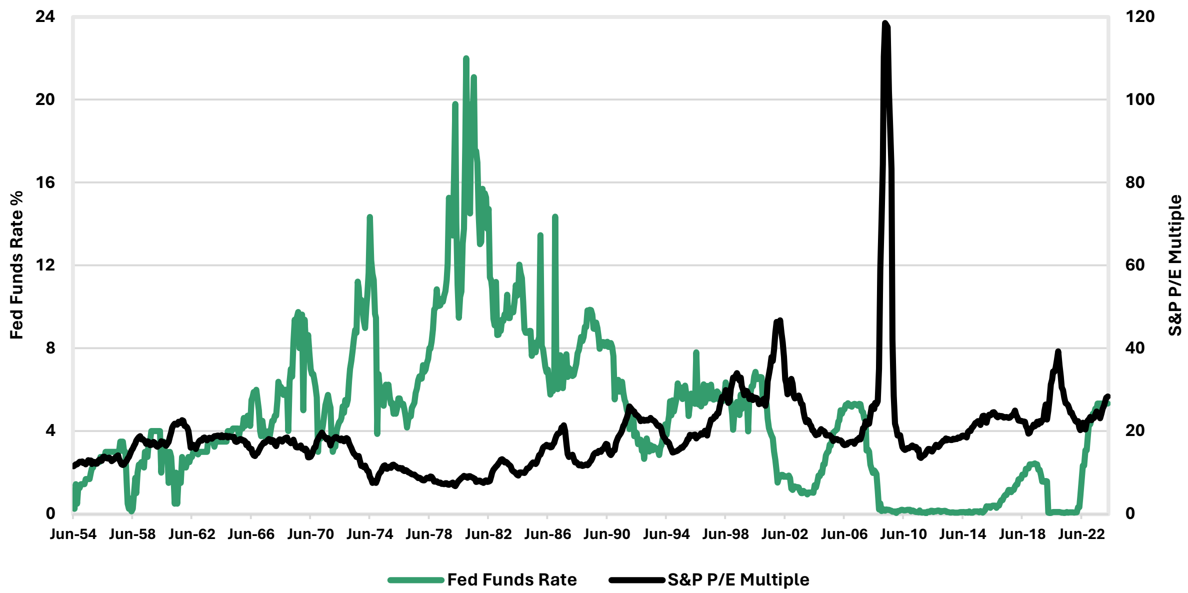
Here is a thought experiment: close your eyes and imagine a world where the stock market consistently hits new highs during a decade-plus bull market. Now ask yourself, are current interest rates higher or lower than their long-term average? By how much?

Try another one: close your eyes and imagine that interest rates today are at their highest sustained level in decades. Is the current trailing P/E multiple of the S&P 500 higher or lower than its long-term average? By how much?

Today's reality does not reflect the most intuitive answers to these questions. Since 1954, the average Fed Funds rate has been 4.6% compared to today's target range of 5.25%-5.50%.[1] However, over the same period, the average trailing P/E multiple of the S&P 500 Index has been 19.2x, *nine turns lower* than the quarter-end value of 28.3x.[2] The average forward P/E multiple of the S&P 500 of 18.1x is *nearly four turns lower* than the quarter-end value of 21.8x.[3] These high valuations are supported by a market that expects the US to remain strong and the Fed to successfully engineer a soft landing. To us, something doesn't make sense. It is hard for us to believe that the stock market is hitting all-time highs when interest rates are simultaneously at multi-decade highs. As shown in Figure 1, market multiples have been higher than today's level in *only 8% of months* since 1954.

Figure 1: Effective Fed Funds Rate vs S&P 500 Trailing P/E Multiple



For those working in finance during the tech bubble, memories of companies trading at ever-increasing multiples of sales are surely causing the hair on the back of their necks to stand up.

[1] https://fred.stlouisfed.org/series/DFF
[2] https://www.multpl.com/s-p-500-pe-ratio/table/by-month
[3] https://en.macromicro.me/charts/88416/US-S-P-500-Forward-PE-Ratio-plus-MA

At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?

-Scott McNealy, Business Week, 2002

Looking at the 10x Price/Sales (P/S) milestone referenced by Sun Microsystems CEO Scott McNealy in expressing his opinion about excessive valuations, we have now surpassed the peak as measured by companies in the S&P 500 trading above that level.

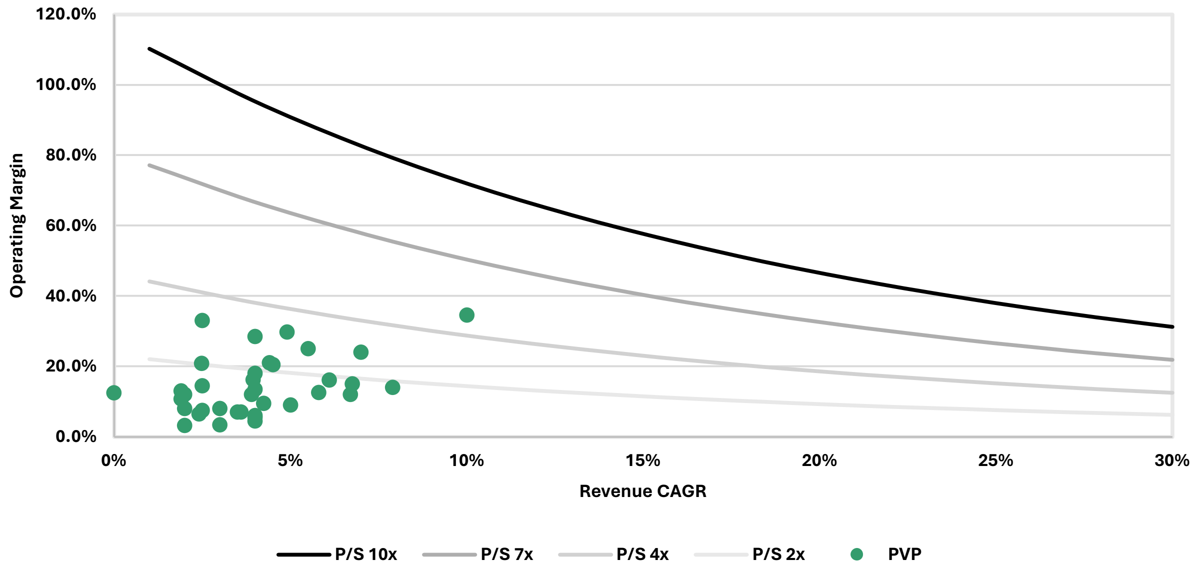
Figure 2: Price/Sales ≥ 10x

As our approach is to seek great businesses trading at a discount, we will probably never find a reasonable investment with P/S of 10x or more. However, it is interesting to examine the market exuberance depicted in Figure 2, showing that there are now 41 companies in the S&P 500 whose P/S multiple is greater than 10x, surpassing the 35 companies trading above that level during the tech bubble in 2000. The only period in the last 25 years where more companies traded above 10x was in late 2020/early 2021 after many businesses faced sales declines during COVID and valuations had risen aggressively in anticipation of a return to normalcy.

We note with some apprehension that 2022 brought with it a substantial correction as prices returned to Earth.

To justify anything close to a 10x P/S multiple, one needs to make some heroic assumptions about long-term revenue growth and operating margins. Figure 3 illustrates the revenue and margin required to achieve a 2x, 4x, 7x, and 10x P/S multiple, respectively. We think companies in our portfolio, represented by the individual points, compare very favorably to those being awarded substantial multiples at today's prices. Instead of excessively high multiples, our companies are trading at what we believe to be attractive valuations and do not require the achievement of monumental growth or margin levels to generate solid returns over the long term for our clients.

Figure 3: Scott McNealy in Our Ear



For our part, we worry that a generation of low interest rates and asset purchases by the Fed have masked economic and market signaling mechanisms. We fear the impacts of the explosive growth in the Fed's balance sheet in the last 15 years and worry that the time required for rising rates to flow through the economy is being underestimated by a loud chorus of pundits predicting the death of inflation and the dawn of a new rate-cutting cycle. Watching unemployment hover at historic lows and market multiples enter the stratosphere while rates are above average, we hear American economist Herb Stein's voice: "If something cannot go on forever, it will stop." The Great Unmasking of economic signaling mechanisms may expose a more sensitive and volatile economy than what most working-age people today are used to seeing when they turn on the financial news.

Equity markets continued their run to start 2024 as companies reported better-than-expected revenue growth and earnings. The idea that the Fed has finished raising rates and is about to start easing in the face of a soft landing became the consensus opinion and contributed to the strength of the stock market. The market continued to shrug off multiple inflation indicators, such as Core CPI at 3.8%, that remain at elevated and unacceptable levels. The 2-year treasury yield rose 36 bps q/q to 4.59%. Oil prices increased 15% q/q to $82.42 and copper rose 3% to $4.01.

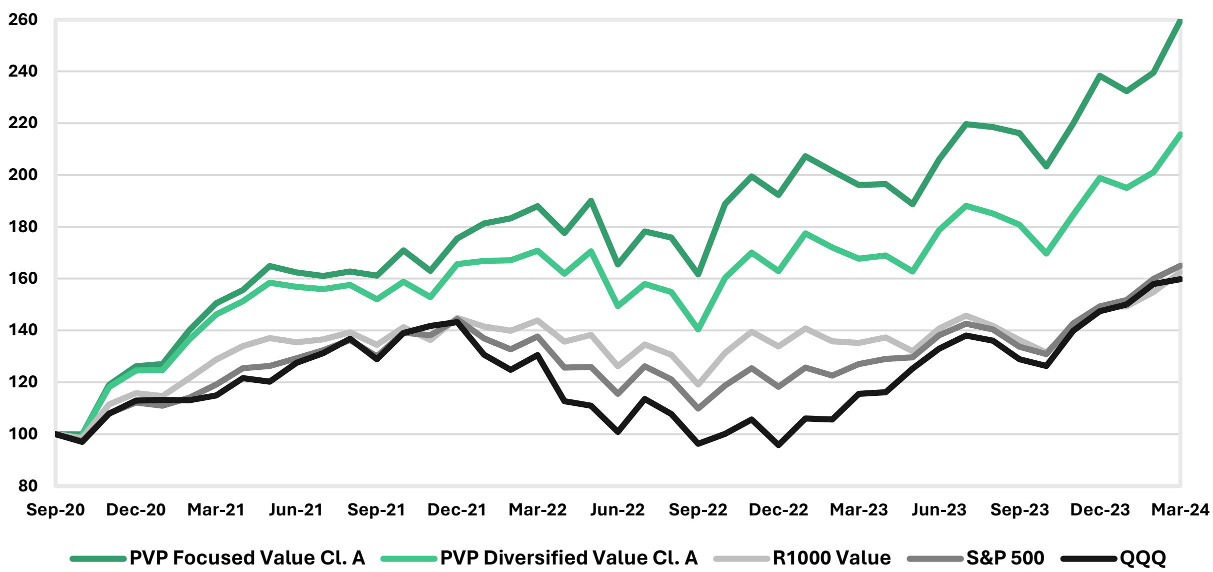
Our portfolios participated in the rally and, after lagging the benchmark on a relative basis in January and February, finished the quarter strongly. PVP Focused Value finished in line with the Russell 1000 Value while PVP Diversified Value was slightly behind.

Benchmark Indexes	Returns
Russell 1000 Value Index	8.99%
Russell 1000 Growth Index	11.41%
S&P 500 Total Return Index	10.56%

Princeton Value Partners Funds	Returns
PVP Focused Value Class A	8.99%
PVP Diversified Value Class A	8.50%

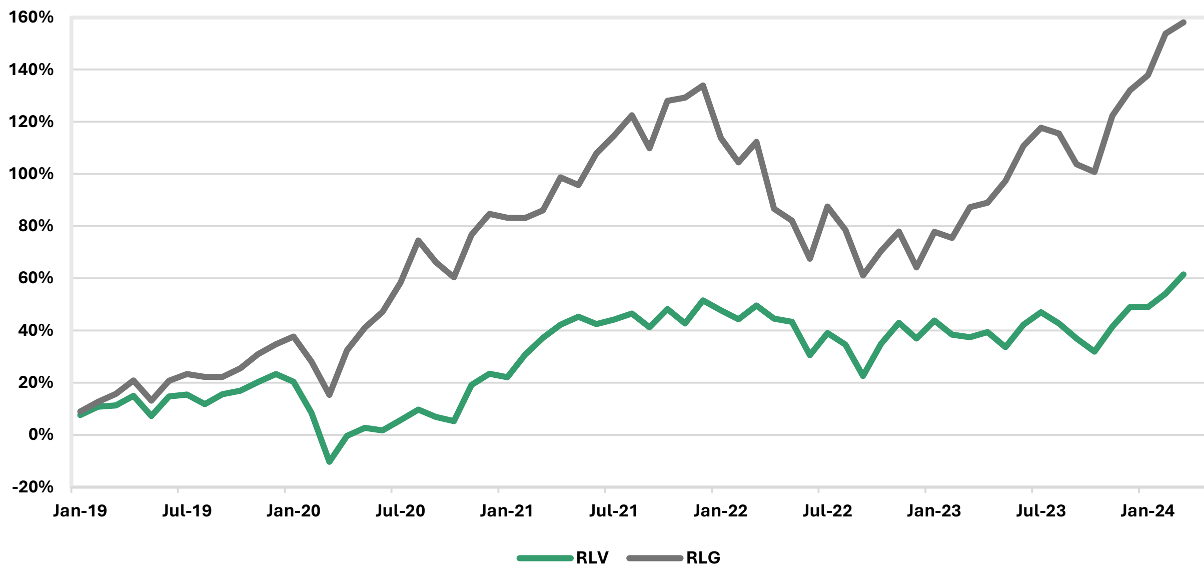
Figure 4 highlights the net long-term performance of the PVP Focused Value and PVP Diversified Value funds along with leading benchmarks. Since inception, our funds have generated excellent returns, well ahead of major benchmarks. The PVP Focused Value Fund has generated gross returns of 164.9% (net returns of 159.7%) compared to the Russell 1000 Value Index at 63.4% and the S&P 500 Total Return Index at 65.0% since inception on October 1, 2020. The PVP Diversified Value Fund has generated gross returns of 120.0% (net returns of 115.7%) compared to the Russell 1000 Value Index at 65.6% and the S&P 500 Total Return Index at 69.5% since inception on November 2, 2020.

Figure 4: Value of $100 Invested in Funds and Benchmark



The gap between the Russell 1000 Growth and Russell 1000 Value, shown in Figure 5, widened further in the quarter. For 1Q24 the Russell 1000 Growth was up 11.41% and the Russell 1000 Value was up 8.99%. By the end of the quarter, the gap was at its widest point since 2019. We have seen this gap close in the past, most recently in 2022, and we continue to believe that we own a portfolio of excellent businesses that will benefit upon the closure of this gap.

Figure 5: Russell 1000 Value vs Growth



Portfolio Changes

During the quarter, we made one portfolio change, selling our position in Vistra (VST) and purchasing FMC Corporation (FMC). FMC is a leading global agricultural science business helping growers produce food, animal feed, fibers, and organic fuels. The Company produces insecticides, fungicides, and herbicides in five active-ingredient plants and 16 packaging and formulation facilities and sells them in over 110 countries. FMC is an innovative, science-based business, and new product development is at the heart of the business model. Our opportunity to purchase FMC came after it reported dismal results for FY23, a year in which revenue declined over 22%, and provided weak guidance on continued destocking of channel inventory.

Prior to the COVID pandemic, FMC reported revenue of $4.6 BB for both FY19 and FY20. As distributors, retailers, and growers feared supply chain disruptions during COVID, they built inventory as a cushion against upstream challenges. In FY21, FMC reported revenue up 8.7%; as inventory buildup peaked, revenue for FY22 was up another 15%. Excess inventory, easing supply chain bottlenecks, and higher interest rates all led to destocking along the distribution chain. Compounding the negative channel destocking were patent controversies around the loss of exclusivity of Rynaxypyr and Cyazypyr, its diamide active ingredients, which accounted for nearly 40% of FY23 sales. A drought in Brazil further compressed the top line as revenue in Latin America declined by 38% y/y in 4Q23. Shares peaked in December 2022 at nearly $135 before trading close to $50 in late 2023 and early 2024, losing more than $10 BB of market value.

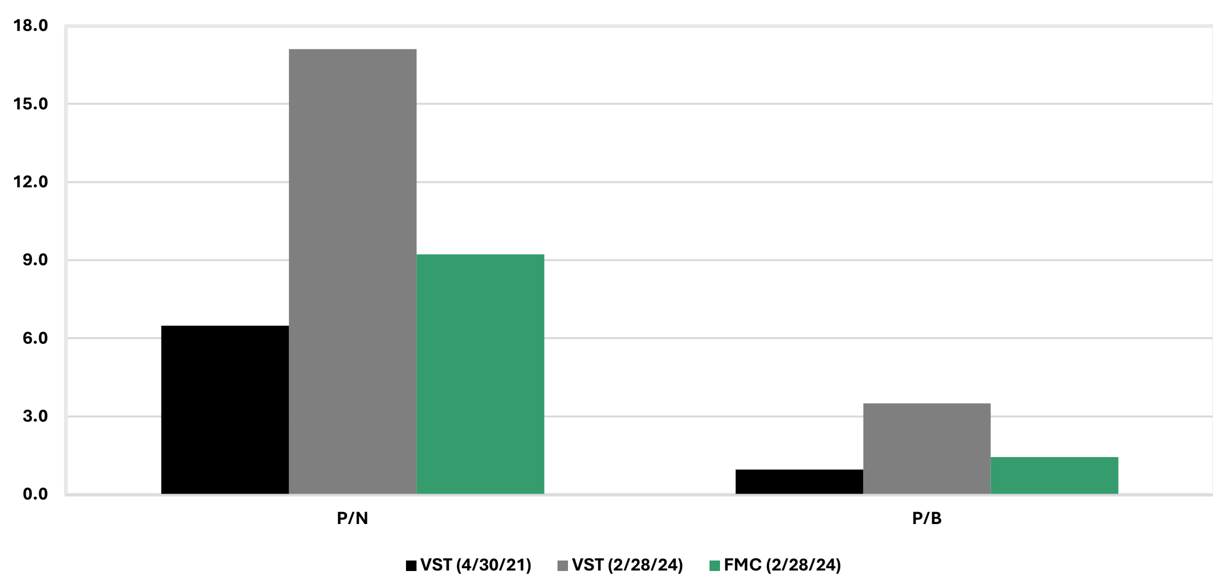
Our view is that the Company has sustained its market share and will continue to provide active ingredients and finished products to its customers under long-term contracts. We believe that the FY19-20 revenue is more representative of FMC's normal product demand and that industry destocking should run its course in the current year. FMC has also embarked on a global restructuring plan as sub-optimal processes that crept into business operations during COVID's supply chain disruptions are finally being eliminated. Though the Company has filed patent infringement lawsuits in multiple jurisdictions, we believe that even if the Company loses all revenue and profitability from its above-average-margin diamide products, the peak-to-trough loss of $10 BB in market capitalization would still be excessive.

We project normalized revenue of $5.4 BB in FY28, well below the peak of $5.8 BB reported in FY22, and we expect operating margins to settle in line with FMC's long-term average of 21%. Our estimates yield a Normal EPS of $5.56. We began purchasing FMC at $52, which reflects a P/N of less than 10x, an attractive valuation for a strong, global franchise marketing an essential, innovative, and science-backed product. At quarter-end, FMC traded at $63.70, representing a P/N of 11.5x.

To fund our purchase of FMC we sold VST, our Texas-based utility that exceeded our estimate of fair value as shown in Figure 6.[4] We first bought VST in 2021 when shares traded below $20 following winter storm Uri. The storm prevented VST from operating some of its facilities at full capacity because of the shortage of natural gas needed to fuel its turbines. Due to the shortage, VST was unable to generate what would have otherwise been excess electricity, leaving it "short" power and forcing it to purchase energy on the wholesale market at exorbitant prices to continue supplying its customers. The resulting $1.6 BB loss for a company with a pre-storm market capitalization of $10 BB was significant. As operations normalized over the following 10 quarters, VST paid $1.1 BB in dividends and bought back 27% of its outstanding shares for $3.5 BB. In FY23, VST rose 66%, closing the year at $38.52. We maintained our discipline and exited the position in the first quarter around $51 when the stock reached its fair value based on our estimates.

Shares continued climbing after our sale, gaining 81% in a single quarter, and closing at $69.65 with the market now according VST a halo reserved for AI and AI-adjacent companies. VST now appears to trade in part as an AI-derivative play having recently closed its purchase of Energy Harbor (EH). EH increased its nuclear generation capacity to more than 6,400 MW, giving it further ability to power increasing demand from data centers housing power-hungry AI applications. Our view is that this hype is misplaced. Returns on power generation implied by the current share price appear abnormally high, and if achieved in the short term, we would expect incremental generation capacity to be added by competitors and regulators to step in. Our decision to sell reflected our view that our fundamental research should drive our decisions and that we should stick to the math upon which we relied for three years as we bought and held our shares.

Figure 6: Portfolio Change – VST to FMC



[4] PVP defines "fair value" as a P/N multiple at or above the midpoint of our investible universe.

In Focused Value, Energy stocks were strong performers as oil prices rebounded in the quarter on continued volatility in the Middle East. WTI closed at $82.42, up 14.7% 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. Our four energy positions, Valaris (VAL), Schlumberger (SLB), Enterprise Products Partners (EPD), and Exxon Mobil (XOM) trade at an average P/N of 12.7x.

Financials were a mixed bag for our portfolio. The news from Barclays (BCS) related to its restructuring was enthusiastically received by the investors who want to see steadier leadership and long-term planning by senior management. Though rates rose in the quarter and expectations of Fed rate cuts continue to be pushed back, benign loan reserves and charge-offs, strong operational performance, and significant returns to shareholders helped Wells Fargo (WFC) climb another 18% in the quarter. Prudential Financial (PRU) continued to benefit from the normalization of interest rates. Expectations that an extended period of positive real rates will be beneficial for the business pushed the stock up 13% in the quarter.

We remain overweight Consumer Staples and our recent buys of Dollar General (DG) and Tyson (TSN) performed well. We purchased both companies near their respective lows in the last year. Both companies were suffering from a mix of self-inflicted wounds and factors outside of management's control, and we think both companies have made strides in correcting their unforced errors. DG has retained prior management and has begun to address staffing and store issues, while TSN is refocusing on its cost structure, which had expanded beyond healthy levels.

Our Healthcare holdings of Amgen (AMGN) and CVS Health (CVS) detracted from performance as they were broadly flat in the quarter. Reimbursement levels remain the focus of politicians seeking to bend the cost curve by aggregating the US government's buying power and implementing price controls. Our view remains that AMGN is a provider of essential drugs that provide immense value to patients while CVS is a broad player in the healthcare value chain and remains a critical consumer access point for pharmaceuticals and healthcare services.

In Technology, Intel (INTC) declined 12% in the quarter and has been very weak to start April following a 90% run in 2023. INTC recently disclosed the margin profile of the Foundry segment, and the market reacted negatively to its guidance that the Foundry business will not break even until 2027. Although we continue to see unrealized intrinsic value at INTC and see the need to manufacture advanced chips in the US and Western Europe to mitigate China-related risks, the short-term nature of the market has led to an overemphasis on Foundry's current losses.

In Utilities, Vistra (VST) was up 81% for the quarter after being up 66% last year. We exited our position in VST toward the end of February at around $51 as we discussed above, missing the last of a phenomenal rally in the shares. Nevertheless, VST was an excellent investment for our clients.

In Diversified Value, we initiated a position in Veralto (VLTO), a 2023 spin-off from Danaher. The Company provides water resource management by helping municipal and private wastewater facilities treat, purify, and protect their water. VLTO is also involved in a Coding and Marking business that safeguards the global food and pharmaceutical supply chains by marking unique identifying information on individual packages so items can be tracked from manufacture to consumption. These are high quality businesses where VLTO has leading market shares, excellent returns, and significant barriers to entry from product quality and high service requirements. In addition, both businesses have significant recurring revenues. We initiated a position in VLTO at $75, which represented a 11.5x P/N multiple on our Normal EPS estimate of $6.50.

In the closing section of our letter, we highlight two current investments. We believe both are high-quality businesses, leaders in their categories, and offer significant downside protection at current valuations. They have strong franchises, decades of prudent capital allocation, solid balance sheets, and provide essential products and services with predictable revenues and attractive returns.

Dow (DOW)

Dow is among the largest chemical companies in the world, producing a variety of products at manufacturing sites in 31 countries and generating revenue of $45 BB. Dow operates in three segments: Packaging and Specialty Plastics, employing a broad polyolefin portfolio that utilizes proprietary catalysts and manufacturing processes; Industrial Intermediates and Infrastructure, which primarily produces and markets ethylene oxide- and propylene oxide-derivative products; and Performance Materials and Coatings, which includes acrylics and silicones. The Company has 9.8 MM metric tons per year of ethylene cracking capacity, the second highest in the US.

We highlight our investment in DOW because we believe that the Company has a sustainable global feedstock cost advantage as the spread between oil and US natural gas prices will remain wide. Polyethylene demand is expected to grow 4.4% per year until 2030, and inflation is beneficial for a company where significant value resides in hard assets such as ethylene crackers and chemical plants. DOW uses abundant and inexpensive natural gas as feedstock for its US ethylene crackers while its European and Asian competitors use naphtha, a significantly more expensive feedstock with pricing linked to oil. More importantly, the feedstock cost advantage is sustainable as natural gas is cheaper in the US than most other geographies. We are of the opinion that inflation over the last few years in commodity and labor prices along with higher capital costs imply that new global capacity being added now is meaningfully higher on the cost curve, compounding the Company's advantage. The recent announcement by DOW that it will build a new 1.8 MM metric ton facility for $6.5 BB in Alberta, Canada implies a much higher replacement cost for its existing capacity.

We model a normalized environment where DOW generates a return on invested capital of 8% as global capacity additions slow and excess capacity is absorbed by incremental demand, reducing pressure on returns. This results in a Normal EPS of $5.95 and based on the closing price of $57.93 at the end of the first quarter of 2024, the stock trades at an attractive P/N of 9.7x. The Company pays a dividend of $2.80 per share providing an attractive 4.8% yield to shareholders.

Avnet (AVT)

Founded in 1921 by Charles Avnet, the Company began by buying surplus radio parts and selling them to the public, adjusting its business model to selling parts to manufacturers when factory-made radios were introduced. Over the course of a century, AVT has been at the core of electronics value chains specializing in selling components to manufacturers of a diverse array of electronic products.

AVT is a simple, essential business connecting hundreds of component manufacturers with thousands of small and mid-size manufacturers of electronic products where neither party has the scale to reach the other efficiently. AVT, therefore, becomes a critical part of the distribution chain providing procurement and logistics services on a global basis by aggregating both supply and demand. The resulting network effects cause both sides to gravitate towards AVT's scale offering, which concentrates buyers and sellers and creates a high barrier to entry for a new competitor. As such, there are only a handful of large, global distributors, including Arrow Electronics (another PVP holding) and Celestica. Furthermore, AVT has the strength and scale to use its balance sheet to provide working capital financing by paying component manufacturers quickly while collecting over longer periods from customers who only pay AVT after they have manufactured, sold, and collected payment for their product.

While individual device makers, such as Apple, may buy enough components to leave AVT's network and procure directly, the ever-changing landscape of electronics leads to the constant creation of subscale players who need AVT to operate efficiently. Over the years, AVT supplemented its organic growth with several acquisitions to consolidate the market, resulting in scale benefits to both the acquired company and AVT. We believe fears of disruption by automation, new supply chain software, or AI are overblown as networks such as AVT's are built on relationships through which parties negotiate pricing, product availability, shipping arrangements, and product life cycles.

In our view, AVT is a high-quality business that trades at a discounted valuation in a market where earnings multiples are well above historical trends. More recently, the stock has been flat as a slowdown in the business environment has led to increased working capital and an elevated fear that the Company might be forced to take a charge for retaining obsolete inventory. Shares closed the quarter at $50.40, trading at a depressed P/B multiple of 0.9x due to those fears. For the trailing 12 months, the Company generated EPS of $7.23 implying a P/E multiple of less than 7x. Over the longer term, AVT has also exhibited excellent capital allocation discipline. Since the end of FY14, the Company has spent $2.5 BB to reduce shares outstanding by 35% and returned $870 MM to investors through dividends; its current market capitalization is $4.6 BB. Our projections assume a revenue decline of 7% in the current fiscal year due to weaker demand, and we model a conservative growth rate of 4.4% for the following four years. We expect operating margin to normalize at 3.2%, well below the average of 4.3% over the last two years and in line with the 10-year average. The resulting Normal EPS of $6.67 leads to an attractive P/N of 7.3x, making it among the cheapest stocks in our universe. We should also note that in an economic slowdown, even though net income generally declines, cash flow tends to be counter-cyclical as lower working capital offsets weaker profitability. We believe this gives AVT ample room to weather downturns with ease.

Our Methodical, Disciplined, and Repeatable research process continues to generate excellent investment results against an ever-changing macro backdrop. We value time, not timing, and continue to build our business partnerships in the same way we invest: for the long term and after thoughtful and extensive deliberation. As such, we continue to augment our firm infrastructure, recently adding institutional-grade cyber security and compliance procedures. The next phase of our evolution has begun with several new hires and client partnerships to be announced in the coming months.

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