PZENA Investment Management

Pzena Investment Management, LLC
Statement of Acceptance of Japan's Stewardship Code
July 14, 2021
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Pzena Investment Management, LLC ("Pzena" or "we") hereby declares the acceptance of the Japan's Stewardship Code ("the Code"). This document describes how we implement our approach to each of the principles of the Code.

We are a global investment management firm headquartered in New York City with business development offices in London, Melbourne and Dublin. We apply a classic value approach to investing that requires a commitment to research-driven stock selection and environmental, social, and governance ("ESG") integration. Our team focuses on research that yields a deep understanding of the long-term prospects and intrinsic value of a company. We have always believed that ESG issues, where material to a company's operations from a risk or an opportunity perspective, have the potential to impact these drivers of earnings.

Principle 1. Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

At Pzena, our role as responsible stewards of capital is as important to us as our fiduciary responsibility to act in our clients' best interests; which we believe is maximizing long-term shareholder value. We view environmental, social, and governance ("ESG") integration as an integral part of informed investment decision-making and, in turn, this safeguards the interests of our clients.

Integrated ESG analysis is central to the investment process of a value manager precisely because we are examining companies experiencing difficulty. Sometimes this difficulty is the result of a poorly managed ESG risk which created the buying opportunity in the first place. It is our job as a value manager to understand what went wrong and focus our research on whether the company can remediate the issues. As shareholders we are also active owners, voting proxies and maintaining a dialogue with company management on key issues, remediation of risk and the path towards earnings recovery. We spend a large proportion of our research effort after investment continually monitoring risk factors as well as revisiting and testing our assumptions against a company's real-time earnings progression.

Our ESG Investing Approach document that includes our approach to ESG engagements, Proxy Voting Policy, and Annual Stewardship report are available on our website.

- ESG Investing Approach
- Proxy Voting Policy
- Annual Stewardship report

Principle 2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

Pzena is sensitive to conflicts of interest that may arise in the proxy voting process. Pzena believes that application of the Guidelines should, in most cases, adequately address any potential conflicts of interest.

However, if an actual or potential material conflict of interest has been identified, Pzena has put in place a variety of different mitigation strategies as outlined below.
A potential material conflict of interest could exist in the following situations:

i. Pzena manages any pension or other assets affiliated with a publicly traded company, and also holds that company's or an affiliated company's securities in one or more client portfolios;
ii. Pzena has a client relationship with an individual who is a corporate director, or a candidate for a corporate directorship of a public company whose securities are in one or more client portfolios; or
iii. A Pzena officer, director or employee, or an immediate family member thereof is a corporate director, or a candidate for a corporate directorship of a public company whose securities are in one or more client portfolios. For purposes hereof, an immediate family member is generally defined as a spouse, child, parent, or sibling.

If a potential material conflict of interest exists, the following procedures will be followed:

i. If our proposed vote is consistent with the Guidelines in our Proxy Voting Policy, we will vote in accordance with our proposed vote;
ii. If our proposed vote is inconsistent with or not covered by our Guidelines, but is consistent with the recommendations of ISS, we will vote in accordance with ISS recommendations; and
iii. If our proposed vote is inconsistent with or not covered by our Guidelines, and is inconsistent with the recommendations of ISS, the Chief Compliance Officer ("CCO")and the Director of Research ("DOR"), (or their respective designees) (the "Conflicts Committee") will review the potential conflict and determine whether the potential conflict is material.
    a. If the Conflicts Committee determines that the potential conflict is not material, we will vote in accordance with the proposed vote.
    b. If the Conflicts Committee determines the potential conflict is material, the Conflicts Committee will review the proposed vote, the analysis and rationale for the vote recommendation, the recommendations of ISS and any other information the Conflicts Committee may deem necessary in order to determine whether the proposed vote is reasonable and not influenced by any material conflicts of interest. The Conflicts Committee may seek to interview the research analysts or portfolio managers or any other party it may deem necessary for making its determination.
        i. If the Conflicts Committee determines the proposed vote is reasonable and not influenced by any conflicts of interest, we will vote in accordance with our proposed vote.
        ii. If the Conflicts Committee cannot determine that the proposed vote is reasonable and not influenced by any conflict of interest, the Conflicts Committee will determine the best course of action in the best interest of the clients which may include deferring to the ISS recommendation or notifying each client who holds the relevant securities of the potential conflict, to seek such client's voting instruction.

On an annual basis, we will review and assess the conflicts policies and Code of Conduct that ISS posts on its website for sufficiency in addressing potential conflict of interest, self-dealing and improper influence issues that may affect voting recommendations by ISS. Pzena will also periodically review samples of ISS' recommendations for voting proxies, after the vote has occurred, to ensure that ISS' recommendations are consistent with ISS' proxy voting guidelines, as applicable. Pzena's analysts also incorporate information regarding ISS' potential conflicts of interest into their process when evaluating and voting proxies, and on a quarterly basis, our DOR reviews an updated list of ISS' significant client relationships.

Other Situations

Client Conflict:

Where Pzena manages the assets of a proponent of a shareholder proposal for a company whose securities are in one or more client portfolios, the following guidance should be followed:

i. The identity of the proponent of a shareholder proposal shall not be given any substantive weight (either positive or negative) and shall not otherwise influence an analyst's determination whether a vote for or against a proposal is in the best interest of our clients.
ii. Where Pzena determines that it is in the best interest of our clients to vote against that proposal, a designated member of Pzena's client service team will notify the client-proponent and give that client the option to direct Pzena in writing to vote the client's proxy differently than it is voting the proxies of our other clients.
iii. If the proponent of a shareholder proposal is a Pzena client whose assets under management with Pzena constitute 30% or more of Pzena's total assets under management, and Pzena has determined that it is in the best interest of our clients to vote for that proposal, Pzena will disclose its intention to vote for such proposal to each additional client who also holds the securities of the company soliciting the vote on such proposal and for whom Pzena has authority to vote proxies. If a client does not object to the vote within three business days of delivery of such disclosure, Pzena will be free to vote such client's proxy as stated in such disclosure.

Analyst Conflict:

If the analyst voting the proxy also beneficially owns shares of the company in his/her personal trading accounts, they must notify the Proxy Coordinator and the DOR must sign off on the analyst's votes for that company. It is the responsibility of each analyst to disclose such personal interest and obtain such approval. Any other owner, partner, officer, director, or employee of Pzena who has a personal or financial interest in the outcome of the vote is prohibited from attempting to influence the proxy voting decision of Pzena personnel responsible for voting client securities.

The Proxy Voting Committee reviews these Voting Guidelines and procedures at least annually and makes such changes as it deems appropriate, considering current trends and developments in corporate governance and related issues, as well as operational issues facing Pzena.

Principle 3. Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.

We spend a large proportion of our research effort after investment continually monitoring risk factors that can have a financial impact on a company. Revisiting and testing our assumptions against a company's real-time earnings progression — and emergent challenges and opportunities — is core to our process. Material developments can sometimes lead us to update our estimate of earnings potential and, if appropriate, make changes to our positioning in that stock. Much of this monitoring is done through our regular conversations with management and our own independent ongoing research. The ESG data sources we subscribe to can be a helpful addition in this process, to the extent that they track and flag material changes in the ESG profile of a company. The ESG analysts are responsible for an additional layer of ESG governance, whereby, through a series of watchlists, they monitor material ESG issues and developments in the portfolio. These may include, though not limited to: UN Global Compact violations, reputational risk incidents, and company/portfolio carbon footprint.

PZENA Investment Management

Our investment philosophy is oriented around earnings recovery, which implies improvement in material earnings drivers is expected for sustainable future growth. As such, ESG improvement is often a core principle of our investment approach, particularly where an ESG risk or risks may have contributed to the buying opportunity in the first place. We therefore spend a significant amount of time monitoring a company's progress against the areas where we expect to see improvement. Deep company-specific investment research and active ownership are both critical to identifying the stocks that can improve their ESG credentials.

We also published a whitepaper on this topic, where we examine the relationship between ESG score and stock price performance. The conclusion of our research was that there is a stronger relationship between ESG score improvement and stock price performance than there is between point in time ESG scores and stock price performance. Although preliminary findings only, this study suggests that value investors can capitalize on valuation dislocations and potentially find sources of alpha by understanding the long-term impact of company specific ESG improvement actions. In that respect, the company's ESG score likely matters less than the selection and monitoring of investments based on improvement potential. Our focus, therefore, is not on the absolute score, or even good versus bad ESG scores, but on whether we believe the company can recover its normalized earnings power over time.

Principle 4. Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

Philosophy
We engage with company management throughout our due diligence process, and extensively after investment. We view stock ownership as an opportunity to help steer companies toward long-term shareholder value creation and therefore favor engagement over divestment. If we determine an ESG consideration to be material to our investment thesis, we raise it with the management team. Our aim is to develop a robust understanding of the company's exposure to the issue, and management's plans to address it.

Approach
Each company and management team is unique. Consequently, our approach to management conversations is organic in each case, however, we seek an open, cooperative dialogue. We prefer to maintain an ongoing dialogue with company management on all material or potentially material investment issues through regular meetings, in-person site visits, and calls.

Broadly speaking, our discussions with company management have the following purposes in mind:

1. **Testing assumptions** — intended to deepen our understanding of issues that we have identified as material or potentially material to the investment. Sometimes we identify these issues at the point of investment and other times they arise during ownership. In both cases, we discuss the issues with management, solicit their input, assess their response, and evaluate the impact on our investment thesis. To the extent that the issues are ongoing, we continue to follow up until the issue is resolved or no longer relevant.

2. **Maintaining an informed dialogue** — whereby we keep apprised of decisions relating to strategic and operational considerations. We usually routinely meet with management following earnings, strategic business updates, and management transitions.
3. **Advocacy** – an explicit opportunity for us, as shareholders, to advocate for different decisions that we believe will enhance long-term shareholder value. With increasing regularity, companies also proactively seek our input on a range of issues.

Escalation
In instances where we feel that our concerns have not been adequately addressed during these conversations, we may consider the following actions to escalate our concerns:

1. A private meeting with the chairman or other board members;
2. A written letter to members of the senior management team and/or board members;
3. Voting against members of the board or resolutions at annual meetings;
4. And/or divestment if the lack of progress changes our view of the risk-reward embedded.

Roles & Responsibilities
For ESG to be integrated into the research process, the industry analyst covering the stock must also lead the associated investment due diligence, of which engagement is a key part. The industry analysts are best placed to evaluate the investment implications of ESG issues, and therefore they bear primary responsibility for discussing these with company management. Our ESG analysts support the industry analysts in these conversations as needed but we intentionally do not delegate these responsibilities to a separate stewardship team.

Principle 5. Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.

Philosophy
We take our responsibilities as stewards of our clients' capital seriously, actively voting the shares of companies in which we invest on their behalf as an integrated part of our investment process. Each proxy is voted in the best interest of our clients, defined as maximizing long-term shareholder value. We exercise proxy voting to highlight our views on management decisions, including ESG-related items, regardless of whether we agree with management's recommendation.

Roles & Responsibilities
We have engaged Institutional Shareholder Services ("ISS") to provide a proxy analysis with research and a vote recommendation for each shareholder meeting of the companies in our client portfolios. ISS also votes, records, and generates a voting activity report for our clients and assists us with recordkeeping and the mechanics of voting. In no circumstance shall ISS have the authority to vote proxies except in accordance with standing or specific instructions given to it by Pzena. We retain responsibility for instructing ISS how to vote, and we will still apply our own Voting Guidelines.

The analyst who is responsible for covering the company also votes the associated proxies since they have first-hand in-depth knowledge of the company. In evaluating proxy issues, the analyst will utilize a variety of sources to help come to a decision:

i. Information gathered through in-depth research and on-going company analyses performed by our investment team in making buy, sell and hold decisions for our client portfolios. This process includes regular external engagements with senior management of portfolio companies and internal discussions with Portfolio Managers and the Chief Investment Officers, as needed.
ii. ISS reports to help identify and flag factual issues of relevance and importance.
iii. Information from other sources, including the management of a company presenting a proposal, shareholder groups, and other independent proxy research services.
iv. Where applicable, any specific guidelines designated in writing by a client.

To help make sure that Pzena votes client proxies in accordance with our fiduciary obligation to maximize shareholder value, we have established a Proxy Voting Committee ("the Committee") which is responsible for overseeing the Voting Guidelines. The Committee consists of representatives from Legal and Research, including our CCO, DOR, and at least one PM (who represents the interests of all Pzena's portfolio managers and is responsible for obtaining and expressing their opinions at committee meetings). The Committee will meet at least once annually and as often as necessary to oversee our approach to proxy voting. The DOR is responsible for monitoring the analyst's compliance with the Voting Guidelines, the CCO is responsible for monitoring overall compliance with these procedures and an internally-designated "Proxy Coordinator" is responsible for day-to-day proxy voting activities.

Our proxy voting records are publicly available on our website: Proxy voting records

Principle 6. Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

Pzena records our stewardship activities, including proxy voting and engagement activities, and reports details to our clients as appropriate. Additionally, as a signatory of the Principles for Responsible Investment, we report annually on a broad range of matters including our stewardship responsibilities.

The PRI Transparency Report and our Annual Stewardship report can be found on our website here:

- PRI Transparency Report
- Annual Stewardship report

In addition, as clients and prospects have assigned a greater importance to the consideration of ESG risks in their portfolios, Pzena has been regularly asked to explain our approach to ESG and how it is integrated into our investment process. Typically, this happens within the context of our regular updates with clients as portfolio managers and/or research analysts review holdings and portfolio activity. Occasionally, it may happen more formally as part of a client due diligence review, where our ESG Research Analyst will present our approach to ESG. Other methods of ESG communication include the completion of clients' Requests for Information ("RFI").

Additionally, Pzena includes ESG analysis in its quarterly newsletter, both in the form of a dedicated ESG section and through write-ups on certain highlighted holdings. We have also written several ESG white-papers, covering topics such as ESG improvement and the energy transition.

Principle 7. To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.

We recognize that the issues affecting companies (ESG or otherwise) are not static and therefore our research process requires continual learning and evolution. We are always examining our approach to company research and stewardship and making the necessary enhancements. Some examples of how we continually evolve our approach to ESG and stewardship in the investment process are as follows:

1. ESG Research Analysts: keep the research team current on thematic ESG issues that cross-cut companies and industries. This has led to thematic ESG research discussions about evolving trends as well as the creation of industry-specific ESG frameworks as a complement to our bottom-up company-specific analysis. The ESG Analysts also spend significant time engaging with the ESG community through organizational memberships, conferences, panels and events to stay current on industry trends.

2. Quarterly ESG research team meetings: The research team convenes quarterly to discuss ESG issues and share insights across the team. This is an opportunity for the ESG analysts to bring new insights to the entire research team at once but also for the investment analysts to share their own ESG research and frameworks.

3. ESG Operating Committee: cross-functional, consisting of representatives from our Research, Client Services, Legal/Compliance, and Operations groups. The ESG Operating Committee meets as often as needed (at least once annually) to oversee the day-to-day operations of Pzena's ESG efforts. Responsibilities include overseeing ESG reporting initiatives and evolving ESG regulations, evaluating membership of 3rd party ESG organizations, and other firm-level ESG initiatives.

4. ESG Steering Committee: comprised of members of the Research team, specifically a sub-set of Portfolio Managers and the ESG team. The ESG Steering Committee meets quarterly to guide priorities at the intersection of ESG and Research. Responsibilities include determining quarterly thematic ESG research and setting external facing priorities, such as publications, interviews, and conference attendance.

Principle 8. Service providers for institutional investors_should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.

Not applicable.

Self-Evaluation Report

Updated May 2024

As part of Pzena Investment Management's statement of self-evaluation and adherence to Japan's Stewardship code, we regularly review our commitments as reflected in our statement of adherence. During the period of April 2023-March 2024, we fulfilled our stewardship responsibility properly in line with Japan's Stewardship Code, and the following actions were implemented:

- All stewardship-related policies and procedures are reviewed at least once annually. We published our second annual Stewardship Report in January 2024, which highlights significant engagement and proxy voting instances throughout 2023. This report will continue to be updated and published annually as part of our reporting catalogue.

- We published our first annual Corporate Responsibility Report in March 2024 which details Pzena's ongoing environmental and social efforts. We want to offer our stakeholders a better understanding of how we, as a firm, navigate many of the same issues that we discuss with the management teams of companies in our portfolios. The report is to be updated and published annually.

- We maintain a relationship with the management teams of all Japanese companies through regular meetings, in-person site visits, and telephone calls. Our approach to these engagements is consistent across all our holdings i.e. collaborative and tailored to the specific issues for a given company. In the reporting period, engagements were conducted with approximately 128 Japanese management teams about various topics including: board structure and composition; capital allocation; and capex plans for environment-related projects and pathways to net zero.

- Our 'ESG Opportunity List', a subset of our portfolio companies for which ESG matters are among the most financially material issues, has remained an integral part of our engagement strategy. Currently there are 8 Japanese names on the list.

- Hokkoku Financial Holdings is a case of an Opportunity List name where we felt the company had adequately addressed our engagement objective. We had added Hokkoku to the Opportunity List due to a lack of an independent board. We encouraged steps toward an independent board through several engagements and consistently voted against non-independent nominees for board positions. This led to a fully independent board and the determination that Hokkoku could be removed from the Opportunity List, though we continue to monitor any developments.

- We have added a progress rating as a new feature to the Opportunity List process. At the time we add a company to the Opportunity List, we assign a company a rating from 1 to 3. A score of '1' is for those companies that have made little to no progress on the objectives we have outlined and/or have not yet acknowledged the issues. A '3' rating is for companies making substantial progress in addressing our objectives and/or are highly engaged in addressing the issues. A company can be a candidate for removal from the list at any time pending material improvements in the issues that led us to add them to the Opportunity List in the first place. In particular, companies that are classified as '3' for 6 months or more can be - though not always- good candidates for removal. The rating system allows us to track the progress of names on the Opportunity List over time.

- In February of 2024, Christopher Shin joined the ESG team as an ESG analyst. His analysis enhances our knowledge of investee companies and expands engagement opportunities.