

At pzena we follow a very rigorous investment process to identify the most compelling investment opportunities ultimately we're looking to find good businesses trading at a substantial discount to what we think they're worth the challenge is you don't find a good business trading at a substantial discount unless there's a problem and so we take a very systematic approach to identifying researching and ultimately investing in these opportunities.

We start our process with a screening tool called stock analyzer that we've developed internally stock analyzer looks at 10 years of history for every company and using that as a guide projects it out to calculate a proprietary normal earnings estimate normal earnings you should think of as a year-five mid-cycle cash eps number so stock analyzer takes that naive 10-year history—it takes a 10-year history to calculate the naive number—and ranks the stocks from cheapest to most expensive we as a portfolio management team will screen through that cheapest 20% of the universe looking for interesting ideas we come up with a list that then gets assigned to the analyst that are arranged by industry.

Once the analyst gets the name to look at they're tasked with answering three basic questions first what does this company do how does it make money why does it exist second question is what happened why is the stock cheap and why—why is there—what is the problem the company is facing the third question is what do we have to believe in order to get comfortable with this investment what are the two or three things that we really need to figure out research and get comfortable with that will make us say yeah this is a really compelling opportunity to invest.

Once the analyst has answered these three questions we then get together for our research review meetings we have these meetings twice a week and we have a discussion in this initial review around okay so what about this what about that are these a couple issues that we want to focus on is there anything else we should think about have we seen this before um what other things can we do to figure out and how might we answer these questions the goal of this meeting is not to resolve all the issues we've identified but rather to figure out what the work plan is going forward and focus everybody on the on the two or three key issues.

Once we leave that research review meeting the analyst is then tasked with taking the lead on resolving the issues whether it's through talking to experts in the industry talking to the management team talking to competition finding tracking down data whatever it takes to resolve these issues the analyst is going forward and kind of putting together a fully baked investment thesis.

Once we have the fully baked thesis we like to hop on a plane and go visit the company on site we'll do these visits in pairs a portfolio manager goes along with the analyst and the goal of this meeting is really to be an audit of our work we intentionally do this at the end of our process because we want to go there with our own views and engage management about their business we're making sure that management one acknowledges they have a problem and two has a credible plan for resolving the issues and these tend to be really robust and exciting conversations.

We come back we tie up any loose ends and then we have another conversation in research review the goal of this final research review is really to agree upon the normal earnings estimate the normal earnings power of this company so we start the process with a naive normal earnings estimate based on 10 years of history and by the time we come out the other end we've got a fully researched fully investigated normal earnings estimate if at that point the company is still in the cheapest 20% of the universe it's a candidate to go into the portfolio.

Thank you