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For Professional Investors Only

The Pzena Opportunity List

November 2023

As value investors, we often find ourselves in situations where something has gone wrong, and we rely on fundamental research to assess the likelihood of the issue improving. Taking advantage of the gap between a valuation that reflects near term challenges compared to the value of the long-term earnings power of the company is the heart of our investment philosophy.

In some cases, the issues or opportunities facing a company fall under the ESG umbrella: poor governance has attracted the ire of a regulator; a changing emissions standard requires investment and innovation; labor issues cause supply chain disruption. Improving impediments to long-term performance, no matter what heading they fall under, should be positive for long-term shareholder returns. Through our own proprietary research, we examined the relationship between ESG scores and investment performance and found that companies with improved ESG scores tend to outperform stocks with lower improvement in their ESG scores.

Deep research and extensive engagement can help value investors capitalize on controversy and access this potential source of alpha, making engagement a cornerstone of our investment philosophy and a critical component of our process as long-term active investors. We engage with each company in our investment portfolios, both as a part of our pre-investment diligence process and on an ongoing basis to monitor progress on the company's path to improving performance.

These engagements, with company management or board representatives, consider all the financially material issues a company is facing. If we feel that our concerns are not being appropriately addressed, we may seek any number of avenues of escalation to bring attention to the matter. These include but are not limited to a private meeting with the chairman of the board or other board members, a written letter to company management or board members, and/or voting against board members or management proposals at annual meetings. We believe that engagement is the best way to promote improvement and fulfill our fiduciary duty of maximizing shareholder returns. We consider divestment a recognition that future engagement will not provide meaningful improvement and generally view this as a last resort.

This belief in our ability to push for better outcomes by engaging with the companies we own has been a driving force behind the development and application of the Pzena Opportunity List. The Opportunity List seeks to systematically identify opportunities in our portfolio where material ESG issues exist and engagement could have a positive impact and improve financial outcomes for investors. Similar to our valuation screens where we rely on company and industry history to naively forecast future earnings, the Opportunity List uses the MSCI score, independence of the directors making up the board's audit committee[1], scope 1 and 2 carbon intensity, and compliance with United Nations Global Compact (UNGC) principles to flag potential Opportunity List candidates. We expect these inputs to evolve over time, as disclosures, ratings, and data improve. See Table 1 for more details.

Table 1

Naïve Screen Criteria	What We Assess	Rationale
MSCI Score	BB score and below and MSCI rationale for score	Relative industry scores that are below-average are a starting point for determining a company's risk profile
Audit Committee Independence	Full independence of the directors that sit on the audit committee	Audit committee independence provides the strongest empirical link between good governance practice and company performance
Carbon Intensity Decile	Top (worst) decile of Scope 1 & 2 carbon intensity within primary investment universe as measured by tons CO_2e / $M sales	Carbon intensity indicates environmental risk exposure, scaled for the size of a company's operations. Companies in the top decile of emitters are more exposed to risks and opportunities from the energy transition. Grouping by investment universe compares companies in similar geographies and regulatory regimes
UNGC Compliance	Companies that have received a 'Fail' designation for compliance within UNGC framework	The UNGC outlines basic principles for corporate sustainability that promote good business practices. Failure to address these guiding principles can be indicative of company risk exposure

As part of our diligence between the initial and final review, the industry analyst will assess the reasons that the company was flagged. In cases where the naive flags have been resolved, are out of date, or we disagree with MSCI's assessment, we will not place the company on the Opportunity List. Conversely, we add companies to the Opportunity List if we determine that the screening metrics missed a key ESG investment controversy. Ultimately, it is our own proprietary research that decides the final Opportunity List status for a given company. This consensus is arrived at during the Final Review and requires unanimity of the industry analyst, ESG analyst, and portfolio managers.

Once a company is placed on the Opportunity List, we create an engagement plan with specific objectives to track progress. In practice, progress against the engagement plan will not manifest

1. Subject to review based on customary regional business practices all at once, but will appear in incremental steps over the investment time horizon. If we see a company is trending off-track, we have several options to escalate engagement, as laid out above. Persistent failures to address our concerns could lead to our reevaluation of the investment thesis and potential divestment. At the time we create an engagement plan, we also assign the company a progress 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 OL at any time pending material improvements in the issues that led us to add them to the OL 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.

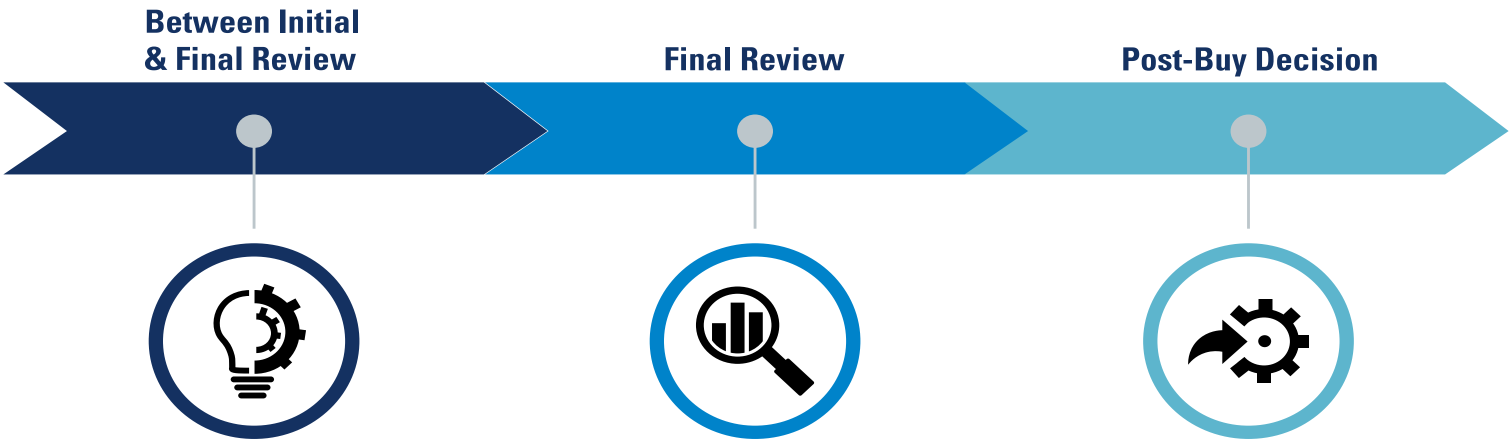
As part of our ongoing monitoring, companies on the Opportunity List get formally reviewed every six months with the industry analyst, portfolio managers, and ESG analysts to decide whether a company should remain on the Opportunity List. This semi-annual review also affords the analyst a forum to consider if any existing companies not currently on the Opportunity List should be added. Industry analysts are constantly monitoring new developments at companies, any outcomes that may have materialized following engagement, and can recommend changes to the Opportunity List.

In some cases, removal from the Opportunity List will come with the gradual resolution of the ESG issue(s) over time and/or only require discreet changes, such as the resolution of a pending litigation. In many other cases, removal is more nuanced and requires continuous research, engagement, and monitoring. Both cases require us to be in dialogue with management and to respond to changes that may impact the range of investment outcomes.

OPPORTUNITY LIST PROCESS

1. Flag potential Opportunity List candidates based on naïve criteria
2. As part of Final Review, decide on Opportunity List status
3. Create formal engagement plan and assign rating for Opportunity List candidates
4. Engage and advocate with management and board
5. Review company's status and progress at least semi-annually

We do not think there is a one-size-fits-all approach to company engagement or that there is one way to measure progress at the individual company level. The examples below are meant to show some examples of companies we have engaged with, both on and off the Opportunity List.



01. Identify

Naïve screening criteria help identify where material ESG issues exist.

Fundamental research may uncover additional ESG issues.

02. Assess

Research Analyst assesses ESG issues with support from the ESG Team.

03. Deliberate

Preliminary engagement plan with specific objectives discussed.

PMs, Research Analyst, and ESG Team decide whether to add a name to the OL.

For names added to the OL, engagement plan is finalized and proprietary rating from 1-3 assigned.

04. Monitor and Engage

Research Analyst is responsible for ongoing engagement.

No finite timeline for engagement or removal from the OL.

ENGAGEMENT EXAMPLES

REMOVAL FROM OPPORTUNITY LIST: ISUZU

For some auto makers, a return to normal earnings may hinge on how effectively they can address growing demand for electric vehicles (EVs). Isuzu is a case of an Opportunity List name where we felt the company was not adequately addressing this market reality, with no carbon emissions reduction strategy or published plans for EV rollout. We added Isuzu to the Opportunity List with the goal of encouraging management to set a coherent transition strategy.

Through multiple engagements in 2021, we monitored the steps management was taking to advance their EV strategy. This included strategic partnerships they were planning with Hino and Toyota to develop fuel cell and electric light trucks. In Q2 2022, Isuzu published its plan to achieve carbon neutrality in operations, beginning with a goal to halve scope 1 and 2 CO_2 emissions by 2030. Additionally, management set a timeline to research and develop the conversion of the product lineup of light-duty and heavy-duty trucks and buses to electric and hybrid models with short and medium-term development targets.

This convinced us that management was appropriately positioning the business for the EV transition, and capex plans and timeline seemed reasonable. This led to the determination that Isuzu could be removed from the Opportunity List. We will continue to engage with management to ensure the company is following through on the stated plan.

ONGOING OPPORTUNITY LIST ENGAGEMENT: ALIBABA

Alibaba has a history of governance lapses which contributed to our decision to add it to the Opportunity List. These have included issues related to business ethics and related party transactions, as evidenced by the partial transfer of control of Ant Group to Jack Ma in 2011. Given this history, we felt that the non-independent board structure represented a weakness and ongoing risk to shareholders. We have actively engaged with management and expressed our concerns, including by voting against non-independent directors in the annual proxy vote.

In 2022, Alibaba responded to shareholder dissatisfaction by adding a new board seat and appointing an independent director, thereby achieving a majority independent board structure. We have been pleased by this progress, but believe there is still work to be done to continue to improve governance practices at Alibaba.

In this case, we do not have a set timeline or a specific milestone we are looking for in order to become comfortable with the governance practices at Alibaba and remove it from the Opportunity List. We feel that continued responsiveness to shareholder concerns and the passage of time without incident will be the best measurement of Alibaba's progress on ethics and governance. As such, we have kept Alibaba on the Opportunity List and will continue to engage until we feel governance does not represent a meaningful risk to normalized earnings power.

NON-OPPORTUNITY LIST ENGAGEMENT: HON HAI

Since we do not limit our engagement efforts to companies on our Opportunity List, we are including a profile of our engagement with Hon Hai where we have had a robust dialogue over several years on labor issues even though Hon Hai was not, at the time, on the Opportunity List. We have recently (December 2022) made the decision to add Hon Hai to the Opportunity List given the escalating number of labor-related controversies as detailed below.

As a mobilizer of a large low-cost labor force, labor is both a critical business resource and potential risk factor for Hon Hai. From a business perspective, ensuring a supply chain that meets international standard is critical to the long-term success of Hon Hai. There is a risk that Apple will choose to diversify if Hon Hai is seen to mismanage its workforce. We therefore consider social issues a tail risk that we need to continue to monitor.

In 2020, Hon Hai was accused of using controversial Uighur labor. We took these allegations seriously and engaged with Hon Hai. In so doing, we could not find any evidence of complicity in the mistreatment of Uighur and other minorities inside and outside Xinjiang. Hon Hai, along with a wide range of manufacturers in China, participated in the government's 'poverty alleviation' program and had employed Uighur workers in its factories in the past. However, as the program generated significant controversy, Hon Hai told us they discontinued participation. This issue reemerged in late 2022 when other organizations picked up on the original 2020 report. We re-

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engaged with Hon Hai at this time and believe there is no new information that would change our original interpretation of the events. Hon Hai has since conducted a series of independent third-party audits of its facilities and none of them have found any evidence of forced labor at Hon Hai campuses.

In early 2022 we engaged with Hon Hai on allegations that worker dormitories and dining rooms in Indian facilities did not meet required standards. Indian operations account for less than 2% of Hon Hai's total production, though this incident led to Apple putting Hon Hai on probation as a supplier. Our assessment was that while regrettable, it was an isolated incident, and we were pleased with Hon Hai's corrective actions. These actions included raising its code of conduct and operating practices to global standards and replacing the local operating team that presided over this issue.

Most recently in November 2022, worker protests erupted at Hon Hai's Zhengzhou campus in response to strict covid lockdown measures and delayed incentive payments. It appears these were caused in part by a technical error in the Hon Hai payments system. We engaged with Hon Hai and learned that there may also have been shortcomings in the recruitment process, including miscommunication of the timeline of incentive payments and hiring too many new workers for a single campus at one time. Our assessment is that this is another regrettable incident but not necessarily one where Hon Hai has intentionally mistreated workers. Hon Hai emphasized the negative impact strict covid-19 policies have had on employee relations and the ongoing importance of anonymous channels by which employees can report any concerns.

While we are disappointed to see a recurrence of labor-related issues, we are pleased that Hon Hai is now more proactive in disclosing information and discussing these incidents with shareholders. We maintain an ongoing dialogue with the company on labor issues and continue to assess the risk of Hon Hai losing market share.

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