

Environmental, Social, Governance Investing Approach - Summary Statement

January 2020

A company's environmental, social, and governance (ESG) issues can be a material driver of performance. In some cases, ESG factors have the potential to drive unacceptably wide or asymmetric ranges of long-term outcomes; while other issues, though not material today, could pose future risks if not adequately managed. Assessing the potential impact of ESG issues on a company is therefore critical to our investment process.

Thorough fundamental research is the foundation of our investment process, helping us deliver on our fiduciary responsibility of maximizing risk-adjusted returns.

Any material issue (ESG or otherwise), once identified, is thoroughly analyzed, discussed with the company management, evaluated with the portfolio managers and monitored continuously, directly determining the investment case and position sizing.

IDENTIFY

We identify a short list of reasons why a stock is underperforming and a series of research questions for deeper exploration. This initial review can raise ESG issues that can materially affect a company's long-term earnings. Our research team discusses these issues to determine if further analysis of the business is warranted.

ANALYZE

A thorough fundamental assessment of a business involves intensive analysis with a particular focus on those challenges that have created the value opportunity.

We examine ESG factors as well as all other considerations that can influence an investment's long-term performance and risk profile. Analysts augment their appraisal of material ESG issues by incorporating third-party ESG data, ratings, and research into their analysis.

EVALUATE

Following completion of due diligence into key issues, we finalize our estimate of normal earnings, considering the full range of potential outcomes. The evaluation of ESG matters focuses on their potential impact on the company's future profitability and risk profile, and assesses the degree to which these are already factored into the current market valuation of the company.

MONITOR

After investment we continually monitor risk factors that can have a long-term financial impact on a company. Revisiting and testing our assumptions against a company's real-time earnings progression—and emergent challenges and opportunities—is core to our process.

ENGAGE

We engage with company management throughout our due diligence process, and extensively after investment. We view stock ownership as an opportunity to help steer companies toward long-term shareholder value creation.

If we determine an ESG issue to be material to our estimate of normal earnings, we raise it with the management team. We want to develop a robust understanding of the company's exposure to the issue, and management's plans to address it. If we identify a severe ESG issue that management doesn't have a clear plan to remediate, we may avoid investing, or exit an existing position altogether. As appropriate, we advocate for changes to a company's actions.

Pzena became a signatory to the Principles for Responsible Investing in 2018 following a rigorous assessment of its principles, which we believe are strongly aligned with our investment philosophy and research process.



Pzena also became a SASB Alliance member in 2020. Because of our commitment to incorporating ESG into our investment approach, we continuously strive to enhance the way we look at ESG factors, and membership to these organizations affirms our commitment. We continuously evaluate whether to become a member of other ESG-based organizations.

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