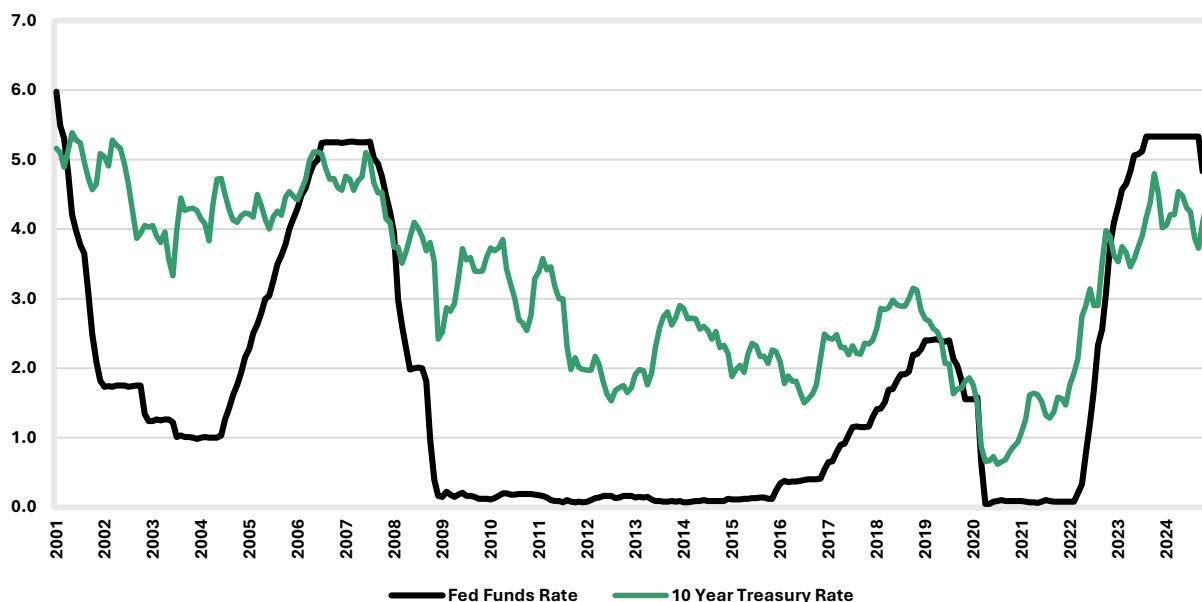


In perhaps the most meaningful political shakeup since the founding of our firm, American voters reelected Donald Trump in the 2024 election. Though not a landslide, Trump’s victory was broad. Much of the country lurched rightward in a repudiation of the perceived failures of the Biden administration on a host of issues. Voters handed the Republican party its first victory in the popular vote since George W. Bush was reelected in 2004 by a narrow margin.

Right on cue, investors have been speculating since November 5 about what direction policymaking will take following Trump’s inauguration. Against this backdrop, inflation has proven to be stubbornly persistent; from lingering supply chain bottlenecks to robust consumer demand, a constellation of factors appears poised to keep price pressures higher than the Fed had targeted. This dynamic is underscored by the 10-year US Treasury yield, which remains near cyclical highs despite the central bank’s policy pivot. The bond market’s skepticism, shown in Figure 1, signals to us that investors are still bracing for higher inflation and a protracted period of elevated rates, notwithstanding the Fed’s desire to exercise its scissors.

Figure 1: Running with Scissors?



Trump’s unconventional policymaking and rhetorical style often provoke sharp market reactions to his comments, speeches, or even offhand remarks. Certain campaign promises, such as ambitious infrastructure or defense spending, could accelerate deficits and exacerbate inflation. Yet others may never materialize. Corporations, individuals, and the stock market seem ready to pivot dramatically based on statements that may not translate into policy. To us, this underscores the importance of patience and discipline for investors. We focus on tangible outcomes and concrete actions, avoiding speculative interpretations of political rhetoric.

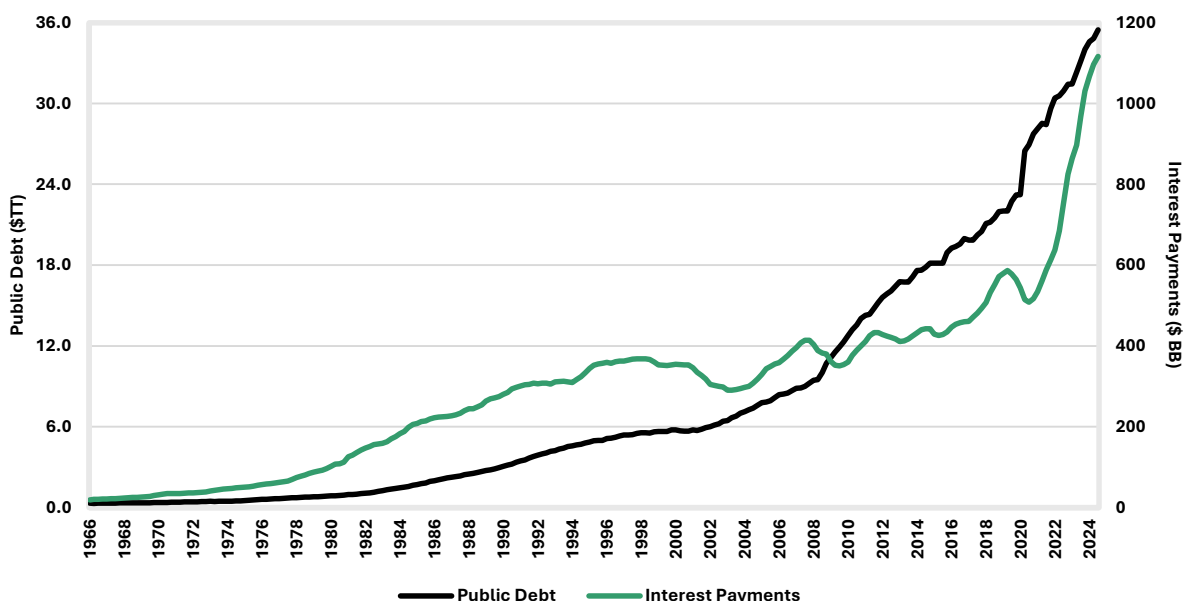
Our portfolio prioritizes well-managed businesses with entrenched competitive positions, healthy balance sheets, and management teams aligned with our measured perspective. These companies are better equipped to respond thoughtfully to finalized legislation rather than reacting reflexively to political noise. We

also emphasize companies with pricing power, manageable leverage, and robust business models to navigate inflationary pressures and higher interest rates.

We should be clear, however, that our preference for facts, extensive due diligence, and favorable results does not mean we avoid investing in businesses where outcomes are not entirely certain, as we have yet to uncover any such free lunches. Instead, we invest in businesses undergoing some sort of temporary or cyclical challenge where we view the long-term outcome as skewed in our favor and with a meaningful margin of safety embedded in the price we are paying.

In the wake of the Republican electoral victory, political analysts have cited persistent inflationary pressures and perceived shortcomings in immigration policy as key drivers of the shift in power. From our perspective, however, the swelling national debt looms large, as shown in Figure 2. Second-order effects such as a \$1 TT annual interest burden, rising budget deficits, and a debt-to-GDP ratio of 125% all signal that serious fiscal adjustments may be on the horizon.

Figure 2: Something's Gotta Give



This raises two fundamental questions: Is the United States on a runaway fiscal path? How will ongoing deficit spending and ever-rising debt levels shape our economic future? Historically, the US economy has benefited from aggressive fiscal stimulus, but ballooning deficits make balancing the budget increasingly elusive. By our math, a lower deficit and a declining debt-to-GDP ratio can be achieved under one of only two plausible scenarios. Either the federal government significantly curtails spending, which could lead to higher unemployment and a recession, or the US economy delivers such extraordinary productivity gains that it “grows out” of the need for painful budget cuts. Intriguingly, in either case, inflationary forces would likely come under better control.

With Trump’s second inauguration heralding such dramatic changes, uncertainty is virtually guaranteed. Will threatened tariffs further squeeze inflation-weary consumers? Could the US experience a renaissance in manufacturing, energy production, and healthcare and technology innovation? We remain cautious about rhetoric outpacing reality. Government inefficiencies are notoriously challenging to eliminate and often tied to robust employment levels.

Nonetheless, signs suggest the new administration may reduce regulatory burdens, and the strong rally in US Financials since the 2024 election reflects this sentiment. However, we do not expect a “Drill, Baby, Drill” approach to significantly boost oil production. Energy companies, aiming to sustain healthy cash flows, will prioritize shareholder returns rather than flood the market with additional supply that undercuts pricing. Meanwhile, healthcare stocks have experienced volatility following the election results. In our view, the pharmaceutical and medical device sectors will continue to innovate, and neither party is likely to intentionally stifle the US healthcare industry’s well-established leadership in research and development. As for health insurance – often maligned yet essential to delivering care – regulations can only tighten so far before insurers drop unprofitable customers.

In short, while the political landscape will shift following the inauguration, the underlying economic and fiscal challenges remain familiar: high deficits, substantial national debt, and a balancing act between growth, inflation, and regulatory change. Our investment focus remains on well-positioned businesses capable of adapting to these uncertainties.

Shareholder Returns

A company’s approach to returning capital to shareholders is a significant driver of long-term shareholder returns. Whether, when, and how aggressively to repurchase shares is one of the most consequential choices and one that can range from highly accretive to largely wasted. While share buybacks can deliver significant value when executed at or below a company’s intrinsic value, they can just as easily destroy value when enacted at excessive valuations.

To illustrate this point, we examined six highly regarded technology companies and compared them to six of our own holdings which we imagine are unlikely to show up in any Reddit posts. The group of six “High Fliers” has retired on average only 1.1% of their shares over the last two years, with Amazon and Tesla having *increased* their share counts. After including generous growth, margin, and cash flow assumptions for the five High Fliers we do not own, the group still trades at 28.4x P/N.

By contrast, six “Old Guard” businesses in our portfolio have been far from dull on capital allocation. These PVP investments have retired 6.6% of their shares on average since 2022 at much lower multiples. They currently trade at an average 10.2x P/N, and most are continuing to repurchase shares. Furthermore, our companies pay higher dividends, averaging a yield of 2.0% versus a mere 0.3% for the tech group.

High Fliers	2-Yr Share Δ	Fwd P/E @ 12/31	P/N @ 12/31	2-Yr Px Δ	Old Guard	2-Yr Share Δ	Fwd P/E @ 12/31	P/N @ 12/31	2-Yr Px Δ
AAPL	-5.2%	33.9	28.5	92.7%	BMJ	-3.3%	8.2	11.3	-21.4%
AMZN	+2.6%	37.4	24.6	161.2%	DHI	-4.8%	10.2	10.8	56.9%
META	-3.4%	24.0	16.3	386.5%	EEFT	-11.8%	10.9	9.5	9.0%
MSFT	-0.4%	32.0	19.6	75.8%	G	-3.6%	12.7	13.5	-7.3%
NVDA	-1.6%	34.1	26.5	818.9%	LEA	-7.6%	7.4	5.5	-23.6%
TSLA	+1.4%	130.0	54.6	227.8%	R	-8.6%	12.1	10.8	87.7%
Average	-1.1%	48.6	28.4	293.8%	Average	-6.6%	10.3	10.2	16.9%



Over the last two years, the High Fliers are up 294%, and each one of them is up at least 75%. The Old Guard stocks are up 17% with three gainers and three losers.¹ It appears that valuation excesses are concentrated among mega-caps while the rest of the market, principally cheap but high-quality businesses, is the place to invest.

We believe that disciplined share repurchases, particularly when there are significant disconnects between free cash flow and share prices, are a hallmark of prudent capital stewards. We want management teams who are price sensitive not only in their internal capital spending and M&A opportunities, but also in their evaluation of capital returns.

Quarterly Summary

During the fourth quarter, our portfolios underperformed the Russell 1000 Value Index. Of our two strategies, PVP Focused Value finished behind PVP Diversified Value. We recognize this marks three consecutive quarters of underperformance relative to our benchmark, but we remain committed to our long-term investment horizons, as we believe true value creation plays out over extended periods.

Given our concentrated approach, we accept that individual events can impact specific holdings more significantly than they would a broader, more diversified index. Over time, however, we expect our companies to benefit from positive business developments, internal improvement initiatives, and the inevitable turns in economic cycles. Each investment has been acquired with a meaningful margin of safety and should eventually converge with our estimates of their fair value.

Benchmark Indexes	Returns
Russell 1000 Value Index	-1.98%
Russell 1000 Growth Index	7.07%
S&P 500 Total Return Index	2.41%

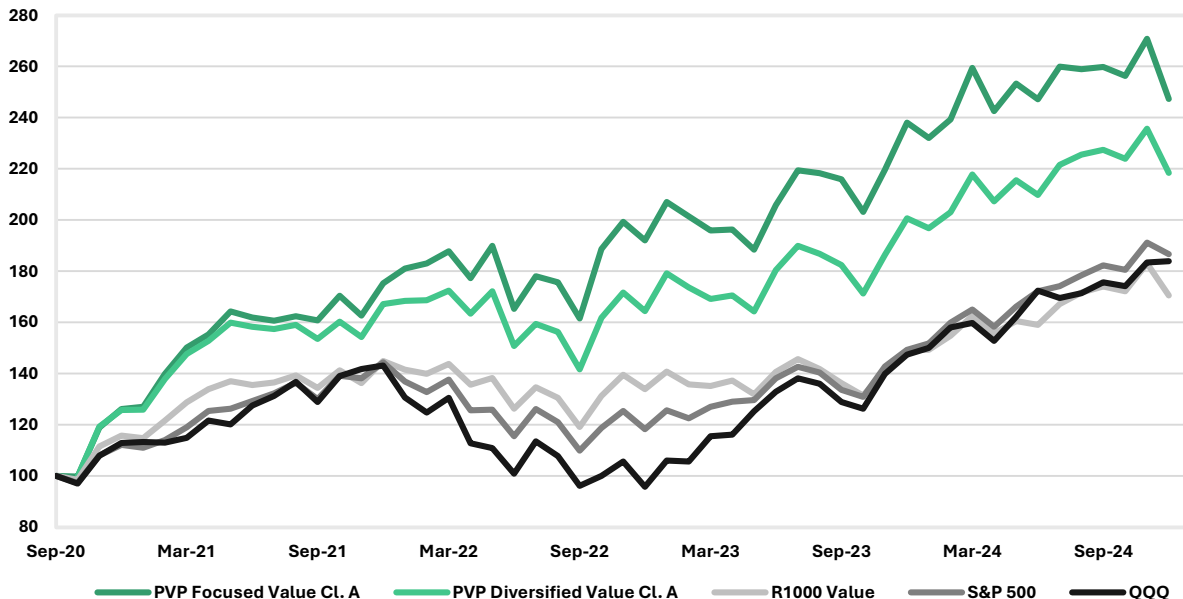
Princeton Value Partners Funds	Returns
PVP Focused Value Class A	-4.67%
PVP Diversified Value Class A	-3.77%

Figure 3 highlights the net long-term performance of the PVP Focused Value and PVP Diversified Value funds along with those of leading indices. Since inception, our funds have generated excellent returns, meaningfully outperforming major benchmarks. The PVP Focused Value Fund has generated gross returns of 153.7% (net returns of 147.6%) compared to the Russell 1000 Value Index at 71.5% and the S&P 500 Total Return Index at 86.6% since inception on October 1, 2020. The PVP Diversified Value Fund has generated gross returns of 121.8% (net returns of 116.5%) compared to the Russell 1000 Value Index at 73.8% and the S&P 500 Total Return Index at 91.7% since inception on November 2, 2020.

¹ Source: Capital IQ, PVP estimates

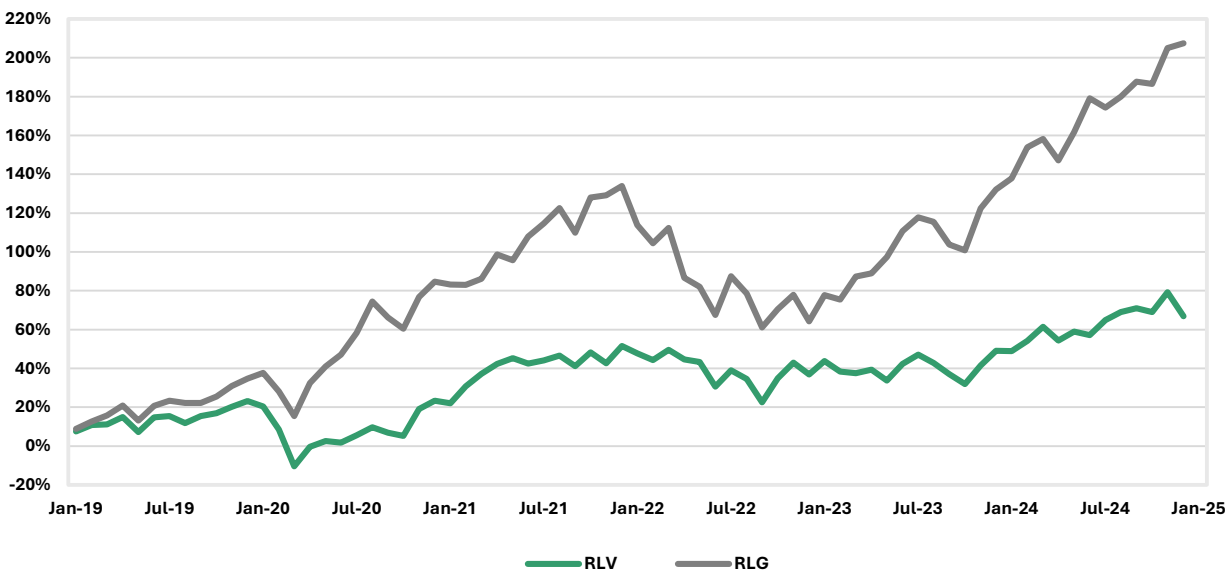


Figure 3: Value of \$100 Invested in Funds and Benchmark



The gap between the Russell 1000 Growth and Russell 1000 Value, as shown in Figure 4, has now surged to its highest point since our inception. For this quarter, the Russell 1000 Growth rose by 7.07%, while the Russell 1000 Value declined by 1.98%. The widening gap over the last two years is similar to 2020-21 which was followed by Value outperformance in 2022. Market sentiment suggests the new administration may be able to sustain a strong economy, rein in inflation, and spur the Fed to further lower short-term interest rates. We believe the current gap between Value and Growth is unsustainably large. In the absence of meaningful additional profitability growth for large-cap technology companies, we maintain that value-oriented equities with high earnings yields and low multiples represent the more attractive opportunity.

Figure 4: Russell 1000 Value vs Growth



Within Consumer Discretionary, D.R. Horton (DHI) declined 27% this quarter after gaining 35% in the previous quarter. The Company reported excellent results and provided guidance indicating growth in home sales for the coming fiscal year, though the market remains concerned about declining home affordability as the 30-year fixed mortgage rate hovers around 7%. In our view, any near-term impact on housing demand does not negate the long-term trend of a persistent housing shortage. Moreover, profitability for homebuilders remains healthy and DHI allocates capital prudently, including to significant share buybacks. Lear (LEA), a Tier-1 auto supplier and leading manufacturer of car seats, declined by 13% this quarter. Rising car prices combined with elevated interest rates have raised fears of a potential slowdown that would affect all auto suppliers. We remain focused on long-term trends such as the stability of miles driven and the aging US car fleet. LEA continues to trade at an attractive multiple, offers a dividend yield of over 3%, and is led by a management team committed to returning cash to shareholders.

Energy stocks faced challenges this quarter despite WTI closing up 5% q/q at \$72.44. Valaris (VAL) continued its downward trend, declining by 21% after a 25% drop in the prior quarter. Although the Company lowered guidance following Q3, spending projections for offshore projects, especially in deepwater, remain robust. We discuss VAL in more detail below. Schlumberger (SLB) declined by 9% during the quarter and currently trades at an attractive P/E of 12x. Even under conservative assumptions of sub-4% growth and zero incremental margin expansion, SLB trades at a P/N multiple of just 9x.

Financials performed well this quarter as the market anticipated a reduction in regulatory burdens under the new administration. Morgan Stanley (MS) rose by 21% after reporting strong quarterly results. Following its weak performance in the third quarter, Wells Fargo (WFC) reversed course and gained 25% on the strength of solid quarterly earnings. We discuss WFC in more detail below.

Our healthcare holdings struggled this quarter, with Amgen (AMGN) dropping 19% and CVS Health (CVS) down 29%, making CVS our worst performer for the period. AMGN declined on news regarding its weight-loss drug, MariTide, which showed a reduction in bone density. Nevertheless, the drug appears to maintain its efficacy in preventing weight regain even after treatment concludes. CVS declined 29% for the quarter and 43% for 2024. The Company reported weaker results, with its Medical Loss Ratio ballooning to 95%, causing losses in its insurance business. Our long-term view is that these escalating costs must be borne by the insured population and that insurers must remain profitable to ensure viability. When substantial capital is destroyed or depleted, the market typically hardens, and premiums rise in subsequent periods to replenish reserves and maintain adequate returns for insurers. Bristol-Myers Squibb (BMY) rose 9% during the quarter and is returning to more typical operations following its recent acquisitions.

In Technology, Intel (INTC) declined by 15% in the quarter and 60% for the year. We find it illogical that the only truly cutting-edge US chip manufacturer might face bankruptcy from the debt required to regain its former manufacturing dominance. In our view, the Company's historic manufacturing expertise and asset base are being discounted heavily, and we are more concerned about the possibility of a take-under before the outcome of Intel's transition can be fairly evaluated by investors. We continue to believe that Intel should concentrate on realizing the significant value of its foundry business, as achieving even sub-optimal returns could have a positive impact on the stock.

Turning to Industrials, Ryder (R) rose by 8% in the quarter reflecting good operational performance and disciplined fleet management. Conversely, L3Harris Technologies (LHX) started the quarter on a strong note but ended down 20% from its November peak. Management indicated that an accelerated growth phase may be delayed until 2026, and further uncertainty stemmed from the 2024 election results, given the potential but amorphous impact on defense spending from government efficiency initiatives.



Consumer Staples was a weak spot this quarter, as our three holdings, Dollar General (DG), Kenvue (KVUE), and Tyson Foods (TSN), declined. DG was the biggest loser, falling 10%. Following a substantial drop in the prior quarter, DG remained under pressure as inflationary concerns persisted, which will hurt its core consumer. The impact is compounded by added labor and operational costs to address past strategic oversights, suggesting that a near-term recovery may be more drawn out than investors expected. However, we remain confident that DG will continue serving a vital role for rural and lower-income consumers despite the extended timeline for a full turnaround.

Highlighted Holdings

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

Wells Fargo (WFC)

We have owned Wells Fargo since our inception in 2020. Shares were at their pandemic-era lows after being cut in half at the hands of the well-known account-opening scandal. The Fed had capped WFC's ability to grow its balance sheet as punishment for breaching the public and government's trust. Despite these regulatory headwinds, we believed that Wells Fargo's core banking franchise remained fundamentally strong. The bank benefitted from an enviable cost of funds while historically generating mid-teens returns on equity (ROE). In our view, a bank we expect to deliver sustainable ROE above 10% should not have traded so far below its book value. Although we acknowledged that the Fed's asset cap would temporarily constrain growth, we felt that the market had overly punished Wells Fargo, offering a compelling opportunity to accumulate shares at discounted valuations.

Since then, WFC has made significant strides toward rehabilitating its standing with regulators by strengthening its compliance and risk management functions. In addition to restructuring its internal oversight teams, the bank has spent heavily on technology upgrades aimed at improving everything from digital account opening to back-office efficiency. While these expenditures have weighed on short-term profits, we believe they provide a more resilient foundation for long-term growth, give it a competitive edge versus smaller banks with fewer resources, and help position the bank to lift the Fed's asset cap once regulators deem fit.

Despite the asset cap, WFC has generated substantial free cash flow, enabling it to return significant capital to shareholders. In the 16 quarters since our purchase, the Company has paid \$22 BB in dividends and repurchased a staggering \$50 BB of common stock. Our view is that this is an exceptionally prudent use of capital given its growth restrictions. Absent the ability to grow its assets, WFC management has used dividends and repurchases as relief valves to remain below the Fed's cap. It has done so while its shares have remained attractively valued in our view, compounding the benefits for long-term shareholders.

We note with delight that the more than \$70 BB returned to shareholders since our purchase compares extremely favorably to a market cap at the time of just over \$97 BB. Our clients have benefited from management's capital allocation, with returns of 233% since 2020, or a compounded annual return of 32.7% including dividends. We estimate the Normal EPS to be \$5.03, and based on the 12/31/24 closing price of \$70.24, WFC traded at 14.0x P/N.

Valaris (VAL)

After peaking at over \$80 in late July, Valaris shares were cut in half over the following five months. Valaris is one of the largest offshore drilling contractors, with a fleet of 13 drillships, five semi-submersibles, and 36



jackup rigs. We have held Valaris for more than three years, dating back to its emergence from bankruptcy with a net cash position and a world-class fleet that we estimated the market was pricing at 25 cents on the dollar.

The offshore drilling market has historically been fragmented and highly competitive, marked by bankruptcies as market cycles bottom. In the early part of the last decade, oil prices surpassed \$100 per barrel, spurring significant expansion in drilling infrastructure that went underutilized after the 2015 price collapse. Following that decline, global oil capital expenditure contracted from \$800 BB in 2015 to \$350 BB in 2020, with offshore and deepwater projects experiencing an even steeper pullback.

The additional drop in demand during COVID halted numerous offshore ventures, causing many companies to file for bankruptcy. Formed through combinations involving Pride International, Atwood Oceanics, Ensco, and Rowan, Valaris entered a prearranged bankruptcy in August 2020 with the book value of its high-spec assets at \$10 BB. By the time it emerged from bankruptcy in May 2021, approximately \$7.3 BB of debt was removed, leaving Valaris with a lower cost structure, a net cash position, and a significantly depreciated asset base.

We began purchasing Valaris in the summer of 2021, when the stock traded in the mid-\$20 range. At the time, we believed the business environment was robust, that the sector was emerging from a prolonged downcycle with limited excess capacity, and that the industry structure had become more rational after a series of consolidations. Offshore capital expenditures have risen from \$153 BB in 2019 to \$260 BB in 2024 and are projected to grow by 12% in 2025. Deepwater developments have attracted particular attention as extraction costs have declined and many newly sanctioned projects now carry a breakeven oil price of roughly \$45.

Since our initial investment, Valaris has signed new contracts, increased fleet utilization, negotiated higher day rates, and reported rising revenues each quarter. It is now generating positive free cash flow that management has pledged to return to shareholders. For its seventh-generation, high-specification drillships, day rates have approached \$500,000, which should generate attractive returns on these depreciated assets while remaining below the threshold necessary to justify competitors adding new capacity.

The combined market capitalization of the companies that merged to form Valaris exceeded \$20 BB at its peak in 2014, while the current fleet's gross purchase value stands at more than \$18 BB. In our view, the recent drop in Valaris's share price reflects ongoing concerns about a global economic slowdown, particularly a dampening of China's oil demand growth. These worries, coupled with fewer contract signings in the second half of 2024, have led to what we believe is an unjustified degree of negativity surrounding the Company's cash flow prospects. We estimate a normal EPS of around \$6, which implies that at the 12/31/24 closing price of \$44.24, the stock trades at a P/N ratio of 7.3x.

There have been rare occasions in our investing careers where the start of a new year has presented such a mix of exuberance and pessimism. We believe that our portfolios offer compelling value opportunities for the long-term investor interested in the compounding of capital. Historically, being disciplined on valuation has been rewarded and we are optimistic that this dynamic will remain true.

Sincerely,

Manoj Tandon
CIO, Managing Partner

Tripp Blum
Portfolio Manager, Partner

All data and returns cited in this letter (including for our own funds) are believed to be correct, but accuracy cannot be guaranteed. Positions held in our funds may change at any time without prior or subsequent notice to investors and/or readers of our letter. Past performance is no guarantee of future performance.

