We continue to enhance our Opportunity List, most recently to help us better track the progress of our engagements over time. We illustrate these enhancements through three company examples where we used our influence to try and steer the company in the direction of long-term shareholder value creation.

Pzena Investment Management regularly engages with companies where there is an opportunity to improve on certain ESG matters. The Opportunity List consists of a subset of our portfolio companies for which ESG matters are among the most financially material issues. Improvements in these ESG issues, aided by our engagement efforts, could, therefore, lead to improvement in company earnings. Companies remain on the Opportunity List for varying durations depending on progress. The process by which a company is added or removed from the Opportunity List is described in further detail here. Figure 1 summarizes the process.

Figure 1: Opportunity List

Between Initial and Final Review

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.

Final Review

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.

Post-Buy Decision

04. Monitor and Engage

Research Analyst is responsible for ongoing engagement.

No finite timeline for engagement or removal from the OL.

OPPORTUNITY LIST UPDATES

Since developing the Pzena Opportunity List two years ago, we have made several enhancements to better measure progress toward our engagement objectives for each company.

Proprietary ESG Ratings

We have introduced a proprietary rating system for all companies on the Opportunity List. Companies are rated from 1 to 3 per our engagement objectives. A score of 1 indicates that a company has made little to no progress on the outlined objectives and/or has not acknowledged the issues. Companies rated 3 are making substantial progress in addressing our objectives and/or are highly engaged in addressing the issues. The rating is determined when the engagement plan is created and is reviewed at least every six months.

Companies rated a 3 for six months or more might be — though not always — good candidates for removal from the Opportunity List. A company rated a 3 could be facing issues that will take years to resolve, such as capitalizing on opportunities in the energy transition. Conversely, a company might be rated a 3 because it is addressing a discrete issue, such as the lack of a fully independent audit committee. A company will remain on the Opportunity List even if there is little progress toward our engagement objectives, as we prefer engagement over divestment.

These ratings allow us to track the progress of companies on the Opportunity List more explicitly over time. We can measure how long a company has remained at its rating, whether it is making progress toward our objectives, and over what time horizon. This also allows us to evaluate in a timely manner whether we need to escalate our engagement.

ESG Outcomes

We have introduced more detailed documentation and tracking of engagement outcomes for companies on the Opportunity List. At every six-month Opportunity List check-in, the research team analyzes whether there have been any notable outcomes related to engagements in the prior six months. We do not always expect outcomes, given that some issues take time to resolve. Tracking outcomes, where they exist, allows us to judge the success of our engagements over time.

EXAMPLES

The following examples illustrate these process enhancements in more detail.

Akbank, one of the largest banks in Turkey

We added Akbank to the Opportunity List with the objective of encouraging a fully independent audit committee. We have engaged directly with the CEO, CFO, and IR on multiple occasions to express our preference for the former Head of Internal Audit to be removed from the audit committee. We believe that his prior role presents a conflict of interest and prevents him from exercising fully independent oversight. We also discussed our intention to use our proxy vote accordingly. While management appeared open to the feedback, we rated Akbank a 1 to reflect the lack of progress in replacing the audit committee member. We will continue to engage on this matter and will escalate our engagement as needed.

Hon Hai, Taiwanese multinational electronics contract manufacturer

As discussed in this article a year ago, we added Hon Hai to the Opportunity List based on the escalating number of labor-related controversies. Our engagement objective was to continue to discuss the steps Hon Hai was taking to resolve these issues to prevent ceding market share to competitors. In addition, we expected Hon Hai to go a minimum of one year without any further labor-related incidents before it could be removed from the Opportunity List. After it met the one-year milestone, we increased Hon Hai's rating to 3. This makes Hon Hai a potential candidate for removal from the Opportunity List at the next six-month review if we continue to see progress.

NOV, provider of equipment, technologies, and expertise to the upstream oil and gas industry

NOV was added to the Opportunity List because we observed that more could be done to enhance emissions disclosures and develop a differentiated energy transition strategy. Specifically, we had the following three engagement objectives for NOV:

1. Disclose scope 1 and 2 emissions
2. Set goals for mitigating the intensity of scope 1 and 2 emissions with appropriate timelines
3. Continue to explore and refine the company's energy transition strategy

We have engaged with the CEO and CFO of NOV on these topics several times in recent years. While we appreciate that other investors might have advocated for similar things, NOV recently began disclosing its scope 1 and 2 emissions as a baseline for future target-setting. We consider this a significant engagement outcome and continue to discuss our two remaining objectives with NOV regularly. NOV is rated a 2 because more work is still needed to achieve our remaining engagement objectives.

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