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## Pzena Emerging Markets Value Fund

### Strategy Update

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As we emerge from the darkest days of the pandemic, we are seeing companies and countries perform differently based on the level of vaccine rollout, variant penetration, government response, and subsequent covid-19 waves. **Brazil** is an example of a country that is doing worse than hoped and sold off considerably in the quarter. We own several businesses in Brazil in the portfolio, all where we see company-specific drivers to recovery. They include AmBev (beverages); Itau (banking); and CEMIG and Light (utilities). During the quarter, we added to Ambev and Itau on weakness, as we believe each has a leading market position and financial strength to weather a sustained downturn. In addition, Bolsanaro's off the cuff remarks sent shudders through the utilities sector, as he intimated pricing is too high. We believe this fear is overblown and took advantage of the price weakness to add to our position in CEMIG.

Another evolving area is our **China exposure**. We continue to be underweight China in part due to our avoidance of the high-flying mega-cap tech names (e.g., Alibaba, Tencent, Meituan Dianping) that dominate the MSCI Emerging Market Index. However, our bottom-up process continues to uncover interesting opportunities. This quarter, we added Vtech Holdings, the world's leading supplier of electronic toys, based in Hong Kong. VTech has maintained above-industry margins by producing niche, low volume products. Its nimble production footprint (a must in today's trade-tense world) is also an advantage. In an interesting turn of events, Alibaba briefly entered our first quintile late last year. That said, our research suggested that, absent the hit from the Ant debacle, the company was not cheap enough for us, particularly as regulatory risk appears to be rising significantly.

We also expect **companies managing transition effectively** will continue contributing to returns. An example is Hon Hai, the Taiwan-based electronics design and contract manufacturer. Hon Hai has made significant investments to maintain its leadership position to its customers in 5G technology, automation, and electric vehicles. Hon Hai's valuation is starting to reflect investors' recognition of these investments, and we believe there remains significant upside to fair

value. Now that the wave of smartphone penetration has crested, investors are looking for "what's next," and this quarter cheered the demonstration of Hon Hai's next generation capabilities.

Our research is also identifying more **idiosyncratic opportunities** such as VTech, which we discussed above. In addition, we initiated a position in Shriram Transport Finance in India, a uniquely positioned business that finances purchases of used commercial vehicles. This niche is largely beyond the interest of the banks, enabling Shriram to earn consistently high returns. The last few years have seen significant pain in the industry, but we expect both a business recovery as well as Shriram's growth into more rural areas to boost profits into the future. As always, the emerging market universe seems to us to be particularly rife with these sorts of unique, company-specific opportunities. To put it simply, there are a lot of rocks to turn over.

Our portfolio positioning has only changed marginally from last quarter; the portfolio continues to have a cyclical theme, as most of our positions have not yet reached fair value despite the strong run in value and our performance. **Valuation dispersion** has pulled back from October 2020 levels, though still stands near all-time highs in emerging markets. **Self-help initiatives** are paying off, as operating leverage starts to come back; POSCO and Hankook Tires are examples where earnings have been better than expected due to improved top lines and margins. Although continued cyclical recovery from the pandemic should set a strong macro backdrop over the intermediate term, we believe selectivity is critical, as not all businesses have dealt with structural change in the same way. **We believe that sustained earnings recovery for our portfolio companies will be through a combination of economic recovery and restructuring initiatives and will be a differentiator and driver of Pzena-specific returns.**

US Equity Funds				
	MID CAP VALUE FUND		SMALL CAP VALUE FUND	
	Institutional	Investor	Institutional	Investor
Ticker	PZIMX	PZVMX	PZISX	PZV SX
CUSIP	00770X659	00770X667	00770X394	00770X410
Expense Ratio Gross% / Net% <sup>1</sup>	1.23 / 0.90	1.58 / 1.25	1.78 / 1.11	2.13 / 1.46
Morningstar Category	Mid-Cap Value		Small-Cap Value	

  

Non-US Equity Funds				
	EMERGING MARKETS VALUE FUND		INTERNATIONAL SMALL CAP VALUE FUND	
	Institutional	Investor	Institutional	Investor
Ticker	PZIE X	PZVEX	PZIE X	PZVIX
CUSIP	00770X675	00770X683	00770X675	00770X683
Expense Ratio Gross% / Net% <sup>1</sup>	1.24 / 1.09	1.59 / 1.44	13.19 / 1.18	13.54 / 1.53
Morningstar Category	Diversified Emerging Mkts		Foreign Small/Mid Value	

<sup>1</sup> Contractual fee waivers through at least 6/27/21.

**FURTHER INFORMATION**

Operating margin – operating earnings (revenue minus cost of goods sold, and selling, general and administrative costs, excluding interest and taxes) divided by revenue.

The securities mentioned above comprised the following percentages of the Pzena Emerging Markets Value Fund as of March 31, 2021: AmBev SA 2.83%; Itau Unibanco Holdings SA 1.34%; CEMIG 2.30%; Light SA 1.02%; Alibaba 0.00%; Tencent 0.00%; Meituan Dianping 0.00%; Vtech Holdings 0.45%; Hon Hai 3.87%; Shriram Transport Finance 0.64%; POSCO 4.20%; Hankook Tire & Tec 3.34%. The securities mentioned above comprised the following percentages of the Pzena International Small Cap Value Fund as of March 31, 2021: Hankook Tire & Tec 2.05%; Vtech Holdings 2.02%. The Pzena Small Cap Value and Pzena Mid Cap Value Funds do not own any of the securities mentioned.

Opinions expressed are as of March 31, 2021 and are subject to change at any time, are not guaranteed and should not be considered investment advice.

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**Mutual fund investing involves risk. Principal loss is possible. Investments in small- and mid-cap companies involve additional risks such as limited liquidity and greater volatility than larger companies. Investments in foreign securities involve political, economic and currency risks, greater volatility and differences in accounting methods. These risks are greater for investments in Emerging Markets. The funds may have emphasis on a specific sector which could adversely affect a fund to a greater extent than if its emphasis was less. The funds may invest in securities that are less liquid and more difficult to sell than more liquid securities. Investments in REITs are subject to the risks associated with the direct ownership of real estate.**

*The funds’ investment objectives, risks, charges and expenses must be considered carefully before investing. The summary and statutory prospectus contain this and other important information about the investment company, and may be obtained by calling 1.844.PZN.1996 (1.844.796.1996), or visiting [www.pzenafunds.com](http://www.pzenafunds.com). Read it carefully before investing.*

Fund holdings, regional and sector exposure and characteristics are as of the date shown and are subject to change at any time. As a result, current and future holdings are not recommendations to buy or sell any security.

The Pzena Funds are distributed by Quasar Distributors, LLC.

The specific portfolio securities discussed in this document were selected for inclusion based on their ability to help you better understand our investment process. They do not represent all of the securities purchased or sold during the quarter, and it should not be assumed that investments in such securities were or will be profitable. PIM is a discretionary investment manager and does not make “recommendations” to buy or sell securities. Holdings vary among client accounts as a result of different product strategies having been selected thereby. Holdings also may vary among client accounts as a result of opening dates, cash flows, tax strategies, etc. There is no assurance that any securities discussed herein remain in our portfolios at the time you receive this presentation or that securities sold have not been repurchased.

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