

Deep research and engagement can help value investors capitalize on controversy and access a potential source of alpha. The Pzena Opportunity List represents our belief in our ability to push for better outcomes by engaging with the companies we own.

The driving force behind the development and application of the Pzena Opportunity List is the belief in our ability to push for better outcomes by engaging with the companies we own. Deep research and extensive engagement are cornerstones of our investment philosophy and critical components of our process as long-term active investors. They can help us capitalize on controversy and access a potential source of alpha. The below serves as an abbreviated version of [the full report on the Opportunity List](#), which can be found on the Pzena website.

ESG PROCESS AND ENGAGEMENT

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. The Pzena Opportunity List seeks to systematically identify opportunities in our portfolio where material ESG issues exist, and engagement could have a positive impact. 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 committee¹, 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.

As part of our diligence, the industry analyst will assess the reasons that the company was flagged. 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 stages of our research process and requires unanimity of the industry analyst, ESG analyst, and portfolio managers. Once a company is placed on the Pzena Opportunity List, we create an engagement plan with specific objectives and milestones to track progress.

TRACKING INCREMENTAL PROGRESS

In practice, progress against the engagement plan will not manifest 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. Persistent failures to address our concerns could lead to our reevaluation of the investment thesis and potential divestment. 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 and can recommend any changes within their coverage as developments emerge.

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.

We do not believe 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 highlight the ongoing engagements we have with Opportunity List companies, with further details provided in the long-form version on our website.

Isuzu

We added Isuzu to the Opportunity List at the end of 2021 with the goal of encouraging management to set a coherent electric vehicle (EV) transition strategy. Through multiple engagements in 2021, we monitored the steps management was taking to advance their EV strategy. In Q2 2022, Isuzu published its plan to achieve carbon neutrality in operations, beginning with a goal to halve scope 1 and 2 CO₂ 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. With this determination, we removed Isuzu from the Opportunity List, but will continue to engage with management to ensure the company is following through on the stated plan.

1. Subject to review based on customary regional business practices

FINDING VALUE IN ESG CONT.

Hon Hai

In December 2022, we made the decision to add Hon Hai to the Opportunity List given the escalating number of labor-related controversies. 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 standards is critical to the long-term success of Hon Hai. We therefore consider social issues a tail risk that we need to continue to monitor. Several highly publicized labor-related controversies have occurred in the last three years. 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.

Alibaba

Alibaba has a history of governance lapses which contributed to our decision to add it to the Opportunity List in Q4 2021. 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 Alibaba's history, we feel that continued responsiveness to shareholder concerns and the passage of time without incident will be the best measurement of their progress on ethics and governance.

CONCLUSION

At Pzena, our focus will always be on the material issues facing a company, ESG or otherwise, that may be contributing to current underperformance. If those issues are temporary and/or can be remediated, the company may be an interesting investment opportunity. The Opportunity List consists of a subset of our portfolio companies where ESG issues are among the most material issues facing the company. Improvement in these ESG issues, aided by our engagement efforts, could therefore lead to improvement in company earnings. However, there is no guarantee of ESG improvement for companies on the Opportunity List and they may remain on the Opportunity List for a range of timeframes. Regardless of outcome, we maintain that the most important thing is to continue to advocate for change if we believe it is in the interests of long-term shareholders to do so.

FURTHER INFORMATION

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