General Electric is a great example of a classic Pzena investment. Pzena has been around for 25 years, and for most of that 25 years, General Electric was a company we admired from afar. It was a great assortment of businesses that was always trading at a premium and never screened up for us as a value stock. That all changed a couple years ago when two of General Electric's segments had some issues. One was their power generation business, and the other was at GE Financial, where they had a large insurance charge on their long-term care business. The stock came up on our screen, and we got very excited to take a look and see if there was something here that we could invest in.

We dug in, and what we found was GE had several businesses that were doing just fine. For example, their aerospace business, which did commercial aircraft engines, their healthcare business—all these were throwing off cash. But it was this power generation and the long-term care fears that were driving the fear in the stock. So our first order of business was to really dig into the power generation business and see if that was a real business going forward, or if something had fundamentally changed.

At issue, really, was the accounting around some of these long-term service contracts in the power generation business. What happens is GE would sell a gas turbine generator, and then they would also sell along with that a multi-decade service contract. These service contracts were very profitable for GE, but they also helped make the maintenance costs predictable for the utilities. There was a mismatch coming through the numbers in terms of what the accounting was saying and the cash flows of the business, and there was a lot of questions around, were these contracts real, or was there something a little bit more shady going on? So we dug in, and we actually found one of the original architects of these contracts—who had long since retired from GE—and really got a tutorial on how they worked, and got comfortable with resolving the accounting and the cash flows, and said, "Okay, we think this is real. We get the challenges of the accounting, but we do think this is a real business."

We got the opportunity to go down to Atlanta and engage with the management team there, and they had just come off a bunch of difficult meetings with investors, and were really relieved to see us excited about their business and to dig into the details of how these contracts worked, what the prospects were for the next generation of gas turbines coming out, and what the landscape looked like prospectively. We came back from that trip really excited, then spent some time thinking about, okay, what are the range of outcomes at GE Financial that could really cause a problem here and cause a liquidity event at GE? And we got ourselves comfortable that, while you can't write off the chance that there's some sort of loss here, it's highly unlikely that there would be a liquidity event, and any losses were likely to be manageable by the company from the cash flows of their other divisions.

So we took an initial position in GE at that point. What's really interesting about this case is how things progressed over the next six to twelve months. From our perspective, things at GE kept getting better, and you got more certainty around the range of outcomes and a positive outcome. Larry Culp came on as CEO, they announced the divestiture of a portion of their healthcare business that was going to bring 20 billion dollars into the business, and yet the stock didn't react that way. The stock actually went down over that period, so we were able to add to GE on the weakness, and it went from being a smaller position for us to the largest position in the portfolio.

Thank you.