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 List[1] and culminating in the development of proprietary ratings[2] 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 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.

1. Consists of a subset of our portfolio companies for which ESG matters are among the most financially material issues.
2. 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.

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 cross-shareholdings, 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 six-month Opportunity List check-in. We will continue our efforts for an ongoing dialogue with management on our ESG engagement objectives.

FURTHER INFORMATION

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