

Money Matters

Derek Pilecki of Gator Capital and Chris Davis and Pierce Crosbie of Davis Advisors explain why they think they operate in a sector with less competition, how they're processing the hot-button issue of private credit, what worries them the most, and why they're seeing unrecognized value in Capital One, Julius Baer, Ameriprise Financial and Voya Financial.



Derek Pilecki
Gator Capital

"Financial stocks can be valued more or less the same, so at times you find attractive multiples relative to business quality."

When it comes to investing in financial stocks, says Davis Advisors' Chris Davis, there's a lingering apathy left over from the 2008-2009 financial crisis that has resulted in "a vast category with wildly divergent business models but fairly homogenous valuations. Some find the sector boring, we think that's quite exciting."

No one knows the category better than Davis, who serves on Berkshire Hathaway's board and has managed the Davis Financial Fund since its launch in 1991. At a time when credit-quality concerns have hit many stocks in the sector, we asked Davis and fellow financials expert Derek Pilecki of Gator Capital to share with us where they're finding mispriced value, which today includes consumer credit, financial advisory, wealth management and retirement services.

How can being a specialist in financial stocks give you a leg up as an investor?

Derek Pilecki: I feel like it's a less competitive space. One practical benefit is that when opportunities arise they can often sit there for a few weeks or a few months. That gives me more time, on a fairly regular basis, to do the depth of work I want to do before taking a position.

I also think investors lump financial companies in the same basket, when in fact there are a number of different business models in the sector, often with characteristics people look for in high-quality businesses like recurring revenues and capital-light business models. The stocks can be valued more or less the same, so at times you can find very attractive multiples relative to the quality of the business.

Financial statements across the sector can be unique. Banks are different from capital-markets firms, which are different from asset managers, which are different from insurers. Specialized knowledge of the business models and the reporting accumulates over time, which I think is a benefit. Because I've studied them before, I should be able to understand what's going on, say, with one of the three publicly traded student lenders – a unique business with unique reporting – more quickly and hopefully more deeply than someone looking at them for the first time.

Does your portfolio at any given time reflect your macro views on things like inflation, interest rates and GDP growth?

DP: I don't think you can invest in financials without some view on the important relevant macro variables, but I'm making

company-by-company long and short investments, not macro calls. The level of interest rates or the steepness of the yield curve affects different financial companies – even just banks – in different ways. You have to know the details of that and as you assess the risk/reward of the individual case incorporate what you believe is more and less likely to happen.

I have a view on interest rates, which is that I think they should go lower. There are a lot of deflationary forces in the economy, and some of the inflationary forces – related to healthcare, housing and education – are more structural and I don't believe are that effected by monetary policy. That argues against keeping rates high in order to lower inflation because you increase the risk of making a potential economic downturn worse. That's more true with the war in Iran. People say the Fed can't cut rates because higher energy costs will cause inflation. I think that's less likely when the economy is already relatively weak and is dealing with the negative macro shock from higher oil prices.

It won't be the case for every company, but overall my portfolio stocks should respond favorably to lower interest rates. For example, I own a lot of small and midcap U.S. regional banks, which are still feeling the effects of investors dumping them after Silicon Valley Bank and First Republic Bank failed. Many of the stocks are very inexpensive but the businesses are improving and the regulatory environment relative to M&A is much better. Given that these banks use more market funding than the largest banks, their net interest margins should improve relatively more if the general level of interest rates goes down.

You've written often about the emphasis you put on management's attitude toward capital allocation. Is that particularly important when investing in financials?

DP: It's important for investing in any company, but it clearly matters a lot for financial companies. We have to understand and agree with management's approach and see evidence that they know how to create value through capital allocation. It's relatively easy to get at. You can see the financial history. These are common questions in earnings calls, so there's a long record of how they've been answered that is informative. If management says something like we want to buy back shares to offset stock-based compensation, OK, it's clear you really understand capital management. Those are separate decisions. If you want to issue stock-based compensation, fine, we can measure that. If you want to buy back stock, the decision should be made only based on whether the shares trade at below intrinsic value or not. Not understanding that is a red flag for us.

How would you characterize valuations in your world today?

DP: Valuations are generally reasonable to cheap across the small and mid-cap parts of the market. We'll talk about some later, but you can find good-quality companies in attractive end markets trading at 10x earnings or less. The large caps in the sector – companies like JPMorgan, Berkshire Hathaway, American Express, Progressive, Visa and Mastercard – look expensive to me. The difference between small and large probably has something to do with passive flows into the S&P 500 pushing up valuations. I don't want to count on that always being the case.

Do you have exposure to private credit?

DP: The original impetus for private credit makes sense. Regulation after the financial crisis made it harder for banks to make some loans that private credit stepped in to make. For the most part that's worked well. Private credit has delivered good re-

turns and because the lenders don't use as much leverage the risk of problems from deteriorating credit quality isn't as acute.

I'm sure there are those who raised too much money and made loans they shouldn't have. Redemptions snowballing would also be a concern. I have not participated much in the lenders of private credit, so today my exposure is to banks providing back leverage to private-credit funds. Back leverage is when a private-credit firm makes a loan and uses the loan note as collateral for a line of credit from a bank. Banks claim this should be a zero-loss business for them because all the loan notes are cross-collateralized and there should be plenty of equity from the private-credit firm that's in the first-loss position. I generally agree with that but it's an issue we watch closely, especially after the Western Alliance/Jefferies dispute. We'll likely hear a lot more in the next reporting cycle about exposures to private credit and the related credit quality.

What seems unknowable right now is how much the availability of private credit has been driving the economy. If private credit has to pull back, does that slow the economy down? I think the amount of private credit relative to the overall economy is small enough that it shouldn't be a problem, but it's an open question.

Are you active in private equity?

DP: I only own Carlyle Group [CG]. I've owned it for a while after buying it as somewhat of a special situation after the founders botched a CEO transition but then seemed to get it right three years ago in hiring Harvey Schwartz, formerly Goldman Sachs' President and COO. There was a lot for him to do to fix the business and I think he's done a good job of doing that.

The stock [recently at \$46.40] has done well, but along with the other private-equity names has sold off 30% or more over the past six months. Exposure to private credit is a concern, as is the threat of AI to many of the software companies they own. The valuations in private equity have become more attractive and I think these firms are run by entrepreneurial

managers and they'll figure out ways to make money. But I also don't expect a V-shaped recovery in the stocks, so I should have time to sort out whether the current valuations are attractive enough.

You made the case to us two years ago [VII, January 31, 2024] for Robinhood Markets [HOOD] when the stock was at around \$11. It went over \$150 last fall but has since fallen to around \$65. Do you have an opinion on it today?

DP: I'm mostly out of the position, with an average sale price of around \$70, so I can't complain but I didn't ride it all the way up. The company has done a good job of broadening its product offer and expanding its customer base, but as the shares got caught up in the renewed excitement for crypto and then prediction markets – which I generally think are a bad thing – I was happy to take profits and invest elsewhere.

On a somewhat lower-profile note, describe why you're high on the investment prospects for Ameriprise Financial [AMP].

DP: Ameriprise operates a full-service financial-advisory business in the U.S., accounting for two-thirds of the company's earnings power. While competitors like Goldman Sachs, UBS and Morgan Stanley are more focused on ultra-high-net-worth customers, it competes more in the "mass affluent" segment of the market against firms like Raymond James and LPL. In addition, roughly 20% of the business is in traditional asset management, through Columbia Threadneedle, and the rest is selling proprietary life-insurance annuities, the only capital-intensive piece.

Even as competitors like Charles Schwab and Vanguard have grown so big over decades now, full-service brokers have flourished. There's a big segment of society that has money and wants trusted advice and help in managing it. They want someone to talk to, to get reassurance or ideas. I think that will continue to be the case. The full-service brokers have also improved their business models. They've

INVESTMENT SNAPSHOT

Ameriprise Financial

(NYSE: AMP)

Business: U.S. provider of financial planning, investment and insurance services primarily to affluent individuals through its network of more than 10,000 financial advisors.

Share Information (@3/30/26):

Price	438.43
52-Week Range	396.14 – 550.18
Dividend Yield	1.5%
Market Cap	\$39.76 billion

Financials (TTM):

Revenue	\$18.91 billion
Operating Profit Margin	35.7%
Net Profit Margin	18.8%

Valuation Metrics

(@3/30/26):

	AMP	S&P 500
P/E (TTM)	12.1	23.7
Forward P/E (Est.)	10.2	20.4

Largest Institutional Owners

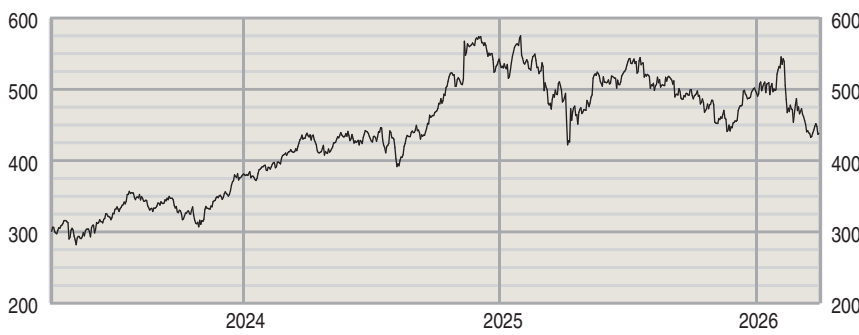
(@12/31/25 or latest filing):

Company	% Owned
Vanguard Group	13.5%
BlackRock	9.8%
State Street	4.8%
J.P. Morgan Asset Mgmt	3.2%
Geode Capital	3.1%

Short Interest (as of 3/15/26):

Shares Short/Float	3.2%
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AMP PRICE HISTORY



THE BOTTOM LINE

Financial advisory is one of many businesses expected to be disrupted by AI, but Derek Pilecki believes in the high-touch part of the market where the company plays that fear is overblown. Even without a re-rating from today's low historical valuation, he thinks earnings growth and share buybacks can generate a mid-teens annual shareholder return.

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

shifted to picking funds and money managers for clients rather than earning commissions on stock trades. This makes the revenue model more recurring in nature.

The firms earn attractive returns on equity and benefit from increasing affluence and rising markets over time. Ameriprise runs its operation very well. On the spectrum of command and control versus independence, it's very much in the camp of letting its advisors run their businesses as they see fit, assuming their individual relationships with customers are more important than playing up the Ameriprise brand. For many advisors that makes it a

favorable partner. They get the benefit of access to systems and technology that help a lot with the administrative and regulatory sides of the business, while they can focus more time on servicing clients.

This is one of the many companies today where there's concern that AI is going to negatively impact the business, in this case by replacing financial advisors. Especially in the part of the market where Ameriprise operates, I find that difficult to imagine to any great degree. There's already plenty of automated financial advice available, but the company's clients seem to value the relationship with an actual

person. It's not clear to me that AI will be able to play that role sufficiently. It's clearly something to track and monitor, but for now the risk to me seems overdone.

The shares at a recent \$438 are down 20% over the past two months. What upside do you see from here?

DP: Historical P/E levels have ranged from 12x to 16x, but the stock at today's price is 10.2x forward estimated earnings. The company since it was spun off from American Express 20 years ago has compounded EPS at an annual 17%, and we think from existing asset appreciation, adding new advisors and new assets, and buying back shares – the company has shrunk its share base by 60% since the spinoff – that earnings per share can continue to grow in the mid-teens. Even if the shares didn't re-rate from today's low historical level that would provide an attractive compound return.

From one quite optically cheap stock to another, describe your interest in Voya Financial [VOYA].

DP: The company has been on a journey since it spun off from ING in 2013. At the time it was in traditional life insurance, variable and fixed annuities, medical-stop-loss insurance, retirement services and investment management. It has since divested almost all of the capital-intensive underwriting businesses – retaining only the medical-stop-loss piece – and is now primarily focused on setting up and maintaining retirement-plan offerings for medium to large corporations and government agencies.

Customers are those with 401(k) or similar defined-contribution plans. Voya for fees based on assets under management assembles the investment options, administers the collection and forwarding of money between parties, hosts the website where employees manage their allocations and see their balances, and provides other related lending or investing services customers want. They do offer their own stable-value funds as an investment choice,

INVESTMENT SNAPSHOT

Voya Financial
(NYSE: VOYA)

Business: Provides retirement, employee-benefits and investment-management services to mostly mid-sized and large U.S.-based companies and government agencies.

Share Information (@3/30/26):

Price	66.90
52-Week Range	52.43 – 79.99
Dividend Yield	2.8%
Market Cap	\$6.21 billion

Financials (TTM):

Revenue	\$8.19 billion
Operating Profit Margin	13.2%
Net Profit Margin	8.0%

Valuation Metrics

(@3/30/26):

	VOYA	S&P 500
P/E (TTM)	10.6	23.7
Forward P/E (Est.)	6.9	20.4

Largest Institutional Owners

(@12/31/25 or latest filing):

Company	% Owned
Vanguard Group	11.9%
BlackRock	10.3%
T. Rowe Price	7.3%
BNY Asset Mgmt	6.7%
Fidelity Mgmt & Research	5.3%

Short Interest (as of 3/15/26):

Shares Short/Float	2.7%
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VOYA PRICE HISTORY



THE BOTTOM LINE

The company has simplified its business mix and it is now well positioned as a leader in the steady retirement-services industry, says Derek Pilecki. He thinks the shares at the current 7x forward earnings are simply too cheap – with his earnings-per-share expectations, if the stock traded at even 10-11x it would double over the next three years.

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

but the vast majority of options are from third-party fund managers.

This isn't a high organic-growth business, but there are steady increases in the workforce and in participant balances over time. There are a number of big competitors – including Fidelity, Capital Group, Corebridge Financial and Principal Financial – but customer churn tends to be fairly low even in a rather commoditized business and the larger players like Voya are increasing share over time through M&A. As an example, Voya last year bought OneAmerica Financial's full-service retirement-plan business, adding

\$60 billion in assets under administration and nearly eight million plan participants. It strengthened its position in the smaller and mid-market end of the business and there's typically a lot of cost synergies in putting these types of businesses together.

The shares at just under \$70 certainly aren't expensive, trading at 7x consensus forward earnings estimates. Is that the primary appeal?

DP: The hurdle for finding something interesting is always lower when you start from such a low valuation. We think with

3% revenue growth, some margin expansion and some share-count reduction that earnings per share can grow at least 10% annually over the next three years. If the valuation improved to what we'd consider a more reasonable 10-11x earnings for a capital-light business that converts a high percentage of net income into free cash flow, you could get a double over that period in the stock price.

What's your top market worry today?

DP: I have a relatively bullish view of the economy and have even called myself a perma-bull. I believe in capitalism and all the smart people out there trying to create value. The financial system has been reformed and banks have a lot of capital and liquidity, so I don't think we're poised for a deep downturn.

My biggest worry is simply that my perma-bull view is not correct. The current geopolitical environment on a number of fronts could put up significant obstacles to my generally rosy economic outlook.

Are you more defensively positioned than is usually the case?

DP: I have in recent years brought my net exposure down from 75-80% to 50-60% today, but that doesn't really reflect a more negative outlook. I've been happy with my returns, but not with the volatility of those returns. So I've brought my net exposure down in an effort to reduce volatility without hurting returns. So far that's working fairly well. I'm trying to guard against investors leaving at the wrong time because they get scared by volatility. If I can keep the returns and give people a smoother ride, by not jumping in and out they're likely to realize a much better result. Given the opportunity set on both the long and short sides, I'm comfortable today with the exposure where it is. VII

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