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**James Dunn:** Hi, I'm James Dunn. Welcome to The Inside Network. I'm going in depth with Ben Silver, a portfolio manager at New York-based Pzena Investment Management. Welcome, Ben.

**Ben Silver:** Hello, glad to be here.

**James Dunn:** A pleasure to have you. Now, Ben, you were one of the first employees to join the firm about 20 years ago. How would you describe Pzena Investment Management to somebody who hasn't come across the firm?

**Ben Silver:** Pzena Investment Management is a New York-based money management firm that currently manages approximately 56 billion US dollars. We have offices around the world, one of them being in Australia, where we've been managing money for over 15 years. We currently manage approximately 6 billion Australian dollars. What do we do? Value investing—that's it. That's what we do.

**James Dunn:** Given that there seems to be so many different forms of value investing out there, how would you describe Pzena's investment philosophy and style of value?

**Ben Silver:** If you go to our website, the first thing you see is a quote by our founder, which is that value is not a factor, but it's a philosophy. To others, what value investing or deep value investing might mean is buying cyclical businesses or bad businesses that are cheap. That's not what we do. What we look to do is buy good businesses that are currently experiencing some sort of temporary problem, where the management has a credible plan to bring these depressed earnings to something more normal in 3 to 5 years. We're really looking for skewed outcomes where we're buying something very cheap, but then when it improves, the earnings grow and the multiple is restored.

**James Dunn:** Pzena has a really strong institutional pedigree. What is it that's made you so successful with institutional clients, and what should advisors focus on?

**Ben Silver:** I'd say it's three things: it's our deep research, our disciplined process, and our long-term horizon. The deep research starts with our 29-person investment team based in New York, where we have quite long tenures. There are 10 of us with more than 15 years of experience, and 17 of us with more than 10 years of experience. The disciplined process starts with our proprietary investment tool called the stock analyzer, and we use as a valuation metric normal earnings—simply put, what a company would earn in about 5 years. We're looking for these cheap businesses based on that, we research really the hell out of them, and then we try to confirm our understanding of the business and how the business makes money. We have a long-term horizon. When we're investing in a company, these are not going to get fixed overnight. We generally hold companies for over three years. So, in conclusion, what we do is value investing. We've been doing it for, you know, over 25 years, and what you see is what you get.

**James Dunn:** Could you give an example of a company you currently own in the Pzena Global Focused Value Fund that really exemplifies the characteristics you look for in an investment?

**Ben Silver:** I'd like to talk about Lear Corp., a Michigan-based auto supplier that's one of the largest manufacturers of automobile seats, wiring, and voltage control. It's really a fantastic business. The big three dominate the market in terms of scale, and the nice thing about auto seats is it's a low capital-intensive business. We really don't care whether the customer wants to buy an internal combustion engine car or an electric vehicle—both of them need a seat. In fact, for an electric vehicle, you probably want a more expensive seat with ventilated seats because it's a smaller draw on the battery of the vehicle.

So, why is the stock cheap? There are a couple of reasons. One of them is the current union strike going on at the big three automobile manufacturers. The other one is inflation. Lear's had some trouble passing through costs because contracts are based on car models. There's allowance for inflation, but it's only around 95%. But as these models roll off and as new models get introduced, all of that inflation gets recovered. So, we look at these issues as temporary. We're able to buy this great business that's on sale, and it's just going to take some time for these depressed earnings to be realized.

**James Dunn:** When the market is going through some uncertainty, how does Pzena navigate that kind of market?

**Ben Silver:** There's a lot of uncertainty in the world today: geopolitical, inflation, wars, ESG issues, technological risk. There's uncertainty everywhere, and it's created a lot of controversy, which happens to be really good for us. Controversy for us creates opportunity. A recent example in the portfolio is an investment we made in China, which is the Chinese Overseas Land and Investment Company, or COLI for short. Every time you open the newspaper, you're reading about this implosion going on in the Chinese real estate market, and we see opportunity. COLI is a bit different than the others, as most of their land investments are in the tier-one and tier-two cities. Most of the largest declines are in the tier-three and tier-four cities. In addition, COLI has a very strong balance sheet, probably the strongest in the industry, and it is a SOE—a sovereign-owned entity. So, if you're a Chinese land or home buyer and you want to make an investment in something that's partially built, who are you going to trust? Are you going to trust the sovereign-owned entity or are you going to trust a different company? So, between the trust, the strong balance sheet, and the tier-one and tier-two city investment focus, this is an opportunity set for this company, and they've really taken advantage of it and taken share.

**James Dunn:** I've been going in depth with Ben Silver, a portfolio manager at New York-based Pzena Investment Management. Thank you very much, Ben.

**Ben Silver:** Thanks for having me. It's been a pleasure.

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