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Value Investor INSIGHT

The Leading Authority on Value Investing

Protecting the Castle

The durability of a company's competitive moat is very often central to its appeal as a value investment. Assessing that well has been Pat Dorsey's stock in trade.

INVESTOR INSIGHT



Pat Dorsey
Dorsey Asset Management

Investment Focus: Seeks companies with economic moats, runways for growth and rational capital allocation for which he can underwrite at least a 15% rate of return.

Until he joined Morningstar as an analyst in 1998, Pat Dorsey's early jobs in finance hadn't impressed. "Morningstar was the first time I was really introduced to the concept of a share of stock as a piece of a business that represented an entity with a complex system of employees, customers, suppliers and competitors," he says. "That's vastly more interesting than a blinky thing on a screen with a chart attached to it."

In 2014 he founded Dorsey Asset Management, which now manages close to $1.8 billion in a Global Moat portfolio that since inception has earned a net annualized 12.3%, vs. 10.4% for the MSCI All Country World Index. In a market dominated today by AI, he sees mispriced value in areas including software, social media, online travel agents and pharmaceuticals. See page 2

Before the Dawn

While it's becoming more difficult to assess a business's sustainability, says Brian Barish, it's also becoming more important for value investors to do that well.

One of the many changes in markets Brian Barish has had to navigate since taking the reins in 1999 of Cambiar Investors – cambiar means "to change" in Spanish – is what he considers the ongoing thinning out of fundamental investors from equity markets. "That has made markets less efficient," he says. "There are opportunities to make money when your marginal buyer and seller are not thinking about owning the business long-term."

Cambiar now manages $3 billion in assets and its flagship Opportunity Fund since 1998 has earned a net annualized 9.4%, vs. 8.1% for the Russell 1000 Value Index. In the current market he likens to a "wild theme park ride," he's finding long-term opportunity in such areas as medical devices, health insurance, beer and natural gas. See page 11

INVESTOR INSIGHT



Brian Barish
Cambiar Investors

Investment Focus: Targeting "good companies at good prices" when positive developments in their businesses don't appear to be well reflected in their share prices.

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Investor Insight: Pat Dorsey

Pat Dorsey of Dorsey Asset Management explains how he assesses a company's competitive moat, why he thinks business-quality-first investors have hit a rough patch, why he's relying more on qualitative evidence in making decisions, and what he thinks the market is missing today in Veeva Systems, Tyler Technologies, Meta Platforms and Royalty Pharma.

You describe your investment strategy as focused on companies "with economic moats, runways for growth and rational capital allocation practices." That certainly sounds reasonable, but flesh out a bit more the rationales behind that approach.

Pat Dorsey: The focus on moats is relatively straightforward. Moats, particularly those that are expanding, afford better growth opportunities, while shrinking moats constrain reinvestment potential. Absent a moat, high returns on capital will be competed away. As an investor having confidence in the structural advantage of a business makes it a lot easier to act with conviction, take a longer-term view and separate the signal from the noise.

With so much money invested passively and with pod shops moving billions of dollars of capital around on weekly time horizons, price signals don't mean as much anymore. Ten to 15 years ago if a stock was down 10-15% that usually meant there was something I didn't know and needed to figure out. That's much less so the case today. What moats do is give us the incremental confidence to make decisions that are sensible on a long horizon, even if they look silly on a short horizon. I would also say people have different circles of competence and I think mine happens to include assessing whether businesses are competitively advantaged in some way, shape or form.

The focus on secular growth is also straightforward. Growing end markets provide greater scope to reinvest capital at attractive rates of return. If a competitively advantaged company has incremental returns on capital in the teens and above, reinvesting that capital in its business is what it should be doing above all else. Large market opportunities equal lower risk of capital misallocation from defensive acquisitions, strategic pivots or buying back stock at a too-high price. Most CEOs are not good capital allocators and a growth runway gives them an obvious place to put the capital back to work.

That leads directly to our focus on rational capital allocation. The emphasis is on "rational." I think it's very difficult, before the fact, to identify capital allocation talent. We're looking to understand the process involved in making capital-allocation decisions, the incentives that might impact those decisions, and whether management actually acts according to the defined process and learns from it if it doesn't work out. If you can eliminate the ones who are more likely to set your money on fire and focus on those who are at least going to be neutral on the capital allocation front and let the business compound value, things tend to work out better.

Talk more about what you look for in assessing a company's moat.

PD: The invested capital base of an increasingly large number of companies is very low relative to the cumulative capital they have laid out in developing their products, so return on invested capital [ROIC] is much less useful to measure whether the company is delivering a positive economic return on the money spent. There are plenty of mediocre software companies that have eye-popping returns on capital. ROIC is also not comparable between asset-intensive and asset-light businesses because the concept of "investment" isn't applied consistently. The cost of a warehouse is capitalized, but software development is expensed because the code's useful life is harder to know with certainty, even though lots of code winds up being in use for many years.

We rely more on qualitative evidence in judging competitive advantage. How strong is the value proposition for custom-



Pat Dorsey

Contact with Reality

There's much discussion these days about workers having to pivot in their careers based on the jobs available, but it has been ever thus. Pat Dorsey was pursuing graduate studies in political science at Northwestern in the late 1990s when, he says, "I quickly discovered there are no jobs for PhDs in political science." Finance was an alternative where there were jobs, and he found one in Chicago as an equity analyst for Morningstar, which he joined in 1998.

The firm was just starting to build out its equity research group, which Dorsey took over in 2000 and expanded significantly, taking the lead role in developing its methodology for analyzing competitive advantage through Warren Buffett's concept of competitive moats. By 2011 he was eager to put his insights into practice and worked at a wealth-management firm prior to starting Dorsey Asset Management in 2014. "My idea was that in running a single, concentrated, capacity-constrained portfolio with a relatively low fee I could attract the kinds of clients I wanted," he says. "We've been fortunate. Most business plans don't survive contact with reality but this one, so far at least, actually has."

ers, and how likely are they to switch to competing products? What factors cause salespeople to win or lose deals against the competition? Is the addressable market large enough to monetize the cumulative capital that the company has deployed? Are barriers to success high for potential competitors? Do customers make decisions based on price, value, or other factors? The answers to these questions, however "squishy," contain more signal than quantitative measures of return on capital that don't accurately capture the cumulative investment that's been made.

Quality-first investing, after a long and successful run, hasn't delivered nearly as well over the last couple of years. Why do you think that is?

PD: I think some of it is AI uncertainty, which is a tectonic shift in the competitive landscape for a lot of businesses, disproportionately those in the "quality" bucket like information services, data and software companies. The lesson there is simply that nothing is inevitable. Intuit is no more inevitable than Coca-Cola was. Look at consumer packaged goods [CPG]. Once digital advertising and outsourced distribution showed up that significantly impaired CPG moats based on mass-market advertising and physical distribution. That's really hurt the growth rates for a lot of consumer companies and if you considered those type of companies to be inevitables, you've been hurt on that. It's the same with many software and info-services businesses. If you thought – and maybe still, legitimately, think – AI can't damage those businesses, it's been a rough couple of years for their stocks.

Another factor is that quality got pretty expensive. Higher-quality businesses structurally growing at 10-12% a year in 2024 were trading at 40-50x earnings. It's hard to pencil in an attractive return from there. As an investor if you're not getting paid to own the assets in your portfolio, you need to own different assets. The platonic image of great investors sitting back and reading books while their portfolio companies compound away just isn't reality. You have to be constantly reassessing the opportunity cost of what you own versus what you could own. Rollins [ROL] might have a wonderful pest-control business, but at 45x earnings the opportunity cost became pretty high.

How are you processing the AI-related risks and opportunities that are so top-of-mind for investors today?

PD: I sort the world into three buckets. First are the direct beneficiaries of AI. The trouble with these is that everybody wants to own them and they can be very expensive. We own some direct beneficiaries like ASML Holding [ASML] and Meta Platforms [META], but we're generally less exposed in this category today than we were at the beginning of the year. Once the bloom's off the rose and the rate of change slows, some of these companies will not be happy things to own.

ON HANDICAPPING AI:

Nobody wants to be the portfolio manager who loaded up on newspaper-publisher stocks in 1999.

The second bucket I call "fades," where people think the business is going to be badly hurt by AI but you don't think that will be the case. We'll talk about a couple of these in more detail in Veeva Systems [VEEV] and Tyler Technologies [TYL], where we're happy to take the other side of the trade because we believe these are still durable businesses. You have to be careful, though, not to pack your portfolio with these types of ideas. In the midst of tectonic change that is very difficult to predict, you're probably going to be wrong on some things and you don't want to drag the entire portfolio down. Nobody wants to be the portfolio manager who loaded up on newspaper-publisher stocks in 1999. I vividly remember a highly respected investor making the case for newspaper stocks that it was all a cohort effect, that people as they got older would read newspapers like they always did. In uncertain situations those are the types of mistakes you can make.

The third category I consider AI agnostics, which are harder to find than you'd think. Royalty Pharma [RPRX], which we'll also talk more about, is in that category. Another we currently own is aircraft leasing company AerCap Holdings [AER], and we're currently looking closely at other aerospace companies that generally don't face a lot of risk from AI.

You recently added to your position in online travel agency Booking Holdings [BKNG]. Is it a good example where you believe controversy over AI has made the stock more interesting?

PD: Let's separate the controversy into potential disruption of the demand and supply sides. We think the supply side will be harder to disintermediate because independent hotels often are not tech-forward and don't always present information in a digitally accessible manner. For example, we talked to an individual who manages digital marketing for several hundred independent hotels in Europe and he said that only a handful of his clients could even accept credit-card bookings on their websites. So we think the aggregator will still add value in the booking process as well as with post-booking services like problem resolution. Currently AI agents are querying online travel agents [OTAs] like Booking when fulfilling user requests because they want to access the most complete and information-rich repository available, and Booking often has information about hotels that's not even on the hotels' own websites.

It's harder to be certain about the demand side. Right now OTAs are seeing less than 1% of their bookings come from large language models and agentic channels, and there are reasons to think consumers will want to remain in the loop when making travel decisions. Travel for most people is a considered purchase that represents a big budget item, and the up-

side of time saved in the research process has to be weighed against the downside of a bad experience at a hotel. Of course, AI tooling is developing rapidly and some consumers will take themselves out of the decision loop sooner than others.

For now, the economics for Booking are the same whether a consumer books directly through it or an AI agent does so on the consumer's behalf. A big question is whether consumer interest in agentic channels becomes large enough to give AI companies enough leverage to demand a referral fee from Booking, much like the fee it has to pay Google when you click on an ad. We think Booking can grow EPS at a low to mid-teens rate over the next few years and that an 11x free cash flow multiple [at today's share price of around $148] seems to bake a lot of potential disruption into expectations. That said, consumer behavior is hard to predict, especially in the midst of a technological paradigm shift, so I reserve the right to change my mind if the data indicates that I should.

Is Axon Enterprise [AXON] another example of an AI "fade" idea whose stock has recently gotten more interesting?

PD: I've followed Axon for some time and have been impressed by its ability to complement hardware sales of tasers and body cams to law enforcement agencies with broader recurring software and services revenues from those same customers. That's made it a much more attractive business with deeper and stickier customer relationships.

This has traditionally been an expensive stock, but it sold off this year primarily due to AI-related fears that I frankly don't understand. I'm not sure how AI replaces a taser or a body cam, and as we did more work on the company we were impressed by the length of the growth runway here. Spending for public safety, despite the political rhetoric, tends to grow consistently at a mid-single-digit rate. And Axon should be able to grow much better than that because it offers a real value proposition to public-safety officers. If their body-cam systems – including video storage, administration and retrieval – cost a few hundred dollars per month per officer but allow that officer to spend a few more hours a week in the field versus at a desk writing reports, departments will sign up for that all day long. That's one important application, but the company has shown a real willingness to listen to its customers and respond with applications that make their lives easier. At a price that incorporated AI fears that we believe will prove to be overdone, we bought the stock in the third quarter of this year. [*Note*: Axon shares at a recent $428 are off nearly 45% from their 52-week high.]

ON VALUATION:

Businesses compound value at different rates and a margin of safety construct treats that too much as a static element.

Before we speak about some specific investment cases in more detail, describe your general approach to valuation.

PD: I don't think anyone really has a unique valuation process. Valuation based on forecasting an uncertain future is by its very nature imprecise, so we like to look at it from multiple perspectives (no pun intended), which includes both discounted-cash-flow and multiples frameworks. Usually the answers come out roughly the same, but if they don't that can have useful information value. In any event, we are cautious of false precision and have a healthy respect for the confidence interval around our estimates.

We generally anchor on the potential rate of return rather than on a discount to intrinsic value. Businesses compound value at different rates and a margin of safety construct treats that too much as a static element. We want to underwrite an expected IRR of at least 15%, preferably meaningfully higher. We set a high bar for each individual position to compensate for the fact we're going to be wrong a decent percentage of the time.

Describe in more detail your investment case today for Veeva Systems.

PD: Veeva is a classic subscription-as-a-service software company focused on the life-sciences industry. It got its start selling a CRM [Customer Relationship Management] platform for biopharma companies, and has since expanded this segment into more of an omnichannel marketing platform for selling more targeted therapies to more specialized customer cohorts. The platform was originally built on Salesforce's infrastructure, but over the last few years Veeva has been migrating customers to its own-built technology. This part of the business is what they call the Commercial Cloud.

The second part of the business they call the R&D Cloud. This is software that helps manage clinical trials, tracking and documenting what is a complicated and detailed process and helping to ensure all the correct regulatory filings and quality-control checks are being made along the way. This is a less mature and less digitized aspect of life sciences, with the result that this business is growing at about twice the rate of the Commercial Cloud. The two businesses today each account for about 50% of total revenue.

One issue that's been an overhang on the stock is that as Veeva has shifted customers away from the original Salesforce platform, that opened it up to competition from Salesforce on the Commercial Cloud front. Veeva had 18 of the top 20 pharma companies as clients, and Salesforce appears to have won four of those. That's hardly a death blow, and it's not clear even for those how much business Salesforce will actually take away. Based on our conversations with clients, they have been keeping options open by continuing to use the Veeva platform as well. Salesforce implementations can be extremely expensive and difficult and we would not be surprised to see one or more of those clients come back. We also don't consider Salesforce a threat to the R&D business,

which has different end users with significantly different needs.

How do you handicap the threat of AI disruption for Veeva?

PD: Our work indicates the likelihood of AI disruption on either side of the business is minimal. The platform is integrated into customers' workflows and it's understood and trusted by employees and regulators. We don't hear much interest in learning a new platform, for the regulatory review that would involve or for the delays it would cause. We do hear about opportunities for AI solutions, from Veeva or third parties, that might be implemented on top of the platform to improve functionality, but we think that further entrenches the platform rather than replaces it.

The stock has had quite a ride over the past year but is back close to where it started. How are you looking at valuation from today's price of $313?

PD: Unlike many SaaS companies that don't deliver on the promise, Veeva makes plenty of money, with 30% operating margins without abusing their clients. They didn't raise prices for their first fifteen years and only recently have instituted a 4% CPI escalator. That kind of behavior is a very positive signal to us because it indicates long-term thinking and an emphasis on building customer trust and goodwill. Good things typically come of that.

We estimate the commercial business grows about 10% annually, driven by new customers first adopting a modern digitized platform and from existing customers taking on additional modules on the common data architecture. The R&D business is at an earlier stage in its development and we expect it to grow at closer to 20% per year. Overall earnings and free cash flow should grow in the mid-teens.

For that today you're paying about 25x EBIT [earnings before interest and taxes]. It's hard to peg the right multiple in an AI world, but if the AI-disruption clouds dissipate as we expect, that seems pretty fair for a 30%-margin business that dominates its industry and has a long runway for mid-teens growth. You could certainly see upside to that in a bullish scenario.

Sticking with software, what attracted your interest in Tyler Technologies?

PD: I've followed Tyler for many years and while it's nothing flashy, it's a great business. Compared to Veeva the software they provide is more quotidian, used exclusively by government agencies, court systems and school districts to run their operations. That includes things like managing payroll and financial reporting, collecting property taxes, handling parking tickets and handling court administration.

Tyler is the dominant player in its markets, customer retention is in the high-90s, the top line grows 10-12% a year and operating margins are consistently in the low to mid-teens. It just compounds value year over year, and that's typically translated into a rich valuation of 40-50x earnings.

A couple of things have changed that. One is concern over AI disruption. Another is that – later than most software businesses – the company is still in the process of switching its customers from on-premise software to the cloud. This started sev-

INVESTMENT SNAPSHOT

Veeva Systems
(NYSE: VEEV)

Business: Provides software systems for the life sciences industry, focused on customer relationship management as well as the administration of research and development.

Share Information (@10/30/26):

Price	**312.96**
52-Week Range	148.05 – 325.99
Dividend Yield	0.0%
Market Cap	$50.67 billion

Financials (TTM):

Revenue	$3.46 billion
Operating Profit Margin	29.9%
Net Profit Margin	29.3%

Valuation Metrics
(@10/30/26):

	VEEV	S&P 500
P/E (TTM)	51.3	23.5
Forward P/E (Est.)	32.4	19.2

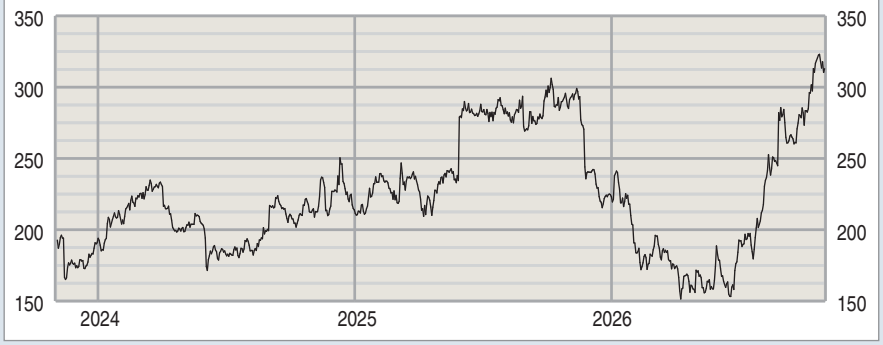
Largest Institutional Owners
(@6/30/26 or latest filing):

Company	% Owned
Vanguard Group	11.1%
BlackRock	7.9%
State Street	4.1%
T. Rowe Price	3.8%
Principal Global Inv	3.1%

Short Interest (as of 10/30/26):

Shares Short/Shares Out.	2.6%

VEEV PRICE HISTORY



THE BOTTOM LINE

The company is an example of a perceived AI "fade," says Pat Dorsey, where the market sees risks of disruption that he believes will prove to be overdone. He considers the 25x-operating-earnings multiple on the stock to be reasonable for a business that dominates its markets and can grow earnings and cash flow at a mid-teens annual rate.

Sources: S&P Capital IQ, company reports, other publicly available information

eral years ago and now roughly half of the business has transferred to a SaaS model, with a goal of getting that to 85% over the next four to five years. That is without question a positive, as it provides a gross-margin uplift, cash conversion improves, and they save money in not having to support old versions. But investors seem worried about the pace of the transition and as it's happening the financial results are less comparable year over year.

In addressing both of those issues I'd point out that state and local governments are probably a decade behind the rest of the world when it comes to technology implementation. These are very risk-averse customers who as long as the bus drivers are paid and the garbage is picked up, they're not changing a thing. That speaks to the growth runway here. We estimate that about half of the state and local government market is still running on decades-old computer architecture. Aunt Mabel's cousin built this system for us 20 years ago and it still works, so why change anything? But there are good reasons to change – including increased security risks from ransom attacks – and Tyler, given its reputation and references, is the first likely choice when the decision is finally made to upgrade. This also gives us confidence the SaaS transition will continue successfully.

The risk aversion of its customers also provides protection against AI disruption. Your modal municipal employee never gets thanks or a bonus for doing something right, but is sure to get yelled at when things go wrong. One IT guy can't decide we need to move to the cloud or say, "Hey, let's go with this new AI solution that nobody's ever heard of and where we have no references," without having to convince a number of stakeholders in the organization who don't like change either. This is an important source of Tyler's moat.

How are you looking at upside in the shares from today's $394 price?

PD: With 10-12% top-line growth and an increase in operating margins as the shift to the cloud continues, we're forecasting around 20% compound annual growth in earnings per share over the next five years. That may come back down to the low teens eventually, but for that today you can buy the stock at a 5% yield on forward free cash flow. We think this is a case where the stock has gotten cheaper at the same time the business is getting better. That's a rare combination.

What might the market be missing in a company like Meta Platforms?

PD: We've owned Meta since 2016, making it the longest-tenured position in the portfolio. Over that time we've seen it navigate through some pretty serious challenges to its business. One was the attempted kneecapping by Apple, with its ATT [App Tracking Transparency] changes that forced iPhone apps to ask users for permission before tracking them across other apps and websites. Another was the introduction of short-form video by ByteDance's TikTok, which went from zero to everywhere in four years. Through all that Meta has proven to be a fast follower with an extremely strong moat built on leveraging its relationships with more than 3.5 billion daily users across its family of apps to deliver value to advertisers.

INVESTMENT SNAPSHOT

Tyler Technologies
(NYSE: TYL)

Business: Provides software systems used by governmental entities, court systems and school districts to help manage their operational, financial and administrative functions.

Share Information (@10/30/26):

Price	**394.30**
52-Week Range	270.71 – 483.50
Dividend Yield	0.0%
Market Cap	$15.68 billion

Financials (TTM):

Revenue	$2.48 billion
Operating Profit Margin	15.7%
Net Profit Margin	13.5%

Valuation Metrics
(@10/30/26):

	TYL	S&P 500
P/E (TTM)	49.4	23.5
Forward P/E (Est.)	25.2	19.2

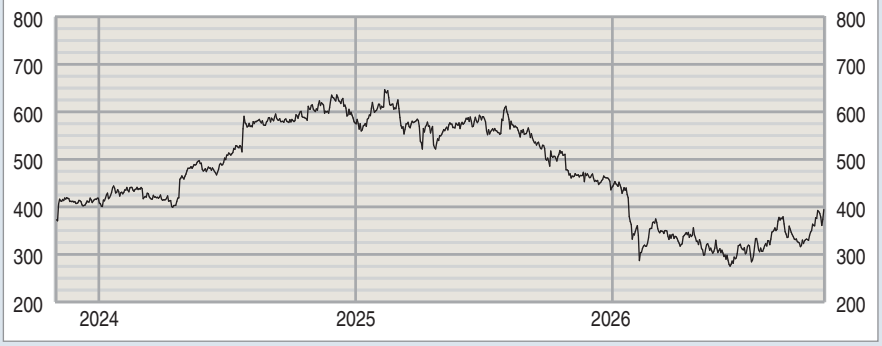
Largest Institutional Owners
(@6/30/26 or latest filing):

Company	% Owned
Vanguard Group	12.9%
BlackRock	6.9%
Norges Bank Inv Mgmt	6.7%
State Street	5.1%
Principal Global Inv	5.1%

Short Interest (as of 10/30/26):

Shares Short/Shares Out.	8.4%

TYL PRICE HISTORY



THE BOTTOM LINE
Pat Dorsey believes the company's business is getting better at the same time the stock has gotten cheaper. Risk-averse customers both extend the company's growth runway – he forecasts 20% annual EPS growth over the next five years – and insulate it from AI competition, he says, making the shares attractive at a 5% yield on forward free cash flow.

Sources: S&P Capital IQ, company reports, other publicly available information

I should expand on the delivery of value to advertisers, because that gets lost sometimes in all the unrelated attention the company gets as the world's largest digital forum for public engagement that has a CEO who sometimes makes polarizing statements. Advertising efficacy is measured by conversion, which is the rate at which a given set of consumers chooses to engage with an ad. Conversion is generally driven by relevance, since consumers are more likely to engage with content that matches their individual tastes. More relevant ads convert at higher rates, so increased relevance drives up the price that an advertiser is willing to pay.

This all may seem rather obvious, but it's important in understanding why Meta is so effective at driving results for advertisers and still has a substantial runway for growth. Every moment of every day the company is choosing from tens of millions of ads to display to its 3.5 billion daily users, who have provided it with a lot of information about them. That's a continuously optimized process and even minor improvements in conversion are highly accretive. The marginal cost of delivering a more relevant ad is minimal, and the fixed cost of developing a better optimization process can be amortized across trillions of ad impressions.

Even large platforms like X or Snap or Pinterest haven't really scaled on the advertising side. Having the users and data is only one step, you have to actually deliver value to advertisers wanting to reach them. Meta's ability to do that is quite unique, but to understand that you have to talk to advertisers. It shocks me how many people who have very strong opinions about the company one way or the other haven't talked to a lot of large advertisers about why they choose Meta over putting their budgets elsewhere. We think its competitive advantage here is often undervalued.

Topic #1 around Meta today is likely all the money it's spending on AI and the eventual returns on that spending. How are you assessing that?

INVESTMENT SNAPSHOT

Meta Platforms
(Nasdaq: META)

Business: Development and operation of social media applications such as Facebook and Instagram and the sale of advertising targeted at those applications' users.

Share Information (@10/30/26):

Price	**614.99**
52-Week Range	520.26 – 779.82
Dividend Yield	0.3%
Market Cap	$1.57 trillion

Financials (TTM):

Revenue	$241.60 billion
Operating Profit Margin	37.8%
Net Profit Margin	31.1%

Valuation Metrics
(@10/30/26):

	META	S&P 500
P/E (TTM)	20.1	23.5
Forward P/E (Est.)	18.7	19.2

Largest Institutional Owners
(@6/30/26 or latest filing):

Company	% Owned
Vanguard Group	7.6%
BlackRock	6.8%
Capital Research & Mgmt	3.9%
State Street	3.6%
Fidelity Mgmt & Research	3.4%

Short Interest (as of 10/30/26):

Shares Short/Shares Out.	1.1%

META PRICE HISTORY



THE BOTTOM LINE

Because this is such a high-profile consumer business people may think they know it and understand it better than they do, says Pat Dorsey, and he believes that helps explain why its shares trade at a below market-average P/E. Even with no re-rating, he expects to benefit as a shareholder from at least mid-teens EPS growth over the next few years.

Sources: S&P Capital IQ, company reports, other publicly available information

PD: Based on the record, I think Mark Zuckerberg is a better capital allocator than most people give him credit for. Certainly some of the billions they're spending right now on compute and AI will turn out to be wasted. It has to be, otherwise you're not pushing the risk curve. It's like an investor – you don't want to never be wrong because that probably means you're not taking enough risk.

But what the company has continued to do is translate at least some of that spending into materially improving advertising conversion. Better targeting translates into higher ad rates and the company would not be growing advertising revenue at the rate it is without AI-related improvements. Meta can raise prices and advertisers get the same return on their ad spending because conversions are better.

The AI spending will also create new products and services that are potentially valuable. This is harder for investors to handicap and requires thinking about the potential of things you can't see, but we think it helps open you up to the possibility of investing in a way above-average business at a below market-average P/E.

One reason the stock was up so much after the successful release of the Muse personal AI agent was the potential return it might generate on some of that capex spending. How Muse is monetized and when is still to be determined, but we think the company deserves some benefit of the doubt on that for a product that seems to work and that people seem to want.

At today's 19x forward P/E and a stock price of around $615, how inexpensive do you consider the shares?

PD: It's hard to make the case for huge user growth here, but e-commerce still grows at 7-9% per year and they'll likely continue to increase ARPU [average revenue per user] by around 10% annually across the global user base. Overall we're forecasting mid-teens EBIT and EPS growth for the next few years. If they take the foot off the gas somewhat on capex, that would be even higher.

If you didn't name the company and asked what someone would pay for a business with a dominant market position, 38% operating margins and the prospect of mid-teens earnings growth, you probably wouldn't get a 19x P/E. But given the earnings growth here we don't need to expect a higher multiple to find the stock quite attractive.

This is an interesting example where because it's a high-profile consumer business people may think they know it and understand it better than they do. Maybe your daughter spends more time on Snap and thinks Facebook isn't cool anymore. Maybe you don't like Mark Zuckerberg. There's a risk you develop strong viewpoints that may be divorced from the economic reality of the business. One way to have a variant perception in this type of business is to stay focused on the economic reality and not all the other stuff.

Switching to a quite different idea, why are you high on the investment prospects for Royalty Pharma?

PD: Royalty Pharma is a pioneer in the business of acquiring drug royalties. In return for upfront cash, the owners of those drugs sell it rights to a portion of the income they produce over their useful lives. The company currently manages $22 billion in invested capital and deploys over $2.5 billion annually to acquire additional rights. At its current scale it's about 4x the size of its #2 competitor and about 10x the size of #3. It accounts for approximately 50% of all biopharma royalty transactions and 70% of deals greater than $500 million.

RP buys royalties from three groups of owners. The first is research labs and universities that want to pull forward the monetization of their intellectual property so they can reinvest in other research projects or toward charitable goals. The second group is large pharmaceutical firms that want to monetize non-core assets or achieve short-term goals such as meeting quarterly earnings numbers. The third cohort, which we believe is likely to provide the most incremental opportunity in the future, is biotech firms seeking additional capital. These companies see royalty sales as a cleaner, more targeted and less dilutive alternative to an equity offering.

Early on RP primarily acquired royalties on therapies that were already ap-

INVESTMENT SNAPSHOT

Royalty Pharma
(Nasdaq: RPRX)

Business: Active management of investments in royalty streams on marketed and development-stage pharmaceuticals across a widely diversified range of therapeutic areas.

Share Information (@10/30/26):

Price	**67.18**
52-Week Range	36.03 – 67.71
Dividend Yield	1.4%
Market Cap	$29.91 billion

Financials (TTM):

Revenue	$2.54 billion
Operating Profit Margin	61.2%
Net Profit Margin	32.0%

Valuation Metrics
(@10/30/26):

	RPRX	S&P 500
P/E (TTM)	36.0	23.5
Forward P/E (Est.)	12.2	19.2

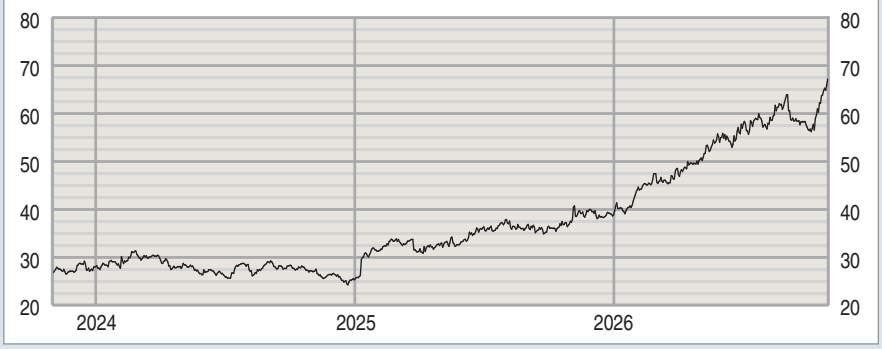
Largest Institutional Owners
(@6/30/26 or latest filing):

Company	% Owned
Capital Research & Mgmt	10.7%
Morgan Stanley Inv Mgmt	8.4%
BlackRock	6.3%
Fidelity Mgmt & Research	4.3%
State Street	2.8%

Short Interest (as of 10/30/26):

Shares Short/Shares Out.	2.9%

RPRX PRICE HISTORY



THE BOTTOM LINE
The company has structural advantages that should allow it to continue compounding value at an attractive rate by serving a valuable role in the pharmaceutical development and monetization ecosystem, says Pat Dorsey. He considers the shares undervalued at today's price, for a company he estimates can compound EPS at a 12% or so annual rate.

Sources: S&P Capital IQ, company reports, other publicly available information

proved, but over time it has also expanded its universe to include development-stage assets, which though obviously higher risk, offer longer-duration cashflows, higher returns on invested capital, and more scope for capital deployment. Since 2012 about one-third of their investments have been in development-stage therapies, typically assets in the later stages of the approval pipeline. Of those, to date about 90% of the therapies have ultimately gained regulatory approval to launch. For approved and non-approved drugs, RP's batting average and slugging percentage over time have been impressive.

We believe the company has structural advantages that should allow it to continue compounding value at an attractive rate. It has deep relationships and a long track record that makes it the first-choice royalty partner, so it sees almost every deal and often gets a de facto right of first refusal with no competitive bidding. In fact, about half its deals historically have been bilateral. We also think its structure as an ongoing business with an indefinite life is well suited for the long-duration nature of biopharma assets, which can take years to be approved and then generate cashflows for 20-plus years. Two of the large competitors sit inside alternative-asset platforms (Blackstone and KKR), which typically need to return capital to investors in seven to 10 years. For larger royalty deals in particular, RP's long experience and access to permanent capital is a real advantage.

At today's share price of $67.20, what do you believe you're getting for what you're paying?

PD: With more competitors in the space we've penciled in returns on capital going forward that are somewhat below the historical levels of 15-16%. Given the size of the addressable market, RP's competitive advantages and its track record, we're estimating 12% or so compounding of EPS over time.

Right now the stock trades at about 12x EV/EBITDA, which we consider at least a couple turns low for a unique business with best-in-class pharma assets producing an acyclical, diversified stream of royalties. This may not be the highest-returning stock in our portfolio, but if we can comfortably underwrite a double-digit return for an acyclical diversifying asset like this, we're more than happy to do so.

Let's talk about some recent positions you've sold and the rationales behind, starting with Danaher [DHR].

PD: Our discipline around selling is that there is one reason to sell, which is that you have a better place to put the money. That may be because you were wrong about the original investment and no longer expect a sufficient return. It may be because you were right about the original investment and the stock has appreciated enough that you don't have a good enough return going forward. I'm very much in the camp that you should be making an active decision every day to buy what you own.

ON SELLING:

Our discipline is that there is one reason to sell, which is that you have a better place to put the money.

For Danaher we had something better in July to do with the money, which was to invest in Tyler and Axon. We also were a bit optimistic on the original investment thesis. We thought its biotechnology segment, which supplies tools, equipment and consumables for monoclonal antibody production, would rebound more quickly from a downturn than it did. We also thought that when it started to inflect, which did happen, that the company would at least benefit in line with its competitors. That wasn't the case and management was not super helpful in explaining why. Combined with the fact that they made a large acquisition we weren't a big fan of and that the overall business is complicated to follow, we thought our mental and financial capital would be better applied elsewhere.

I would add that I over-indexed on the company's long-term reputation for strong capital allocation and underweighted recent evidence to the contrary. Danaher made a very pricey acquisition in 2021 that should have been a yellow flag, and after we bought the stock they initiated a repurchase plan at 33x earnings, which was pretty hard to justify. Even though the long-term record of capital allocation is the stuff of legend, actions matter more than reputation.

What was behind your recent exit of Sunbelt Rentals [SUNB]?

PD: Our core thesis on the rental-equipment industry was that because the industry had consolidated considerably over the past decade, the big players in the market were going to act in a rational, oligopolistic manner and improve their profitability based on their strong local-market positions. That is exactly what happened over the past few years.

Unfortunately, the local markets that are Sunbelt's bread-and-butter have been weak, with mega-projects like data centers absorbing the lion's share of industry demand. The big-picture outlook for local markets is also arguably worse today than it was when we first bought Sunbelt given the increase in interest rates.

There's also a new entrant in the rental industry called EquipmentShare [EQPT], which has a different strategy for raising capital and is using it to expand rapidly by undercutting everybody on price. Instead of buying their own equipment, they enlist high-net-worth individuals and family offices to buy it and then lease it to EquipmentShare, with the investors taking the depreciation to save on taxes. There is no better way to sell to high-net-worth investors than to tell them you're going to reduce their taxes. We don't ultimately believe EquipmentShare's business model will hold up in a downcycle, but we don't know how long it can stay irrational and spoil the party. Every position has an implicit opportunity cost and that just be-

came too high here relative to alternative uses for the capital.

You've written about mistakes in assessing management that have cost you. What have you missed, and how have you tried to address that?

PD: Value investors tend to love founder-led companies, which is understandable because they've proven to be driven, think long-term and have tons of skin in the game. I've learned from experience, however, that founders aren't by definition perfectly aligned with you as an ordinary shareholder. For one, that view ignores the marginal value of wealth. If a founder is already a billionaire, is the next $100 million really his or her primary motivation?

Another issue is that founders may not have the right skill set for every stage in a company's lifecycle. They may be inspired engineers or technologists. They may be incredibly effective in selling their dream. They may be great micromanagers when they have their hands in everything. But those are not necessarily the skills that translate into successfully managing a 10,000-person organization. Some mature, many do not. I've concluded it's a big mistake to put founders on a pedestal – treat them as you would anyone else and don't give them the benefit of the doubt.

Apart from track record, what are some of the traits you look for in the leaders of your portfolio companies?

PD: This is something I think a lot about. Executive pay has reached such absurd heights at American companies that even mediocre CEOs can walk away with generational wealth as long as they remain healthy. So while I prefer to see incentive structures linked to KPIs [key performance indicators] that indicate economic value creation rather than otherwise, I've come to believe that even optically sensible incentives correlate poorly with the real-world performance of a manager.

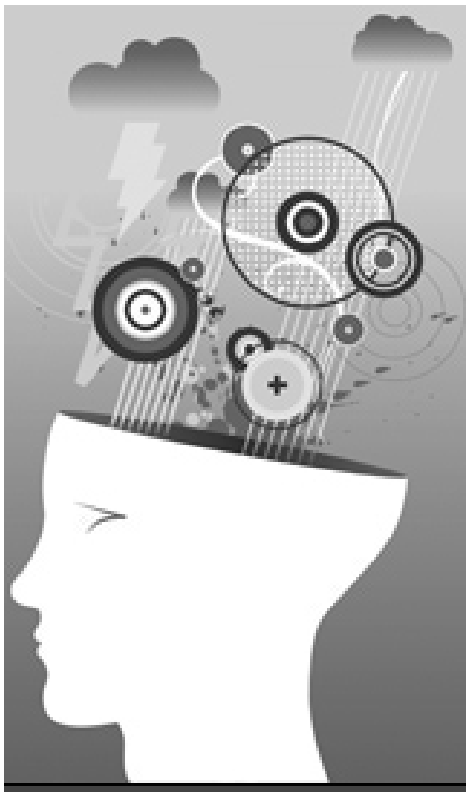
What I think matters more is how managers behave. Can they reflect on errors and thoughtfully discuss the roads not taken? Are they emotionally intelligent enough to credit success to colleagues and subordinates? Do they delegate effectively and listen to others when making decisions? Are they willing to learn new things and adjust their thinking if necessary? Some of that you can get from in-person interaction, but a lot of it requires talking to former colleagues, customers and suppliers to get a full sense of the manager's character.

Whenever we meet with management, we try to get them to walk through a decision they would have made differently. It doesn't have to be a giant mistake, just something where on reflection they've learned something. As is true in investment management, those who rise to the top are often not lacking in confidence. But all your decisions are not going to be correct, and we're more comfortable with managers who show a capacity to self-reflect, listen to ideas that may differ from their own, and learn from mistakes. We may miss some multi-baggers run by hard-charging, my-way-or-the-highway types, but I think we're also more likely to avoid big blow-ups due to management hubris. I'm happy to make that tradeoff.

You've talked in different contexts about qualitative rather than quantitative inputs into your decision making. Has the qualitative become more important over time?

PD: All value investors have had to recognize that shareholder value is increasingly being created by non-capitalized assets. R&D and marketing get expensed every year, but some proportion of that spending will be on things that are highly valuable and will be used for years to come. That isn't captured very well in a Ben Graham, balance-sheet-focused investing approach.

I think that makes it necessary for investors to get more comfortable in making decisions based on qualitative evidence that may not be very quantifiable. This has always been the case to some extent – credit to Phil Fisher for bringing that notion forward – but I think it's a muscle that will continue to be more important and valuable over time. VII



BRAINSTORM WITH THE BEST

Through in-depth interviews, *Value Investor Insight* spotlights the strategies and current ideas of today's most-successful investors.

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Investor Insight: Brian Barish

Cambiar Investors' Brian Barish and Rich Carney describe why investing based on mean reversion is getting harder, how "noise" in areas like healthcare and consumer products is creating opportunity, the lessons they learned from the Internet bubble, and why they believe Medtronic, Elevance Health, Constellation Brands and Expand Energy are mispriced.

As for many value investors, there's a heavy mean-reversion aspect to your strategy. Has relying on mean reversion in the world we live in gotten more difficult?

Brian Barish: In identifying potential investment targets we do rely on where their stocks are valued today relative to historic and/or peer-group ranges and then project what those valuation ranges can be in the future. The basic discipline is to buy in the lower quartile of the valuation range and sell towards the upper end of the long-term range. In doing that we hold a lot of variables constant and believe that both the business performance and the valuation are likely to mean revert.

But the world does change. Technology changes. The way that we interact with each other changes. Styles change. Applying a relative-value, mean-reversion lens only works with businesses where there might be some cyclicality, but you can be reasonably confident that the industry conditions in the future will turn out to be fairly similar to the past. Assessing that has always been difficult, but I think it's fair to say that today confidence in stability is more difficult to assess in a lot of industries.

Contrary to popular belief, however, markets are still not always efficient. People chase after whatever's hot, growing the fastest, or has the sexiest story in the near term. Public markets in the U.S. have become really thinned out in terms of fundamental active investors. It's hard for me to believe that decisively over 50% of stocks are held by indexes, which by definition do not engage in price discovery. Where there is price discovery, it's increasingly from quantitative strategies and multi-strat hedge funds that trade based on short-term estimate revisions. You can see it clearly in consumer names when there's weekly scanner or credit-card data released and almost immediately prices move dramatically to reflect potential or actual estimate revisions.

There just aren't a lot of fundamental investors getting in the way of these more statistically driven flows. We believe that creates more opportunity for long-term investors, but the ups and downs are a bit like a wild theme park ride.

You've written about ongoing changes in the world of consumer-products companies. Describe what you're seeing there and how that's impacting how you invest in their stocks.

BB: There's been significant change in the market for consumer products. Twenty years ago a successful consumer company could commandeer a lot of shelf space, advertise and promote its products using a handful of television channels and publications, and that was pretty much the business model. Big, established players had significant competitive advantages in doing that.

ON CONSUMER GOODS:

Our discipline points us to names where we don't believe it's a forgone conclusion they'll underperform indefinitely.

Now if I want to start a brand of athletic apparel, or a line of health food, or a new skincare company, it's not as hard to do. You can promote your brand on social media and reach potential customers using influencers and very targeted digital advertising. The barriers to entry are just much lower than they used to be and I think that's been a big driver of the valuation compression in the consumer space. The growth algorithm for consumer-product companies has been disrupted and the stability and predictability is not in many cases what it was.

There are other things impacting consumer companies today. One is the so-called K-shaped economy, where the top 20% of consumers appear to be doing pretty well but the bottom 80% aren't as their purchasing power has not kept up with inflation. Consumer tastes also evolve and it can be a challenge to parse the secular versus cyclical changes. All of this has made consumer stocks a tough neighborhood.

From our firm's founding our core discipline has been around finding situations where positive developments are not well reflected in share prices. So it's not surprising that that discipline is pointing us to consumer-related names where we don't believe it's a foregone conclusion that a historic market leader is going to underperform indefinitely. It hasn't proven out yet, but a representative example would be PepsiCo [PEP]. When we started buying the shares in the fourth quarter of last year the stock was trading at a meaningful discount to its historical valuation – around a 16x forward P/E, relative to the more typical level in the low-20s – despite strong brands, a number of interesting growth initiatives and what we thought were multiple catalysts to restore margins and earnings momentum.

We know the narrative here isn't great. Consumers are pushing back on price increases. GLP-1s are changing consumption habits. Who wants to own a consumer stock when tech and AI names are so much more exciting? This isn't true in every case, but with Pepsi we think that narrative is well known and priced into the stock to an extent that doesn't contemplate how the company can and will respond in pricing, product innovation and pursuing still-intact growth opportunities. If we're right, the fundamentals should ul-

timately help change the narrative and the valuation won't stay where it is forever. [*Note*: At just over $137, PEP shares currently still trade at 16x consensus forward earnings estimates.]

Talk about another recent addition to the portfolio, Intercontinental Exchange [ICE], and what's going on with it that attracted your attention.

BB: The company operates equity, futures and fixed-income exchanges around the world and it's a business we've owned before and know well. What attracted our attention was that exchange-operator stocks have been weak this year due to a combination of AI disruption fears and the potential for lower future trading volumes due to the recent approval for perpetual futures to trade in prediction markets like Kalshi and Polymarket.

This is a good example of trafficking in ideas where there is vague negativity. With respect to AI, that negativity reflects concern about the market-data and mortgage-technology parts of the business, which generate high margins and have provided diversifying sources of growth. Here we believe the fear significantly exceeds the reality, primarily because of the proprietary nature of the data assets these businesses are built upon. This is high-value data that can't be scraped off the public Internet and, if anything, we'd expect ICE to enhance its product offerings with AI-driven features that allow faster retrieval and analysis of the data to make real-time decisions.

On the threat of new prediction-market competition, if you understand the structure, regulation and dynamics of exchanges – where liquidity matters and established rules of engagement are long in place – you have to be pretty far out on the futurist curve to believe capital in volume will just pick up and move to prediction markets with unclear regulation and no operating history.

Using our relative-valuation process, when the company's shares got down to a sub-15x P/E on next year's estimated earnings – easily at 10-year lows against the long-term average of around 22x – we thought that offered a highly attractive risk/reward. [*Note*: Now trading at just under $169, ICE shares have increased nearly 40% from their June lows and are now trading at 19.7x consensus forward estimates.]

On the subject of vague negativity, I would also mention the card-payment networks Mastercard [MA] and American Express [AXP]. Their shares have come back nicely, but at the height of the AI-disruption fear they traded down out of concern, as far as I can tell, that artificial intelligence is going to create alternative payment rails that will circumvent credit and debit cards and that AI agents handling all kinds of tasks for us will increasingly seek out these alternative payment methods. Here I found myself asking, what are you talking about? I'm self-aware enough to recognize I could ultimately be wrong, but I honestly don't understand how any of this disrupts the current system in a meaningful way. When the shares sold off, we used it as an opportunity to add to our existing positions in both Mastercard and Amex.

ON HEALTHCARE:

We see things as more "normal" heading into 2027 and don't always see that reflected in current share prices.

Amazon.com [AMZN] is a top-10 holding in your large-cap fund. Are you making some sort of AI bet with it?

BB: My original interest in Amazon as a value investor came about accidentally, when I was at a conference in Las Vegas in late 2019 at the same time as the annual Amazon Web Services' developers conference. Just being in town I was overwhelmed by the crowd there for AWS, which I read afterwards was something like 120,000 people. Sparked by that, we ended up buying the stock because of the length and size of the runway we saw for AWS providing cloud services to enterprises that will use it as their primary compute backbone – the processing power, virtual servers, storage and networking that modern web applications and digital services run on.

We believed the demand for AWS services was unstoppable at the time and nothing in the interim has changed that view. If anything, the buildout of agentic AI has probably lengthened the sustainable runway. We don't believe those positive future developments are well reflected in the stock. The shares [at today's $240 price] trade at about 9x EV/EBITDA, which is near the bottom of the historical range. You can argue whether it ever gets back to the peak level of around 18x given that the company is so much bigger and there's some uncertainty around the ultimate level of AI-driven demand, but the overall business is still capable of growing earnings at a double-digit annual rate and we think the likelihood of a further re-rating of the valuation down from here is quite low. This is still a high-conviction holding for us.

You've said "noise" in the healthcare sector has made it relatively fertile ground for bargain hunting. Explain what you mean by that.

Rich Carney: Covid threw a number of wrenches into the system that have taken quite a while to work themselves out. During the pandemic healthcare utilization declined as patients were hesitant to visit healthcare facilities and then there was a subsequent catch-up in procedures as people started going out again. Spending in life sciences went through the roof and then contracted. Biotech companies raised record amounts of capital and spent it on drug development and then the capital stopped flowing and spending on R&D normalized. That's made for more volatility over the past two to three years in several sectors that usually are less volatile, including managed care, medical devices and life sciences. We see things as more

"normal" heading into 2027 in certain areas of healthcare and don't always see that reflected in share prices.

Describe why you think that's the case today for device-maker Medtronic [MDT].

RC: The medical-technology sector has had a rough year for the most part. Insurers are pushing really high deductibles, premium increases in the commercial business have been up fairly strongly, and with regulatory changes there's been some losses in coverage, particularly in the individual market. All that has resulted in a deceleration in procedure volumes for more elective procedures that has impacted med tech.

But generally speaking this is a great business. Doctors are often trained on leading products and are slow to switch. Hospitals develop strong relationships with large suppliers that allow the companies to be on top of what their customers want and need, which drives innovation. Devices are largely for non-elective procedures, in increasing demand as the population ages. When there are temporary issues in the industry like we've had this year, we often see that as an opportunity to invest.

Medtronic is one of the world's largest medical-device companies, with revenues split evenly between the U.S. and international markets. It offers a wide range of products across cardiovascular, neuroscience, medical-surgical and diabetes business segments, including pacemakers, implantable defibrillators, spinal implants, respiratory ventilation systems and glucose monitoring sensors.

Starting in 2020 the vitality of the company's overall product portfolio started to lag and earnings growth stagnated as it lost market share to competitors like Boston Scientific and Abbott in certain key categories. New CEO Geoff Martha came in with a mandate to upgrade the product portfolio and reenergize organic growth. We think the company has done a good job in this regard and we're starting to see that show up in the financials. At a time when growth at most peers is slow, organic revenues in Medtronic's latest quarter were up over 7%. New products they've been rolling out have gotten excellent adoption and we believe the momentum is still in the early stages.

Success here isn't reliant on one big blockbuster, but rather from a number of products for what I would call minimally invasive procedures that are strong alternatives to existing drug therapies. I'll mention three. The PulseSelect ablation system uses high-energy electrical bursts to interrupt erratic electrical pathways in the body that cause atrial fibrillation. The Symplicity Spyral system treats high blood pressure by targeting overactive nerves leading to the kidneys with radio waves. Altaviva is a small implant in the ankle that sends out electrical pulses to the tibial nerve that aid in the treatment of urinary incontinence.

We believe products like these have shifted the company's dynamic from a 3-4% baseline annual organic grower to one that for some time could grow in the 6-8% range. We also believe operating margins have significant upside as more systems are in the market generating recurring revenue and high spending currently on selling, general and administrative expenses normalizes.

INVESTMENT SNAPSHOT

Medtronic
(NYSE: MDT)

Business: Develops, manufactures and sells device-based medical therapies and systems across cardiovascular, neuroscience, medical-surgical and diabetes business units.

Share Information (@10/30/26):

Price	**96.54**
52-Week Range	73.31 – 106.33
Dividend Yield	3.0%
Market Cap	$118.18 billion

Financials (TTM):

Revenue	$37.54 billion
Operating Profit Margin	20.1%
Net Profit Margin	13.9%

Valuation Metrics
(@10/30/26):

	MDT	S&P 500
P/E (TTM)	23.8	23.5
Forward P/E (Est.)	16.1	19.2

Largest Institutional Owners
(@6/30/26 or latest filing):

Company	% Owned
Vanguard Group	10.2%
BlackRock	9.3%
State Street	5.2%
Geode Capital	2.5%
Capital Research & Mgmt	1.8%

Short Interest (as of 10/30/26):

Shares Short/Shares Out.	11.4%

MDT PRICE HISTORY



THE BOTTOM LINE

A revitalization of its product portfolio has shifted the company's annual organic growth potential from 3-4% to 6-8%, says Rich Carney. With operating-margin improvement as well he believes earnings per share can grow at close to 15% annually over the medium term, which he doesn't think is well reflected in a stock trading today at a 16x forward P/E.

Sources: S&P Capital IQ, company reports, other publicly available information

How are you seeing all that translate into upside for the stock, which closed recently at $96.50?

RC: With increased organic revenue growth and margin recovery we estimate over the medium term that Medtronic's earnings per share can grow close to 15% annually. At today's share price the stock trades at 16x consensus forward earnings and at around 14x on 2028 estimates. If the organic growth comes in as we expect, in addition to benefiting from the EPS growth we could also imagine a re-rating of the shares to trade at more of a high-teens multiple. The market seems to be treating all med-tech stocks the same today and we believe Medtronic deserves better than that.

Staying in the broader healthcare space, describe your investment case today for insurer Elevance Health [ELV].

RC: Heath insurers had a tough year in 2025 as increased medical utilization costs and margin pressures in Medicaid and Medicare Advantage policies drove medical-loss ratios to multiyear highs. While that wasn't pleasant and the companies can rightly be criticized for poor underwriting decisions, one real positive of this type of insurance business is that it's short-cycle and underwriting and operational issues can be corrected relatively quickly. We believe that's happening at Elevance and it remains well-positioned as a big player in a market that benefits from an aging population and increased life expectancy and where scale is a significant competitive advantage.

Elevance is the #2 player in the U.S. behind UnitedHealth among health insurers, with 45 million people under coverage largely through Blue Cross Blue Shield-licensed plans in 14 states. It's particularly strong in the commercial market, which has traditionally been its bread and butter, but is well diversified across Medicare Advantage and Medicaid plans as well. It benefits from the strong Blue Cross Blue Shield brand, deep historical ties to regional hospital systems and local doctors, and from negotiating leverage with healthcare suppliers. That typically allows the company to be highly competitive on price in the markets in which it competes. Having millions of insured customers also allows it to funnel business to high-margin services provided by its Carelon division, which offers pharmacy benefits management, behavioral health and in-home care services.

Elevance at this point is still a margin-recovery story. The Medicare Advantage business has been underearning due to rising medical-cost trends and lower-than-desired federal reimbursement rate increases, and the company also ran into some trouble with regulators in how it was transmitting risk-adjustment data related to its Medicare Advantage plans. We consider these either cyclical or fixable problems, not structural. The Medicaid business has also had a hard time over the last two years – it is expected to lose money on an operating basis this year – but, again, we believe this has more to do with the unwinding of pandemic-era government regulations and the lag time required for state regulators to reset payment rates than it does that this business is structurally impaired.

INVESTMENT SNAPSHOT

Elevance Health
(NYSE: ELV)

Business: Provider of employer, individual and government-sponsored health insurance plans; in the U.S. the largest provider of Blue Cross Blue Shield-branded coverage.

Share Information (@10/30/26):

Price	**420.07**
52-Week Range	274.84 – 450.69
Dividend Yield	1.6%
Market Cap	$90.76 billion

Financials (TTM):

Revenue	$201.83 billion
Operating Profit Margin	4.0%
Net Profit Margin	2.5%

Valuation Metrics
(@10/30/26):

	ELV	S&P 500
P/E (TTM)	17.9	23.5
Forward P/E (Est.)	14.6	19.2

Largest Institutional Owners
(@6/30/26 or latest filing):

Company	% Owned
Vanguard Group	9.9%
BlackRock	8.8%
State Street	4.8%
Wellington Mgmt	4.3%
Sanders Capital	2.7%

Short Interest (as of 10/30/26):

Shares Short/Shares Out.	2.4%

ELV PRICE HISTORY



THE BOTTOM LINE

Despite a rocky recent past, the company remains well-positioned as a large player in a market that benefits from positive demographic trends and where scale is a significant competitive advantage, says Rich Carney. With organic growth, normalizing margins and an uptick in valuation, he's sees a potential IRR on the stock to 2030 in the high teens.

Sources: S&P Capital IQ, company reports, other publicly available information

Trading recently at around $420, how inexpensive do you consider the company's shares?

RC: Operating margins in the Medicare Advantage business are typically around 4%, twice the current level. In the Medicaid business margins this year are expected to be negative, but we believe they'll improve next year to 2.5% or better. With 5% or so annual membership and premium growth and a normalization upward in underwriting profitability, management is guiding to 12% annual earnings per share growth in 2027 and beyond. We believe that's reasonable.

Without heroic assumptions on further margin recovery, we estimate the company can earn close to $45 per share by the end of the decade. The stock trades today at a less than 15x forward P/E multiple and with improvement in the underearning businesses we could imagine over time a couple turns better than that. If that happens, we're looking at an IRR for the stock in the high teens.

That assumes some continuation in the share-buyback program, which still has close to $5 billion in authorization. We liked the extent to which the company and insiders stepped up their buying when the stock sold off last year. We'd much rather they buy back shares while the company is underearning as opposed to spending it on a big acquisition.

From healthcare to beer, describe why you're high on the investment prospects for Constellation Brands [STZ]. There would appear to be plenty of vague negativity here.

BB: This is a stock we've owned and added to recently, basically on the strength of the company's beer brands, primarily Modelo and Corona, which generate the vast majority of the sales and profits. I used to do a lot of work in Mexico so I know these brands starting decades ago and believe I can objectively say the beers taste better than the primary competition in the U.S. – Budweiser, Miller and Coors – which I think are just terrible. Relative to a lot of craft beers, Modelo and Corona also go better with food.

The narrative around Constellation is that GLP-1s are making people drink less, young people are drinking less alcohol in general, the immigration crackdown is affecting their target customers, and the K-shaped economy I spoke about earlier disproportionately hurts it. That accounts for quite a bit of negativity – maybe not so vague in this case – around the stock, but we'd argue that the idea all these negatives are secular versus cyclical seems overstated. Beer unit volumes have been more or less flat in 2026, which we believe is the result of inflation pushing prices higher while large demographics of consumers are having to tighten their belts.

The negativity to our mind also doesn't reflect the company's ability to continue to take market share because its beers taste better. It imagines little growth potential from developing brands such as Pacifico and Victoria that we think could gain traction. It doesn't contemplate that the immigration crackdown is more likely to lessen than increase. Also count me as a skeptic to the notion that young people are not going to drink alcohol very much going forward. This is a new thesis in the history

INVESTMENT SNAPSHOT

Constellation Brands
(NYSE: STZ)

Business: Marketing and distribution of beer and wine primarily in the U.S.; established brands are Corona and Modelo, while developing brands include Pacifico and Victoria.

Share Information (@10/30/26):

Price	**135.33**
52-Week Range	110.60 – 168.60
Dividend Yield	3.2%
Market Cap	$22.90 billion

Financials (TTM):

Revenue	$9.21 billion
Operating Profit Margin	32.8%
Net Profit Margin	20.9%

Valuation Metrics
(@10/30/26):

	STZ	S&P 500
P/E (TTM)	12.1	23.5
Forward P/E (Est.)	11.4	19.2

Largest Institutional Owners
(@6/30/26 or latest filing):

Company	% Owned
Vanguard Group	10.6%
Capital Research & Mgmt	7.8%
BlackRock	6.8%
State Street	4.0%
GMO	2.4%

Short Interest (as of 10/30/26):

Shares Short/Shares Out.	5.0%

STZ PRICE HISTORY



THE BOTTOM LINE
The idea that every negative surrounding the company is secular versus cyclical seems overstated, says Brian Barish, who believes its shares price in negative growth over at least the next five years. From the current free-cash-flow and dividend yields he expects a 10%-plus annual return, with upward reversion in the valuation providing upside to that.

Sources: S&P Capital IQ, company reports, other publicly available information

of the world! I can't forecast young people's drinking habits 10 years' out, but my suspicion is they likely won't be as bad for Constellation as would seem to be priced into the stock.

What does seem to be priced into the stock at the recent price of around $135.30?

BB: The shares trade at less than 12x estimated forward earnings, for a company with 30%-plus operating margins and with very high free cash flow conversion of the earnings. At this level investors seem to believe not only that the company can't grow, but that it's likely to shrink over the next five to 10 years. On a relative-value basis this is an overwhelming buy given the discount to the average 10-year P/E multiple of around 20x.

We estimate earnings and free cash flow per share will increase at a 5-8% annual rate. On current-year numbers the free-cash-flow yield is over 8%. There's a 3% dividend yield. All that translates into a high potential shareholder rate of return even before any re-rating in the stock, which for a defensive consumer-staple stock like this would not strike us as out of the ordinary.

We haven't talked at all about energy, an area of interest for you over time. How are you looking at the opportunity set in the sector today?

BB: As with many sectors, energy has been rather noisy in 2026 as well. We have actually been net sellers of our energy positions because of the right-tail event in oil prices due primarily to wars in the Middle East and Ukraine. Oil prices are over $100 per barrel, against a long-term market-clearing price that we believe is between $60 and $80. My basic view is that it is not generally a good idea to make aggressive commitments to stocks when you're in a right-tail event in a commodity. I can't tell you how or when it's going to happen, but the commodity price – oil in this case – is almost certain to come back down to earth. You don't want to be extra long oil when that happens.

On the other hand, I can make the case we're having a modest left-tail event with respect to natural gas. Here we believe the long-term U.S. clearing price – at which marginal producers can generate an OK return – is between $3.25 and $4.25 per thousand cubic feet [Mcf], while spot prices today have been in the $2.65 to $2.90 range. There is plenty of supply of natural gas, but prices are low primarily because of the weather, which has been mild and is expected to be relatively mild through the winter months when natural gas for heating is most in demand. Low prices have and will continue to constrain supply.

ON OIL:

It's generally not a good idea to make aggressive commitments to stocks when you're in a right-tail commodity event.

That's the short-term picture, but if you talk to executives at major energy companies almost everyone will tell you that over the next 10, 20 or 30 years natural gas is likely to be the one hydrocarbon that grows sustainably in usage over time. If that turns out to be true, it will make little sense for natural gas prices to remain as cheap as they are relative to oil. The rule of thumb is that you multiply the price of natural gas per thousand cubic feet by six to get to the equivalent price in terms of a barrel of oil. Today that oil-equivalent price is $18 per barrel, again, when oil is going for over $100. That's super cheap and we're finding opportunity in natural gas to get on the right side of that.

Let's talk about one of those opportunities, in the relatively newly named Expand Energy [EXE].

BB: Expand is North America's largest natural gas producer, formed in the 2024 merger of Chesapeake Energy and Southwestern Energy. It holds major shale gas positions in the Marcellus and Utica formations in Pennsylvania, West Virginia and Ohio, and in the Haynesville and Bossier areas in Louisiana and Texas. They're not quite as low-cost as competitor EQT is, but Expand's all-in breakeven natural gas price is approximately $2.70 per Mcf, which is significantly lower than the $3.50 or so industry standard.

It's like night and day between how the company is managed today versus how its two predecessors were run before. They are expressly not interested in growing production and instead want to build out their downstream capability, doing in natural gas what the big integrated majors do in oil. In September Expand paid $1.25 billion to buy Twin Eagle Holdings, moving it beyond pure upstream production to now directly marketing gas to customers throughout the U.S. and Canada. As with any vertical integration they're looking to retain more of the price at which the gas is sold for themselves.

What's driving the positive long-term demand picture you described for natural gas in the U.S.?

BB: Part of it is natural gas continuing to replace coal in generating the electricity necessary to maintain a reliable electric grid. There's incremental power-generation demand coming from increased electrification in general and to meet AI-datacenter power needs in particular. Also very important is the continued buildout of export infrastructure in the U.S. for liquefied natural gas [LNG]. There are a lot of countries in Asia and in Europe that desperately want and need gas, which is cleaner than oil and because it's so plentiful in the U.S. is still much cheaper than alternatives even after converting it to LNG and transporting it. Past 2027, as LNG facilities come onstream, the U.S. is expected to go from historical gas production and consumption levels of about 100 billion cubic feet [Bcf] per day to closer to 120 Bcf per day.

You established your position here when the company still had an interim CEO. That wasn't worrisome?

INVESTMENT SNAPSHOT

Expand Energy
(Nasdaq: EXE)

Business: Exploration, development and production of primarily natural gas from shale formations located in Pennsylvania, West Virginia, Ohio, Louisiana and Texas.

Share Information (@10/30/26):

Price	**90.55**
52-Week Range	83.25 – 126.62
Dividend Yield	2.5%
Market Cap	$20.91 billion

Financials (TTM):

Revenue	$12.95 billion
Operating Profit Margin	28.9%
Net Profit Margin	21.3%

Valuation Metrics
(@10/30/26):

	EXE	S&P 500
P/E (TTM)	7.8	23.5
Forward P/E (Est.)	11.8	19.2

Largest Institutional Owners
(@6/30/26 or latest filing):

Company	% Owned
Vanguard Group	12.5%
BlackRock	8.4%
State Street	6.8%
Capital Research & Mgmt	4.3%
Geode Capital	2.9%

Short Interest (as of 10/30/26):

Shares Short/Shares Out.	4.8%

EXE PRICE HISTORY



THE BOTTOM LINE

Given the current "modest left-tail event" with respect to U.S. natural gas prices, Brian Barish sees opportunity in the stock of this large and cost-advantaged North American producer of natural gas. Using an industry rule of thumb that expects stocks to trade at 8x peak earnings and 20x trough earnings, he estimates the fair share value at around $140.

Sources: S&P Capital IQ, company reports, other publicly available information

BB: It's not the normal way we do things, but in this case the direction was set by the board some time ago and everything the company has been doing is very consistent with maintaining discipline on supply and on pursuing vertical integration. We felt the playbook was obvious and the choice of CEO would be consistent with that playbook. Now that they've named the CEO, we believe that is the case. [*Note*: Earlier this month the company named Daniel Brown, then CEO of Chord Energy, as its new President and CEO effective October 26.]

The balance sheet?

BB: The debt is investment grade, rated triple-B by the ratings agencies. Predicting energy prices in the short run is sort of like a random number generator so I wouldn't want to go on this adventure with a junk-rated balance sheet. But for a low-cost producer in the industry, the current amount of leverage strikes us as fair and reasonable.

How attractive are the shares at today's price of around $90.50?

BB: There's a rule of thumb in the industry – based on history, not a bad one – that you can expect stocks like this to trade at 8x peak earnings and 20x trough earnings over a cycle. In this case, based on our estimates that assume by 2028 we'll see a normalization of gas prices in the $3.25 to $4.25 per Mcf range, using that rule of thumb from both ends we come out to a fair value of around $140 per share.

They say in baseball to hit 'em where they ain't, which is what we are doing here. Natural gas is not the commodity that pops to mind in a late-2026 energy discussion, which we think is helping to create the opportunity.

What are you most worried about today as an equity investor?

BB: I'd say I have three big worries. As a citizen of the United States where political centrists seem to be few and far between, my confidence is not high that if we had a legitimate economic crisis the political powers-that-be would be capable of finding practical responses and solutions. Another worry, also in the event or threat of economic crisis, is what happens to equity prices if index investors in large numbers start to panic? My third worry, related to the first two, is that the spending on AI infrastructure is indeed a bubble that pops and starts a disorderly unwind.

We're hired to invest in equities and it won't be easy to hide if my worst fears come to fruition. But I very much believe a disciplined value focus on owning companies where positive developments are not well reflected in share prices will do far better than both the market and all the investors leveraged to AI bullishness.

Having lived through the Internet bubble, there will be a lot of opportunity in the aftermath of a significant drawdown in the overall market. The caution I'd highlight there, however, is to avoid reference-point contrarianism – saying something used to be up there and now it's down here so therefore it must be cheap. That doesn't mean anything, it just means it used to be up there. As they say, beware trying to catch falling knives. VII

Investing Through Disruption

Almost every investment portfolio today is filled with companies that face material risks and opportunities from the deployment of artificial intelligence. "Compounder" investor Dev Kantesaria explains how he's navigating that reality.

INVESTOR INSIGHT



Dev Kantesaria
Valley Forge Capital Management

Editor's Note: *While focusing on business quality first as an investor has generally worked extremely well in the U.S. since the 2008-2009 financial crisis, it has hit a rough patch of late. For insight into why that is and what – if anything – might be done about it, we spoke recently with a leading practitioner of the craft, Valley Forge Capital Management's Dev Kantesaria [VII, September 30, 2024]. Managing a highly concentrated portfolio from his firm's Miami base, he describes the impacts AI is having on the businesses and the stock prices of companies that are most attracting his interest today.*

Investing in only the highest-quality companies has served you well since you founded your firm in 2007. Has the roll-out of AI made that more challenging?

Dev Kantesaria: What has largely driven our portfolio returns over the last 20 years are financial services, payments and software. We've looked for businesses that hold dominant market positions in industries with strong secular growth, have pricing power because they provide something essential but cheap, have good operating leverage, and require very little capital so free cash flow can be used to buy back shares or pay dividends. Those factors combined can produce a wonderful compounding machine. Charlie Munger used to say the best type of investing is sit-on-your-ass investing, where your compounding machines do all the hard work for you.

While those business models have done well for us, we're finding other types of high-quality businesses in the current market. We define business quality as having the perfect intersection between organic growth and predictability. I always use Colgate-Palmolive as an example of a wonderful company I might love to own as a family business, but it grows organically at 2% a year and will not generate the returns we require as fund investors. Or you could invest in a new AI startup company growing at 100% a year, but it's questionable whether they're going to be in business in five years. In between those extremes we're looking for the ideal marriage of growth and predictability.

Where you find the best opportunities always changes over time. We owned Monster Beverage for a number of years and did very well with it. We had success investing in Nike when it was one of the top brands in the world. We even owned a gaming monopoly in Greece. But industry dynamics evolve, changing the growth and predictability of the underlying players. We believe AI is going to be the most disruptive change to businesses in history. We sold out of Adobe [ADBE] some time ago when we thought generative AI would replace its products. We exited our position in Intuit [INTU] over the last few years out of concern that AI could replace its accounting and tax-preparation software. (My son's robotics teacher recently told me he's doing his taxes with Anthropic's Claude.) AI is forcing us to reduce our exposure in certain areas and look for organic growth in other industries, while still maintaining a high bar for predictability.

We'll certainly come back to AI, but to what extent have rising interest rates been a headwind to your style of investing in the past few years?

DK: Software and services have been difficult places to invest for the last two years and AI disruption – whether real or perceived – has been the strongest headwind. But interest rates have been a big factor as well. The 10-year U.S. Treasury yield going from near 0% in 2020 to over 5% today has led to earnings-multiple contraction that is difficult to grow out of in the short term. If a company is trading at a 35x P/E and the market decides it now deserves a P/E of 25x, with a 10-year time horizon that might be OK, but over shorter periods that's a difficult hurdle to overcome.

Given our long time horizon, we invest in compounding machines without underwriting multiple expansion or contraction tied to interest rates, the direction of which are ultimately unknowable. I'm confident in our ability to underwrite a business' long-term growth and sustainability but not short-term macro factors. Over a long investment period the quality of our stock selection is going to matter more than the direction of interest rates.

Has your valuation approach changed at all due to the rise in interest rates?

DK: Our approach hasn't changed. We compare a company's forward free-cash-flow yields based on our estimates over the next few years to the current 10-year Treasury yield, our proxy for the risk-free rate. We want to see a positive gap between expected yields and the risk-free rate and also want our companies to be able to grow free cash flow per share at a mid to high teens rate annually. If they deliver, the compounding potential is significant.

You've written about AI in the context of the "food chain" around it, specifically the developers of Large Language Models

[LLMs], hyperscalers, fabless chip designers, foundries and semiconductor-equipment manufacturers. What parts of that food chain interest you most today?

DK: LLMs like Anthropic and OpenAI are generating remarkable revenue growth. There's a case to be made that Anthropic is the greatest growth story in the history of capitalism, going from zero to where it is today in just a few years. But while token usage of the leading AI models over the next few years is likely to exceed even the rosiest estimates, there's also growing risk these models become commoditized more quickly than people think as lower-cost open-source and open-weight models gain traction. Although LLM providers' growth is interesting to us, their predictability isn't sufficient to get us excited about this part of the AI food chain.

We've added some new positions related to AI compute that we haven't yet disclosed publicly, but one general area I'd highlight is the fabless chip designers like NVIDIA [NVDA], Broadcom [AVGO], Marvell Technology [MRVL] and MediaTek [Taipei: 2454]. These companies play a bigger role than just designing GPUs [Graphics Processing Units] or ASICs [Application-Specific Integrated Circuits]. They're the architects of the entire ecosystem surrounding their chip designs, including the optics, memory, advanced packaging, server rack designs, power and cooling systems, and data-center connectivity. They play a critical role not only in designing the processor but also all that goes around it, and their scale advantages and network effects are difficult to overcome. As an example, they can secure capacity and components for their customers that are currently in short supply.

One of the biggest players, Broadcom, is expected to grow adjusted earnings 70% this year, 65% next year and almost 60% in 2028. Because of skepticism around what happens to hyperscaler capex in 2029 and 2030, on consensus 2028 estimates the stock trades at a P/E of just over 11x. If investments in AI compute stay high – I don't believe it's unreasonable to underwrite strong AI-compute demand out even to 2035 – you will see a massive re-rating of such businesses. And the demand for the ASICS chips they design is not confined to just AI data centers. They're going to be in cars, televisions, refrigerators, robots and a number of other products.

I'd make one additional general point: AI will ultimately benefit the application layer, creating new opportunities for services and software companies. Large efficiency gains from AI will likely raise operating margins at these companies to levels unimaginable just a few years ago.

ON INVESTING AND AI:

When the backdrop changes rapidly you have to be particularly mindful about the secular trends you're investing in.

We've spoken in the past more than once about ASML Holding [ASML]. Are you still as high on its investment prospects?

DK: ASML is the world's best semiconductor tool company. It makes photolithography machines that are one of the very first steps in the semiconductor manufacturing process, using light to print billions of transistors onto silicon wafers. Their most sophisticated Extreme Ultraviolet Lithography [EUV] machines are about the size of school buses, sell for $200 to $400 million each, and are the most complex machines ever built. High-margin services revenue on sold machines now makes up 30% of total sales, a percentage that should grow along with the rising installed base.

We believe their engineering is more than a decade ahead of others. The Manhattan Project taught us that with espionage and enough resources and effort breakthroughs can be made by others, but we have reasonable clarity on ASML's product roadmap through 2035, and it gives us confidence in their monopoly position through this period.

John D. Rockefeller in his day was smart enough to see oil as what the U.S. was going to run on for a long time into the future, and you could say the same today about semiconductors. The data-center buildout is an incremental driver, but so much else in the future – related to defense, drones, space exploration, self-driving cars, humanoid robots – will require advanced semiconductors. Devices today like refrigerators and TVs are pretty dumb but will become more intelligent and interactive with the help of AI and advanced semiconductors. Holding a dominant position at the key bottleneck in the chip-manufacturing process should greatly benefit ASML over time.

How are you thinking about cyclicality?

DK: Maybe regulation slows AI development for a period. Maybe funding issues put a temporary brake on AI infrastructure spending. We're OK with short-term cyclicality as long as long-term demand is robust. Because ASML is an essential tool for all semiconductor foundries, we also like that we don't have to make a bet on which chip technology is going to win or lose over time.

Is global trade friction a concern here?

DK: The company is restricted on what it can sell in China and that may remain the case for some time. That is a headwind for ASML, but the reality is that they can't make their machines fast enough today to meet global demand. Trade friction has highlighted real concerns about the concentration of semiconductor manufacturing capacity in only a few countries. The U.S., Japan, Germany and India are all making efforts to build or rebuild their foundry ecosystems. The loss of some business in China should be more than compensated by new demand coming from elsewhere. That should help ASML diversify its geographic and customer-concentration risks.

How are you looking at valuation here from today's $1,565 share price?

INVESTMENT SNAPSHOT

ASML Holding
(Nasdaq: ASML)

Business: Development, production, marketing, sales and servicing of lithography, metrology and inspection systems used in the manufacture of advanced semiconductors.

Share Information (@10/30/26):

Price	**1,565.90**
52-Week Range	946.11 – 1,999.96
Dividend Yield	0.6%
Market Cap	$603.53 billion

Financials (TTM):

Revenue	€39.47 billion
Operating Profit Margin	38.6%
Net Profit Margin	34.1%

Valuation Metrics
(@10/30/26):

	ASML	S&P 500
P/E (TTM)	40.4	23.5
Forward P/E (Est.)	24.6	19.2

Largest Institutional Owners
(@6/30/26 or latest filing):

Company	% Owned
BlackRock	7.2%
Vanguard Group	4.5%
Norges Bank Inv Mgmt	2.3%
Fidelity Mgmt & Research	2.3%
Capital Research & Mgmt	1.7%

Short Interest (as of 10/30/26):

Shares Short/Shares Out.	0.3%

ASML PRICE HISTORY



THE BOTTOM LINE
Holding a dominant position at the key bottleneck in the chip-manufacturing process should benefit the company as demand for advanced semiconductors rises dramatically over time, says Dev Kantesaria. He considers today's share price an "extremely compelling entry point" into a company that can grow EPS by 30% annually over the next few years.

Sources: S&P Capital IQ, company reports, other publicly available information

DK: I've always believed that for a business growing fast that has predictability, it's OK to pay a fair price for the stock. ASML is trading at roughly 25x forward earnings and at around 21x 2028 estimates. Most investors aren't willing to underwrite growth much beyond 2028, but we believe this business with volume growth and margin expansion can grow the bottom line around 30% per year over the next few years, with high growth continuing through 2035. The multiple declines quickly in future years, so for a business of this quality and with a set of financials any value investor could love we believe today's price provides an extremely compelling entry point.

You still own a large position in S&P Global [SPGI], which has traded off somewhat related to AI-related fears. Describe your investment case for it today.

DK: I've owned this stock for nearly 20 years. I remember buying it – actually on my wedding day – at around $17 and the shares since then are up 27x. They were up 30x before the recent drawdown.

The most important business, of course, is debt ratings, where S&P is essentially in a global duopoly with Moody's to provide ratings that rank the creditworthiness of debt issuers. I consider this one of the top five business models in the world. There is some cyclicality to debt issuance, but global debt grows over time. The duopoly players have the brands and decades of experience that create high barriers to entry. The value of the product they provide – interest-cost savings by having an S&P rating versus not having a rating or having a rating from a lesser provider – is enormous relative to the cost of the rating, which results in pricing power. They collect a toll when the debt is issued, the debt is usually reissued again and again, and they collect monitoring fees over the life of each issuance.

How does the increasing prevalence of private credit impact this business?

DK: We see this more as an opportunity than risk. As companies issuing private credit today mature, they're likely to convert that into lower-cost public debt when they can. Today a lot of private credit is held by large institutional investors like pension funds and insurance companies, which need ratings to give them comfort on credit quality. This should ultimately prove to be a volume opportunity for S&P and Moody's.

Where are we in the debt-issuance cycle?

DK: Debt issuance in the first half of this year was very robust as interest rates were still considered relatively low and volumes came in higher than expected as debt became a greater funding source for AI infrastructure spending. With the recent spike in interest rates and the lack of resolution of the war in Iran there has more recently been a short-term decline in issuance. That can worry some investors in S&P, but I use the analogy that if cars on the highway start to back up because all the toll collectors take a break, I don't really care when they go through the tollbooth as long as I know they ultimately will. S&P is the toll collector in this case so that's how I think about ups and downs in debt issuance.

What are the AI-disruption fears around the company?

DK: S&P operates in many areas that are largely immune to AI disruption. Its indices business, for example, is a wonderful franchise whose strength rests on brands and benchmarks that AI can't replicate. But the company has also built out over the years a variety of data-analytics offerings that have not been particularly value accretive and that face more challenges in the future from AI.

The Market Intelligence business provides data, research and financial-analysis tools used primarily by institutional investors and corporations. Some of the data is aggregated from public sources, which makes it easier for AI to deliver the same information at a much lower cost. Another segment, Energy, provides commodity-related pricing and information which is less threatened by AI because it relies mostly on proprietary data and benchmarks. But we still view it as a lower-quality business than debt ratings and indices.

We have been vocal in recommending the company separate or sell the Market Intelligence business because we believe it dilutes the quality of the core ratings and indices franchises. They certainly should not make any further large acquisitions to diversify – the emphasis should be only on improving the business quality of the current portfolio, which we'd argue comes from subtraction rather than addition.

How attractive do you consider the shares at today's price of around $466?

DK: For a company that at its core has one of the best businesses in the world, the stock trades at multiples accorded lower-quality companies such as retailers. The P/E on 2027 estimated adjusted earnings is 23x and on 2028 numbers is around 20x. We consider those very attractive valuations for a business that on a steady-state basis we estimate can increase adjusted earnings per share by at least a low-teens rate annually through 2030. If we put reasonable, separate multiples on the four business units – Ratings, Indices, Market Intelligence and Energy – a case can be made for an intrinsic value that's 50% above the current share price.

A predictable business growing 12% a year doesn't sound exciting relative to other companies the market is currently excited about, and there are certainly higher-growth names that on a risk/reward basis compete favorably with S&P Global as investment opportunities. We're quite comfortable, however, having a strong and steady turtle like S&P in the portfolio.

All in all, how would you characterize your mood today as an investor?

DK: AI will be highly disruptive to most industries and could cause major, and not entirely positive, societal changes. It's certainly harder to underwrite business models when the backdrop changes so rapidly, and you have to be particularly mindful about the secular trends you're investing in. But with the right timeframe and industry focus, I think there are many interesting opportunities today. The future is going to look a lot different than the past, though, so investors should not assume that the old playbook will always work in the same way in the future. VII

INVESTMENT SNAPSHOT

S&P Global
(NYSE: SPGI)

Business: Provides credit ratings, benchmark indexes and market-intelligence data and analytics used by customers engaged in capital and commodity markets worldwide.

Share Information (@10/30/26):

Price	**466.55**
52-Week Range	381.61 – 552.25
Dividend Yield	0.8%
Market Cap	$135.25 billion

Financials (TTM):

Revenue	$16.29 billion
Operating Profit Margin	44.1%
Net Profit Margin	30.6%

Valuation Metrics
(@10/30/26):

	SPGI	S&P 500
P/E (TTM)	26.6	23.5
Forward P/E (Est.)	24.0	19.2

Largest Institutional Owners
(@6/30/26 or latest filing):

Company	% Owned
Vanguard Group	9.4%
BlackRock	8.3%
State Street	5.0%
TCI Fund Mgmt	4.9%
Geode Capital	2.4%

Short Interest (as of 10/30/26):

Shares Short/Shares Out.	1.5%

SPGI PRICE HISTORY



THE BOTTOM LINE

It's debt-ratings franchise is one of the best businesses in the world, but due to AI and cyclical concerns the company's stock "trades at multiples accorded lower-quality companies such as retailers," says Dev Kantesaria. He finds the risk/reward compelling today for a business he estimates can increase EPS at a low-teens rate through 2030.

Sources: S&P Capital IQ, company reports, other publicly available information

Sticking to Fundamentals

Investing in developing markets presents its own set of challenges, say when the market falls as it just did in Brazil by 14% on the day after the country's presidential election. Here's one idea Sean Fieler believes just got more interesting.

When Equinox Partners' Sean Fieler made a presentation earlier this month on the investment merits of Brazilian outsourced-services provider Grupo GPS, he discussed the country's unpredictable political history and the volatility that can create for equity prices. He said investors should expect the Brazilian real to depreciate over time against the dollar and argued that despite the potential for short-term volatility, Brazil's current fiscal path was unsustainable and that whichever administration prevailed in the coming election it would ultimately have to moderate the country's fiscal deficit and lower interest rates. The investment case for Grupo GPS didn't depend on that happening, but it could eventually be an added bonus.

Short-term volatility, at least, has been quick to follow. In a surprise, left-wing incumbent Luiz Inácio Lula da Silva was re-elected as Brazil's president on October 25th, prompting a 14% decline in the country's benchmark equity index the following day. Grupo GPS's shares, at 16.50 Brazilian real on the Friday before the election, now trade at 10.50 real. Fieler's response: "The stock is more attractively priced now than it was last week. The fundamentals remain the same."

Brazil's largest private employer, Grupo GPS offers a range of services to primarily corporate clients in such areas as facilities management, food services, maintenance and security. It is 4x the size of its next-largest competitor, has low-single-digit customer churn and has proven disciplined both in negotiating long-term contracts and controlling its own costs. It consistently earns 10%-plus EBITDA margins – vs. 6% for peers – and has a long track record of value-accretive M&A. Since a restructuring in 2008, its revenues have grown at just over 30% annually.

The growth runway remains long, says Fieler. The market for outsourced services in Brazil is underpenetrated and remains highly fragmented. The top three players by share control only 7% of the market, compared to 25% in the U.S. and 28% in Europe. The remainder of the market is divided among more than 100,000 companies, most of which will be increasingly challenged to compete against players like Grupo GPS with the scale to leverage general and administrative costs, negotiate more profitable contracts and more efficiently deal with employee-based litigation, which is an issue in Brazil. "This isn't a short-term trade," he says. "The idea here is this is a compounder that you can own for a long time."

The shares don't reflect much optimism. At today's 10.50 real price, they trade at just 8x Equinox Partners' estimate of 2027 earnings per share. That for a company that Fieler estimates – assuming no M&A and no decline in interest rates – can increase revenues by 14% and EPS by 20% annually over the next five years. He's not underwriting any revaluation of the shares, but notes that international peers trade at mid to high-teens earnings multiples and that the stock at its IPO in 2021 came out at a P/E of 26x. VII

INVESTMENT SNAPSHOT

Grupo GPS
(Sao Paolo: GGPS3)

Business: Brazilian provider of outsourced services to enterprise clients in such areas as catering, janitorial services and security.

Share Information
(@10/30/26, Exchange Rate: $1 = 5.44 Brazilian real):

Price	**BRL 10.50**
52-Week Range	BRL 10.18 – BRL 19.65
Dividend Yield	3.1%
Market Cap	BRL 7.90 billion

Financials (TTM):

Revenue	BRL 17.96 billion
Operating Profit Margin	9.8%
Net Profit Margin	5.1%

Valuation Metrics
(@10/30/26):

	GGPS3	S&P 500
P/E (TTM)	7.8	23.5
Forward P/E (Est.)	9.2	19.2

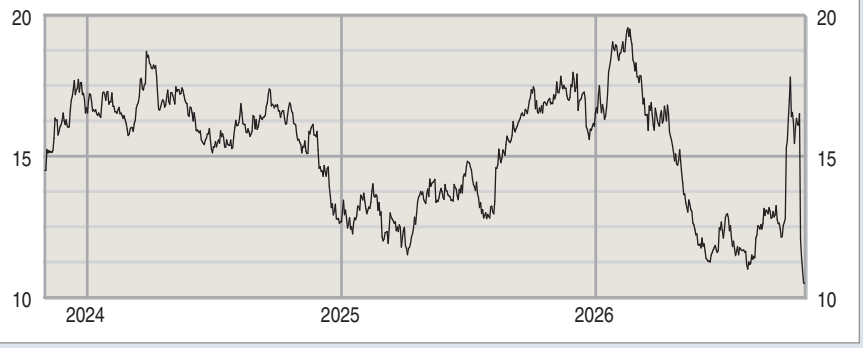
Largest Institutional Owners
(@6/30/26 or latest filing):

Company	% Owned
Canada Pension Plan Inv	6.9%
Sharp Capital	5.1%
Vanguard Group	2.7%

Short Interest (as of 10/30/26):

Shares Short/Shares Out.	n/a

GGPS3 SHARE PRICE HISTORY



THE BOTTOM LINE
The company has a long growth runway as the largest player in an underpenetrated and highly fragmented market for outsourced services in Brazil, says Sean Fieler. He finds its stock significantly undervalued trading at 8x his estimate of 2027 earnings per share.

Sources: S&P Capital IQ, company reports, other publicly available information

Seeking Balance

The performance of Nu Holdings' shares has not tracked closely with the fundamental performance of its business, says Daniel Bakalarz. Trying as that can be, his long-term enthusiasm for its investment prospects remains undimmed.

One bet long-term value investors make is that a company's market value will at least at some point in the future accurately reflect the fundamental performance and earnings power of its business. Positive or negative gaps may exist for any number of reasons, but you'll get paid eventually when the market "gets it right."

Nu Holdings' stock since the company's initial public offering in late 2021 has seen plenty of ups and downs. By far Latin America's largest online bank, the shares have fallen 25% or more 10 times since the IPO at $9 per share. They traded as low as $3.25 in mid-2022 and hit an all-time high of just under $19 early this year.

That volatility, however, has been somewhat at odds with how well the business has performed. Nu's quarterly gross revenues of $5.9 billion in Q2 of this year were 9x the level at the IPO. Earnings turned positive in 2023 and net margins last year were above 40%. "Of all the stocks we own, I'd say the correlation between the price of the stock and the intrinsic value of the business has been the lowest," says Unison Asset Management's Daniel Bakalarz, who made the case for the shares in *VII* last year [*VII*, February 27, 2025].

The culprit for the volatility is likely its home base and primary market, Brazil. Since its founding in 2013, the company has had to navigate a succession of political regimes and inconsistent, at best, fiscal and monetary policies that have whipsawed inflation and interest rates. As if on cue, the surprise results of last weekend's Brazilian presidential election tanked Brazilian stocks – Nu's shares (which trade on the NYSE) at a recent $11.60 have fallen 23% since then.

Bakalarz's enthusiasm for Nu's prospects remains undimmed. He says he's thinking about its investment potential today by answering three questions: "What protects us? What's going to pay us? What could surprise us?"

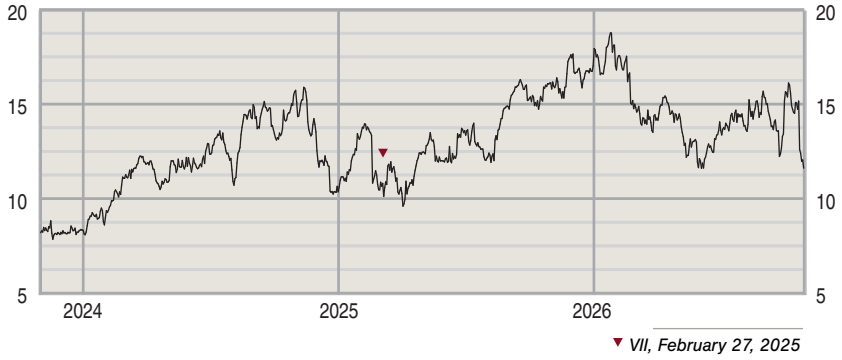
For protection he cites the company's already established business in Brazil, where the digital-only bank has a significant cost advantage over incumbents. For "what's going to pay us," he cites continued low-investment expansion in customers' wallet share in Brazil by cross-selling new products and services, and high growth in new markets Mexico and Colombia, where it is following the same playbook as in Brazil. The "surprise" would be if the company's recently launched expansion in the U.S. pays off. It has committed to spend an estimated $160-170 million a year to establish its U.S. business – which includes buying naming rights to Inter Miami's professional soccer stadium – by targeting the 70-plus million Hispanics and Brazilians that live in the U.S. first with inter-country money-remittance services and then by cross-selling new products.

Based on five-year estimates, he believes the current Brazilian operation is worth today's overall market value, growth in Brazil, Mexico and Colombia would translate into a mid-teens IRR on the stock, and that if the "moonshot" U.S. effort pays off that could double the compound return. "The asymmetry between risk and reward here is very compelling," he says. VII

INVESTMENT SNAPSHOT

Nu Holdings
(NYSE: NU)

NU PRICE HISTORY



Share Information (@10/30/26):

Price	**11.61**
52-Week Range	11.20 – 18.98

Valuation Metrics (@10/30/26):

	NU	S&P 500
P/E (TTM)	15.8	23.5
Forward P/E (Est.)	11.9	19.2

ORIGINAL BOTTOM LINE – February 27, 2025

Daniel Bakalarz believes this is a special business with tremendous organic growth potential, but whose stock today compared to the future opportunity "looks quite cheap." Even assuming a decline in the earnings multiple and a headwind from the deprecation of the Brazilian real, he believes the shares today offer a prospective IRR in the mid teens.

NEW BOTTOM LINE

While the company's share price is often misaligned with how well its business is performing, Daniel Bakalarz in his base-case scenario – assuming continued healthy organic growth in Brazil, Mexico and Colombia – envisions a mid-teens IRR on the stock.

Sources: S&P Capital IQ, company reports, other publicly available information

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