# FOURTH QUARTER 2024 STEWARDSHIP INSIGHTS





We continue to enhance our Opportunity List, most recently by tracking engagement outcomes over time. Three company examples illustrate how our proprietary Opportunity List ratings can be helpful in identifying interim and, in some cases, final engagement outcomes.

We take the opportunity in the fourth quarter to provide examples of our stewardship and engagement activities, illustrating our ongoing commitment to long-term active ownership. Being an active owner means sitting down with the management teams and boards of companies we own and advocating for what we believe is in the best long-term interests of shareholders. As active owners, we also believe that we have the potential to influence the decisions and trajectories of the companies in which we invest. That is not to say that we are always successful, and even when we are, outcomes may take time to materialize. Nevertheless, we seek to build relationships with management teams, such that we can exert a constructive and trusted influence.

#### STEWARDSHIP OUTCOMES

Over time, we have more explicitly tracked progress against our engagement objectives, starting with the creation of the Pzena Opportunity List¹ and culminating in the development of proprietary ratings² for all companies on the Opportunity List. As a result of these process enhancements, we can report interim and, in certain cases, final outcomes for some of our engagement activities.

Some of our engagement objectives are inherently shorter-term and more discreet than others. For longer-term engagement objectives, tracking rating changes over time has proven especially helpful. The direction of travel gives us an indication of whether the company is making progress against our objectives, giving us the opportunity to escalate our engagement as needed.

In public markets where there is diversified ownership, it may take several investors advocating for the same thing to see progression, whether collaborating intentionally or not. Given that we run

1. Consists of a subset of our portfolio companies for which ESG matters are among the most financially material issues.

concentrated portfolios, we do not often need to collaborate with other investors to amplify our voice; however, we occasionally talk to other investors to share our perspective on an issue and/or test our assumptions.

Below are examples of interim and final engagement outcomes from the prior year, across our portfolios.

# EXAMPLE 1: HON HAI, TAIWANESE MULTINATIONAL ELECTRONICS CONTRACT MANUFACTURER

Hon Hai was originally added to the Opportunity List because of the escalating number of labor-related controversies, as first discussed in detail in our Q4 2021 newsletter. After nearly four years of monitoring improvements in labor relations, we decided to remove Hon Hai from the Opportunity List and consider our engagement on this issue complete. The decision to fully remove Hon Hai follows their upgrade from a 2 to a 3 on our proprietary rating scale, as previously reported in our Q4 2023 newsletter.

Our primary concern was that Hon Hai could cede market share to competitors if it developed a reputation for poor management of its workforce. We maintained an ongoing dialogue with Hon Hai, discussing best operating practices and increased disclosure specific to human rights and equal treatment of workers. The company has now had close to two years without a major labor-related controversy, which, in our view, was grounds to remove Hon Hai from the Opportunity List. If these issues were to resurface, we would consider adding Hon Hai back onto the Opportunity List.

<sup>2.</sup> Companies are rated from 1 to 3 to measure progress against our stated 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. A score of 3 means the company is making substantial progress in addressing our objectives and/or is highly engaged in addressing the issues.

## STEWARDSHIP INSIGHTS CONT.

#### **EXAMPLE 2: BAYER, GERMAN LIFE SCIENCES MULTINATIONAL**

Bayer was originally added to the Opportunity List to track and assess litigation payments related to glyphosate and PCBs (polychlorinated biphenyls). We upgraded Bayer from a 1 to a 2 on our proprietary rating system as an interim indication of progress addressing the glyphosate litigation. This upgrade reflects management's focus on resolving the outstanding litigation, signs of progression in resolving the litigation, and the desire to maintain a robust dialogue with shareholders on the topic. Glyphosate is an herbicide widely used in agriculture and landscaping. Its safety has been debated, and the plaintiff's attorneys have had success in linking its use to non-Hodgkin's lymphoma. As of October 2024, Bayer has won 14 cases, lost 10 cases, and settled ~110 k cases for ~\$11 bn. There are ~55 k remaining cases in inventory with ~\$7 bn provisioned. Under new CEO Bill Anderson, Bayer is exploring additional legislative options to resolve the outstanding litigation. For example, the company is working with state and federal legislators on bills that protect manufacturers from litigation if the Environmental Protection Agency-approved label states that the product does not cause cancer. We continue to closely monitor this issue and engage with management on an ongoing basis.

# EXAMPLE 3: KANTO DENKA KOGYO, JAPANESE CHEMICALS MULTINATIONAL

Not all our engagements are immediately successful, and sometimes, we downgrade a company on our proprietary rating system, as happened with Kanto Denka, which was downgraded from a 2 to a 1 to reflect the limited willingness of the management team to engage with us. Our engagement objectives for Kanto Denka were to seek clarity on the post-2030 plan for the energy transition, unwind crossshareholdings, and discontinue anti-takeover defense measures, including removing the poison pill. In May 2024, Kanto Denka did abolish its poison pill, and management has shown a greater willingness to engage with us. Consequently, we may decide to upgrade Kanto Denka back to a 2 at our next sixmonth Opportunity List check-in. We will continue our efforts for an ongoing dialogue with management on our ESG engagement objectives.

### **FURTHER INFORMATION**

These materials are intended solely for informational purposes. The views expressed reflect the current views of Pzena Investment Management ("PIM") as of the date hereof and are subject to change. PIM is a registered investment adviser registered with the United States Securities and Exchange Commission. PIM does not undertake to advise you of any changes in the views expressed herein. There is no guarantee that any projection, forecast, or opinion in this material will be realized. Past performance is not indicative of future results.

All investments involve risk, including loss of principal. Investments may be in a variety of currencies and therefore changes in rates of exchange between currencies may cause the value of investments to decrease or increase. The price of equity securities may rise or fall because of economic or political changes or changes in a company's financial condition, sometimes rapidly or unpredictably. 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. Investments in small-cap or mid-cap companies involve additional risks such as limited liquidity and greater volatility than larger companies. PIM's strategies emphasize a "value" style of investing, which targets undervalued companies with characteristics for improved valuations. This style of investing is subject to the risk that the valuations never improve or that returns on "value" securities may not move in tandem with the returns on other styles of investing or the stock market in general.

This document does not constitute a current or past recommendation, an offer, or solicitation of an offer to purchase any securities or provide investment advisory services and should not be construed as such. The information contained herein is general in nature and does not constitute legal, tax, or investment advice. PIM does not make any warranty, express or implied, as to the information's accuracy or completeness. Prospective investors are encouraged to consult their own professional advisers as to the implications of making an investment in any securities or investment advisory services.

The specific portfolio securities discussed in this presentation are included for illustrative purposes only and were selected based on their ability to help you better understand our investment process. They were selected from securities in one or more of our strategies and were not selected based on performance. They do not represent all of the securities purchased or sold for our client accounts during any particular period, 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 any securities. 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.

#### For U.K. Investors Only:

This marketing communication is issued by Pzena Investment Management, Ltd. ("PIM UK"). PIM UK is a limited company registered in England and Wales with registered number 09380422, and its registered office is at 34-37 Liverpool Street, London EC2M 7PP, United Kingdom. PIM UK is an appointed representative of Vittoria & Partners LLP (FRN 709710), which is authorised and regulated by the Financial Conduct Authority ("FCA"). The Pzena documents have been approved by Vittoria & Partners LLP and, in the UK, are only made available to professional clients and eligible counterparties as defined by the FCA.

### For EU Investors Only:

This marketing communication is issued by Pzena Investment Management Europe Limited ("PIM Europe"). PIM Europe (No. C457984) is authorised and regulated by the Central Bank of Ireland as a UCITS management company (pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011, as amended). PIM Europe is registered in Ireland with the Companies Registration Office (No. 699811), with its registered office at Riverside One, Sir John Rogerson's Quay, Dublin, 2, Ireland. Past performance is not indicative of future results. The value of your investment may go down as well as up, and you may not receive upon redemption the full amount of your original investment. The views and statements contained herein are those of Pzena Investment Management and are based on internal research.

# **FURTHER INFORMATION**

#### For Australia and New Zealand Investors Only:

This document has been prepared and issued by Pzena Investment Management, LLC (ARBN 108 743 415), a limited liability company ("Pzena"). Pzena is regulated by the Securities and Exchange Commission (SEC) under U.S. laws, which differ from Australian laws. Pzena is exempt from the requirement to hold an Australian financial services license in Australia in accordance with ASIC Class Order CO 03/1100 and the transitional relief under ASIC Corporations (Repeal and Transitional) Instrument 2016/396, extended through 31 March 2026 by ASIC Corporations (Amendment) Instrument 2024/497. Pzena offers financial services in Australia to 'wholesale clients' only pursuant to that exemption. This document is not intended to be distributed or passed on, directly or indirectly, to any other class of persons in Australia.

In New Zealand, any offer is limited to 'wholesale investors' within the meaning of clause 3(2) of Schedule 1 of the Financial Markets Conduct Act 2013 ('FMCA'). This document is not to be treated as an offer, and is not capable of acceptance by, any person in New Zealand who is not a Wholesale Investor.

#### For Jersey Investors Only:

Consent under the Control of Borrowing (Jersey) Order 1958 (the "COBO" Order) has not been obtained for the circulation of this document. Accordingly, the offer that is the subject of this document may only be made in Jersey where the offer is valid in the United Kingdom or Guernsey and is circulated in Jersey only to persons similar to those to whom, and in a manner similar to that in which, it is for the time being circulated in the United Kingdom, or Guernsey, as the case may be. The directors may, but are not obliged to, apply for such consent in the future. The services and/or products discussed herein are only suitable for sophisticated investors who understand the risks involved. Neither Pzena Investment Management, Ltd. nor Pzena Investment Management, Ltd. or Pzena Investment Management, Ltd. or Pzena Investment Management, Ltd. are subject to the provisions of the Financial Services (Jersey) Law 1998.

#### For South African Investors Only:

Pzena Investment Management, LLC is an authorised financial services provider licensed by the South African Financial Sector Conduct Authority (licence nr: 49029).

© Pzena Investment Management, LLC, 2025. All rights reserved.