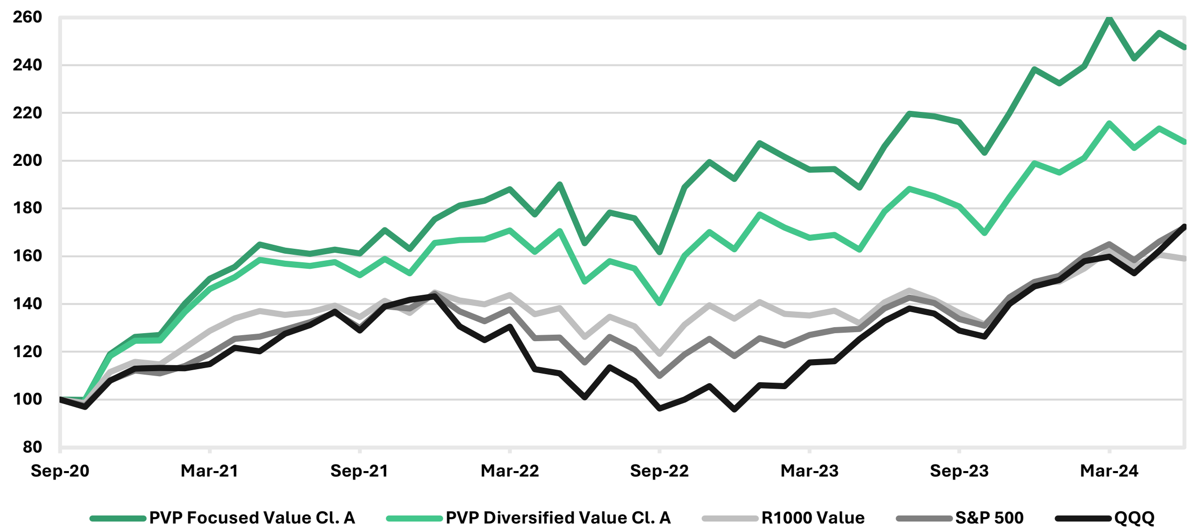
As discussed above, our portfolios lagged the Russell 1000 Value in the second quarter. PVP Focused Value finished weaker than PVP Diversified Value, both of which were behind the index.

Benchmark Indexes	**Returns**
Russell 1000 Value Index	-2.16%
Russell 1000 Growth Index	8.33%
S&P 500 Total Return Index	4.28%

Princeton Value Partners Funds	**Returns**
PVP Focused Value Class A	-4.57%
PVP Diversified Value Class A	-3.52%

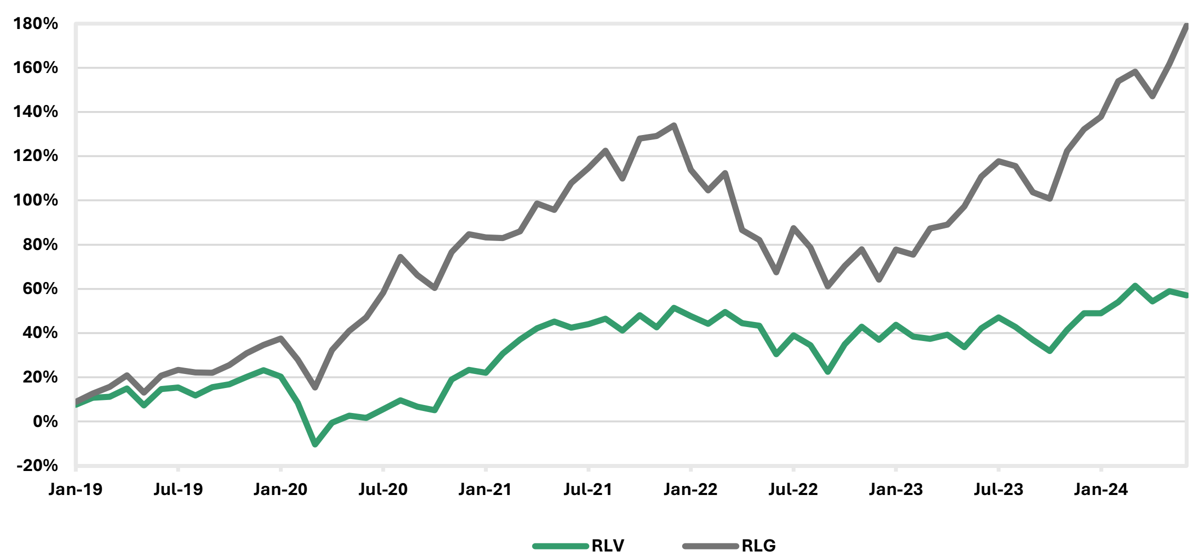
Figure 3 highlights the net long-term performance of the PVP Focused Value and PVP Diversified Value funds along with leading indices. Since inception, our funds have generated excellent returns, well ahead of major benchmarks. The PVP Focused Value Fund has generated gross returns of 152.8% (net returns of 147.5%) compared to the Russell 1000 Value Index at 59.0% and the S&P 500 Total Return Index at 72.1% since inception on October 1, 2020. The PVP Diversified Value Fund has generated gross returns of 112.2% (net returns of 107.8%) compared to the Russell 1000 Value Index at 61.4% and the S&P 500 Total Return Index at 76.8% since inception on November 2, 2020.

Figure 3: Value of $100 Invested in Funds and Benchmark



The gap between the Russell 1000 Growth and Russell 1000 Value, shown in Figure 4, widened further in the quarter and is now at the highest level since we started tracking the data in 2019. The Russell 1000 Growth was up 8.33% and the Russell 1000 Value was down -2.16%. The prevailing euphoria in the market related to AI technologies and the belief that an increasing share of future earnings will be captured by technology stocks while the old economy withers is reaching an extreme. We are holding fast to our discipline of searching for great businesses that are being ignored by momentum investors. We are evaluating several consumer discretionary businesses that we believe will do well in a range of economic scenarios and healthcare businesses that are being significantly discounted due to regulatory pricing pressures.

Figure 4: Russell 1000 Value vs Growth



Portfolio Changes

During the quarter, we made one portfolio change, selling our position in Freeport-McMoRan (FCX) and purchasing Genpact (G). G is a leading business process outsourcing (BPO) and information technology (IT) services provider. The Company was founded as GE Capital International Services (GECIS) near New Delhi to outsource internal back-office activities for GE Capital. Over the years, the Company has expanded its client base outside of GE, procuring work globally and delivering services using offshore staff based in India. The Company currently employes nearly 130,000 people and generates revenue of more than $4.5 BB.

IT services is a competitive industry, and the BPO segment is an attractive niche with an addressable market expected to grow at an annualized rate of 9.1% from $58 BB in 2022 to $111 BB by 2030. Growth comes primarily from large organizations as they outsource non-core operations to providers that can generate efficiencies through technology and labor-cost arbitrage. The introduction of innovative technologies, improvements in telecom infrastructure, and increased digital capabilities have allowed IT service providers to offer new value-enhancing BPO offerings.

Multiple factors, both company-specific and market-oriented, had led to a decline in stock price from over $50 to around $30, making the stock a compelling value today. Although history suggests that improvements in technology and communications lead to more BPO opportunities, we believe the market is assuming that new AI technologies will disrupt the entire IT services business model and create an existential threat. Over the last year, business conditions have become more challenging, and there has been a slowdown in short-term, project-oriented work. Tiger Tyagarajan, the iconic CEO who led G for over a decade, also recently handed the reins to his successor.

While we agree that AI technologies will automate more tasks, these functions will still require BPO companies for implementation and management. Our view is that as the sector matures, G and its peers will continue to generate increased cost efficiencies and capture value by shepherding clients through the adoption of new digital technologies. The sector has a very steady revenue profile with average contracts lasting more than five years. Customer retention rates are high due to significant switching costs and clients' desires to avoid disruption. Moreover, we believe that the industry is ripe for consolidation as the largest player in the sector, Accenture, has less than 10% market share, and 63% of the industry is made up of small operators.

We project Normalized revenue of $5.2 BB in FY28 based on our assumption of 3% y/y growth, a number well below historical trends and far less than the expected growth rate of the addressable market. We expect operating margins to settle in line with G's long-term average of 13%. Our estimates yield a Normal EPS of $3.10. We began purchasing G at $32, which reflects a P/N of slightly above 10x, an attractive valuation for a strong, global business that provides essential, value-added services.

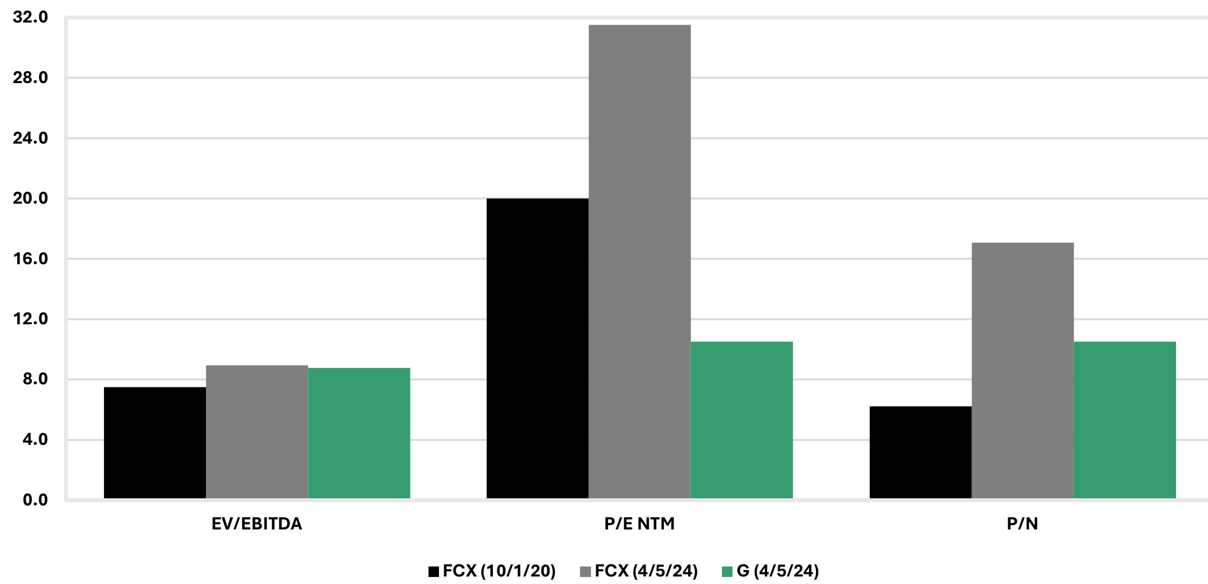
To fund our purchase of G, we sold FCX, a major global copper producer we had owned for nearly four years. As shown in Figure 5, FCX had approached our estimate of fair value, and we chose to fund our investment in G with the proceeds. We first bought FCX at roughly $16 in 2020 when we initiated the portfolio. At the time, shares had begun to rebound from COVID and were attractively valued based on our estimate for the Normal price of copper. During the prior decade, FCX had built debt to fund investments in oil and gas production. With copper prices hovering below $4 for most of that time, FCX returned its focus to its core mining operations, paid down debt, and reinvested in its business.

Our thesis incorporated our expectations for improving copper demand given its essential nature in the electrification of a global economy moving towards cleaner energy. Electric vehicles (EVs) use nearly 200 lbs. of copper per car, five times more than a conventional vehicle. To support GDP growth, we must continue to improve electric grids, and copper will be required for the shift towards a green energy future. On the supply side, new mines are difficult to develop as finding high quality ore is increasingly difficult and environmental permitting and building access to remote locations are often time-consuming. It can take 7-10 years for new mines to come online and start production.

As the Pandemic abated, copper prices started rising along with FCX stock. Our view is that the Normal price of copper is around $4.50/lb. We believe it is difficult to sustain higher prices for prolonged time periods as reinvestment economics become attractive and competition adds supply. Further restraining prices are the risk of governments establishing windfall taxes on operators or changing negotiated contracts and the increasing attractiveness of copper recycling as prices rise.

We exited our position in FCX over $50 as the stock approached fair value based on our Normal EPS estimate of $2.90. Interestingly, based on a copper price of around $4.50 at the time of our sale, the ratio of FCX's enterprise value (EV) to copper profitability[2] was higher than on 99% of trading days over the last 14 years. Once again, we highlight our discipline, our relentless focus on fundamental performance, and our courage to stick to our view that a well-researched thesis should drive our decisions.

Figure 5: FCX to G



Fears of a slowing economy and acceptance of higher-for-longer interest rates had a particularly negative impact on our consumer stocks. Our Consumer Discretionary holdings of D.R. Horton (DHI), Lear (LEA) and Whirlpool (WHR) each declined more than 10%, with LEA declining 21% as expectations of a stretched consumer buying fewer cars or trading down pressured sentiment. DHI, the largest homebuilder in the US, was down 14% as home sales expectations remain low. Our view is that both stocks are incredibly attractive in the long term. Our investments in Dollar General (DG) and Kenvue (KVUE) were both down over 15% in the quarter, impacted by expectations of a slowdown in consumer spending.

Overall, energy stocks had a quiet quarter as oil prices remained rangebound since March. WTI closed at $82.83, down 13% q/q. We continue to believe that the long-term oil price equilibrium should be in the range of $75-80 to provide adequate returns to the industry and for supply and demand to remain in balance. Early in the quarter, Schlumberger (SLB) announced the acquisition of ChampionX Corp (CHX) in an all-stock deal which we believe is being proposed at a fair price, further consolidating the industry. Our four energy positions,

---

[2] We measure profitability as the difference between copper prices and FCX's cost of mining, multiplied by production volume.

Valaris (VAL), Enterprise Products Partners (EPD), Exxon Mobil (XOM), and SLB trade at an attractive average P/N of 11.7x.

Financials were the best performing sector in the quarter. Following its strong first quarter performance on the heels of restructuring news that was received well by the investors, Barclays (BCS) continued its robust performance and was the best performing stock in the Focused portfolio, up 13% q/q.

Our Healthcare holdings of Amgen (AMGN) and CVS Health (CVS) had varying performances. Amgen (AMGN) reported strong quarterly numbers and was up nearly 10% in the quarter. CVS reported a weak quarter with medical loss ratios coming in higher than expected in its Aetna health insurance business and the loss of a large client in its pharmacy benefits management business impacting profitability. We continue to view AMGN positively as the stock moves closer to our estimate of fair value and it remains a core holding with its wide variety of essential and leading biotechnology drugs. Our view of CVS remains constructive, and we believe it is trading at an attractive valuation. We discuss CVS further as one of our highlighted holdings.

In Technology, Intel (INTC) declined 30% in the quarter. The euphoria of AI seems to have had no impact on INTC. We continue to believe in the long-term revival of INTC and with time, as the Company executes its turnaround, investors will begin to regain confidence and its valuation will improve.

In Diversified Value, we exited our positions in Seagate Technology (STX) as the stock doubled over the last 18 months and reached our fair value. STX is a manufacturer of hard disk drives where steady demand and good pricing has resulted in improved earnings. We added to our position in Bristol-Myers Squibb (BMY) as we believe that the intrinsic value of its current product portfolio is equal to its current enterprise value as the stock price has been cut in half over the last two years. This implies that we are buying the future R&D pipeline for free, a rare occurrence in pharmaceutical valuations that is generally an attractive entry point for an investment with a significant margin of safety.

In the closing section of our letter, we highlight two current investments, both of which are held in Focused and Diversified funds. We believe they are essential businesses with strong competitive positions operating in attractive industries. They are industry leaders with diverse revenue streams trading at discounts to what we consider their fair values based on conservative revenue and cash flow assumptions.

CVS Health (CVS)

CVS is the second largest healthcare service provider with major brands including CVS Pharmacy, a retail pharmacy chain, CVS Caremark, a pharmacy benefit manager (PBM), and Aetna, a health insurance provider. CVS provides its customers access to a wide variety of healthcare services in an increasingly complex US medical system with total annual expenditure of nearly $4.5 trillion. With over 300,000 employees, revenue exceeding $357 BB in 2023, 12 MM lives insured, 27 MM lives managed, and nearly 9,400 retail drugstore and pharmacies processing over 2.3 BB pharmacy claims and dispensing over 1.6 BB prescriptions, CVS is a behemoth and an integral part of the US healthcare value chain.

We highlight our investment in CVS because we believe that the Company has a network that is exceptionally difficult to replicate and a long-term strategy to provide a one-stop healthcare shop offering a wide variety of services to its customers fairly and efficiently to reduce the administrative costs of patient care. CVS has struggled for the last few years as the Company faces significant pricing pressure from government regulators and its commercial customers in an environment where high levels of service and customization are demanded by users.

The ability to deliver the correct prescription to a consumer and to process payments so that manufacturers and distributors are paid correctly by insurers comes with extremely high fixed costs. The requirements of large networks of pharmacies across service areas to allow consumers convenient access to prescriptions, connectivity between pharmacies and healthcare providers, and the ability for pharmacies to obtain, store, and dispense medication is a complex and expensive logistics exercise requiring constant reinvestment in technology and information management. Health insurance also requires significant local scale to establish a network of doctors and hospitals available to treat patients with adequate availability, appropriate pricing, and accurate recordkeeping.

Our view is that in the long term, CVS will be compensated for its investments and the value it provides. With returns currently hovering around the cost of capital, we believe it will be difficult for payers to implement further price cuts without cost coming out of the system elsewhere. We believe that CVS combines three essential businesses that are difficult and costly to replicate, and that excessive pricing pressure will abate in the future allowing it to generate better returns.

CVS stock struggled as earnings came down in the first quarter for the Healthcare Benefits segment. Aetna experienced significantly higher medical costs of $900 MM partially driven by seasonal trends, which will pass, and partially due to utilization trends, which are likely to continue. The retail pharmacy business continues to be robust as prescription trends continue to grow. PBM revenue declined in the most recent quarter due to the loss of a large client, though the number of claims processed remained robust.

We model a Normalized environment with revenue growth of 4% y/y, significantly less than historical growth in healthcare spending, and operating margin of about 4.5%, slightly below long-term trends. This results in a Normal EPS of $6.99 and an extremely attractive P/N of 8.5x at quarter-end. The Company pays a dividend of $2.66 per share providing an attractive 4.5% yield to shareholders. It should be noted that we are building conservatism into our Normal EPS by assuming dilution of $66 BB in new shares to reduce debt to working capital levels. In practice, the Company has been reducing its debt over the last few years through internally generated cash flow while simultaneously allocating a portion of its earnings to repurchase stock, retiring 40 MM shares in the recent quarter for $3 BB.

Schlumberger (SLB)

Schlumberger (SLB) is the largest oil services company globally with a presence in over 100 countries providing a wide array of services essential to find and produce oil. SLB has led innovation in oil production and increased the use of technology, data, and digital solutions, consistently improving operations while enhancing safety and reliability. SLB is the largest offshore oil driller, an area which is growing faster and contributing more to total production of oil and gas in the world.

SLB is a high-quality provider of essential services and leads an industry which enjoys favorable dynamics both today and in the future. Historically, the oil services industry has been cyclical, gyrating with movements in oil prices. Typically, high oil prices lead to higher cash flow and increased capital expenditure by producers, resulting in an upturn for the oil services industry. Many of these upturns in the oil cycle have seen the industry euphorically invest capital to increase capacity, only to see a downturn in prices due to overproduction.

From 2007-2014 oil prices were mostly high, while from 2015-2023 oil declined and then rebounded. During the first period, capital expenditures by SLB of $30.6 BB comfortably exceeded its depreciation expense of $24.4 BB, and the Company built excess capacity as revenue peaked at $48.6 BB with operating margin above 19% in 2014. In the second period, oil prices declined in 2015-2016 and SLB's revenue declined precipitously to $27.8 BB, down 43% in that time as margins bottomed out around 8%. In the years that followed, excess capacity had to be rationalized and capital expenditure of $23.5 BB was below depreciation of $25.3 BB, resulting in a lengthy period of adjustment and setting the stage for the current cycle.

From a business quality perspective, SLB is the most broadly diversified player in the industry and an essential supplier to all major oil producers with the breadth and depth of its product offerings and knowledge base in oil production. It has long-term contracts with most customers and is considered a trusted partner by its clients. Its ability to continuously innovate and gain efficiency comes from the fact that it learns across a wide variety of projects, it attracts the best talent, and it leads the industry in technology and data processing investments to optimize production from each hydrocarbon resource.

SLB remains attractively valued today, as it was at the time of our investment. At the end of 2014, SLB traded at $85, with a market capitalization of $112 BB and free cash flow (FCF) in the trailing 12 months of $6.5 BB. This was a period of high oil prices and excessive investment with the industry about to go into a prolonged downturn. Today, SLB trades at $47 with a market capitalization of $68 BB and trailing 12-month FCF of $4.2 BB, which we believe will grow at attractive rates through the next cycle.

SLB's shares are trading well below market averages despite its excellent prospects and competitive strengths. Over the last year, the stock has declined from $60 to the mid-$40s, and the Company generated EPS of $3.00, implying a P/E of less than 16x. Our projections assume revenue growth of 6.5% over the next 5 years and an operating margin of 19%, in line with long-term historical averages at similar levels of revenue. This results in a Normal EPS of $4.12 and based on the closing price of $47.18 at the end of the second quarter of 2024, the stock trades at an attractive P/N of 11.4x. The Company pays a dividend of $1.10 per share providing a 2.3% yield to shareholders.

Though we are exiting our first underperforming quarter, our time and effort are focused on executing our Methodical, Disciplined, and Repeatable investment process. No step of our process consists of short-term concern for market gyrations or whether we are missing a theme being exaggerated beyond the fundamentals by pundits with X (formerly Twitter) accounts. We concentrate on finding businesses that are trading well below the midpoint of the market whose product portfolios, competitive positions, or fundamental economics are misunderstood or overlooked by the market. When hype and bubbles begin to form, we are comfortable with the fact that we may look wrong for a time.

Many thanks to our investors for the confidence they have reposed in us. Comments and questions are always welcome.

Sincerely,

Manoj Tandon
CIO, Managing Partner

Tripp Blum
Portfolio Manager, Partner