ValueInvestor INSIGHT

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The Leading Authority on Value Investing

HALO Investing

Portfolio managers John Rotonti of Bastion Fiduciary, Sam Klar of GMO and Robert Robotti of Robotti & Co. describe what's driving their interest in select asset-heavy businesses, how AI is or isn't impacting their target companies, and why they believe railroad Union Pacific, heavy-equipment dealer Finning and manufacturing outsourcer Jabil are mispriced.

John Rotonti
Bastion Fiduciary

"I want to invest where there's a lot of change – that's where I believe the most asymmetric upside can come from."

Value investors aren't quick to jump on buzzy concepts, but the newly popularized notion of investing in "heavy assets, low obsolescence" – or "HALO" – companies appears to have struck a chord. Such firms are perceived to have physical assets that convey sustainable competitive advantage and to be relatively immune to negative AI disruption. As "old economy" companies, their stocks are less likely to have "new economy" valuations.

To explore the HALO concept in more depth, we spoke with three portfolio managers for whom investing in heavy-asset, low-obsolescence companies in some ways resonates. Among areas they find of interest today: aggregates, railroads, offshore energy and contract manufacturing.

You manage an Industrial and Infrastructure portfolio, but you talk a lot in your investor communications about artificial intelligence. Connect the dots there.

John Rotonti: My base case hypothesis is that AI is the enabling technology that is going to usher in a new industrial revolution that can last decades. Many of the companies in my portfolio fit the heavy-assets, low-obsolescence framework because I believe they have significant competitive moats and will be best positioned to benefit as physical assets and infrastructure are required for the AI technological revolution to actually happen. It requires chip-making capacity, gigawatts of power and electrical and power equipment. You need networking gear, HVAC and thermal technologies, as well as raw materials like copper and lithium.

I want to invest in change because that's where I think the most asymmetric upside can come from. That's true across the portfolio, but I don't want to give the impression everything I'm doing has a predominantly AI angle. I do think AI has the potential to drive higher productivity and faster GDP growth for an extended period of time, but that's not the main reason I own the asset-heavy businesses I do such as GE Aerospace [GE], Linde [LIN], Union Pacific [UNP] and United Rentals [URI].

Let's talk about one of those. Why are you high on the prospects for GE Aerospace?

JR: The first thing to highlight about GE is the quality of its business. It's a global leader in the manufacture of jet engines for commercial and defense aircraft and has what I consider multiple sources of sustainable advantage. In commercial aircraft, which accounts for 75% of total revenues, it has global scale in a duopoly competitive environment and deep long-term customer relationships supporting a large and growing installed base that generates decades-long streams of high-margin recurring services revenue. Of the company's $210 billion in current order backlog, close to 80% of it is related to maintenance, repair and overhaul services.

Long-term drivers of growth include a roughly ten-year backlog for new commercial aircraft, increased geopolitical tensions leading to higher defense spending, and the continued rollout of the next-generation CFM LEAP engine (sold through a 50/50 joint venture with Safran) to replace their CFM56 as the industry workhorse for narrow-body jets. Overall, GE's installed base of engines is expected to grow by 10,000, to 90,000, from 2025 through 2030. Given that the CFM56 is just now entering its peak aftermarket servicing years and that most of the LEAPs aren't installed yet, we believe we have line of sight into something like 30 years of higher-margin, aftermarket revenues.

It would be difficult to characterize the GE story as undiscovered by investors with the stock, now at around $355, trading at 42x estimated forward earnings. How are you thinking about that?

JR: It's certainly fair to say the stock is fully priced. An investor paying such a high P/E for a non-cyclical business like this is making a bet on the duration of per-share growth more than anything else. The scaling of the new LEAP engine doesn't really start hitting the financials until around 2030. I know many value investors aren't willing to envision a decades-long runway of profit growth, but I'm willing to do that here and give the business time to grow into the multiple. That said, I think I've sized the position appropriately given the valuation and would be very likely to size it up if we get a good market sell-off.

Turning to a somewhat more AI-related idea, describe your interest in outsourcing company Jabil [JBL].

JR: I think of Jabil as the Foxconn of the U.S., providing outsourced engineering, supply-chain and manufacturing services to diversified end markets including information technology, healthcare, transportation and energy. They build everything from CPU racks, servers and storage to warehouse-automation equipment, renewable energy infrastructure and insulin pens. The business model is based on providing customers with world-class manufacturing speed and reliability while saving them capex and inventory costs. It's very much a global business: only 25% of 2025 revenues come from the U.S., with Mexico, China and Malaysia making up the three largest non-U.S. markets.

While the company's geographic and end-market diversification is a plus, management has also repositioned the portfolio to incrementally benefit from AI datacenter spending and from reindustrialization in the U.S. and other countries. They are currently investing broadly in manufacturing capacity in places like North Carolina and Tennessee in the U.S., as well as in India and Mexico outside the U.S. AI in particular now accounts for roughly 40% of total revenue and management expects that revenue to grow 50% per year at least this year and next as they sign on new hyperscaler and electrical-grid business.

Another important part of the investment case is the potential for margin expansion. Outsourcing is generally a low-margin business, but as Jabil's business mix has evolved adjusted operating margins have doubled in recent years from around 3% to closer to 6% today. We think that can continue as the mix shifts further to AI, new capacity comes online and reaches scale, and management continues to make selective acquisitions of higher-margin businesses. One recent example of the latter was the purchase earlier this year of Hanley Energy Group, which provides power and electrical equipment for datacenters. Hanley has much higher margins than Jabil, including from a growing tail of services revenue.

Shareholders of Jabil have been well rewarded over the years. How attractive do you consider the stock today at a recent price of around $308.50?

JR: The stock has compounded at over 30% annually over the last ten years and at 40% in the last five years, but on fiscal 2027 estimates the shares trade at less than 20x earnings. That's extremely attractive for a company I believe can compound EPS at 20-25% annually over the next five years and probably deserves a better-than-market multiple.

INVESTMENT SNAPSHOT

Jabil
(NYSE: JBL)

Business: Outsourced design, production and distribution of electronic and physical products for information technology, healthcare, automotive and other end markets.

Share Information (@7/30/26):

Price	**308.52**
52-Week Range	189.60 – 428.93
Dividend Yield	0.1%
Market Cap	$32.33 billion

Financials (TTM):

Revenue	$33.59 billion
Operating Profit Margin	5.1%
Net Profit Margin	2.6%

Valuation Metrics
(@7/30/26):

	JBL	S&P 500
P/E (TTM)	38.6	25.2
Forward P/E (Est.)	19.6	21.1

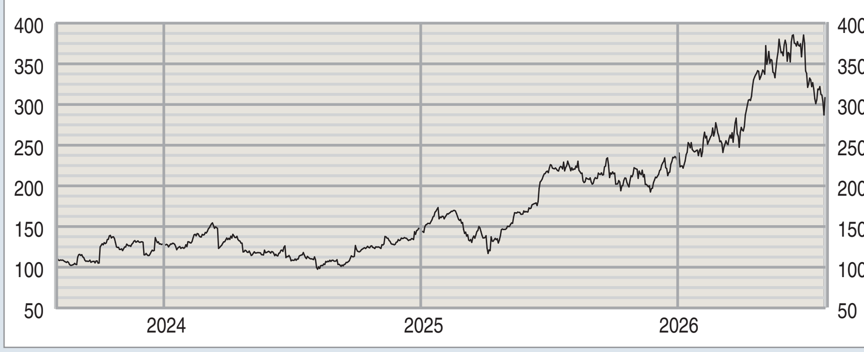
Largest Institutional Owners
(@3/31/26 or latest filing):

Company	% Owned
Vanguard Group	11.5%
BlackRock	9.2%
Texas Yale Capital	6.0%
State Street	4.7%
Wellington Mgmt	4.3%

Short Interest (as of 7/15/26):

Shares Short/Float	3.2%

JBL PRICE HISTORY



THE BOTTOM LINE

The company should be a prime beneficiary of both AI infrastructure spending and the reshoring of advanced manufacturing capability to the U.S., says John Rotonti. He believes it can generate 20-25% annual EPS growth over the next five years, something he does not believe is accurately reflected in the shares' current below-market valuation.

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

This is a critical asset to the U.S. if we want to reshore advanced manufacturing that we outsourced over the past two decades to China and other lower-cost countries. Jabil is the leading domestic version of the companies we were outsourcing to like Foxconn, Wistron, Quanta, and Pegatron. If we're serious about onshoring, I think the company over time can be multiples larger than it currently is.

Is customer concentration an issue here?

JR: The top customer accounts for about 16% of total revenues, but the overall concentration isn't that high, with 90% of revenues coming from around 90 different customers. I think that speaks to how deeply embedded and important Jabil is and will remain to its partners as the complexity and capital intensity of technology continues to increase.

The biggest risks to my thesis would be a slowdown in the AI infrastructure buildout and, given the levels of inventory the company has to carry, high input-cost inflation. Most customers don't commit to production schedules for more than a quarter at a time and there's not a lot of recurring revenue, so the business can be lumpy and harder to predict. With the secular tailwinds that I think are driving the business, I'm perfectly comfortable with enduring some lumpiness from time to time.