FOURTH QUARTER 2021 FINDING VALUE IN ESG

A deep understanding of key issues facing a company provides us the credibility to engage with management and steer them toward ESG improvement and creation of shareholder value.

As long-term investors, fundamental bottom-up due diligence is the backbone of our approach to active ownership, and active ownership is a foundational principle of our approach to making ESG-integrated investment decisions. A deep understanding of all the key issues facing a company, ESG or otherwise, provides us the credibility to engage, challenge, and ultimately create an ongoing dialogue with management teams.

The nature and content of our discussions with company management varies, of course, with each unique situation. Nevertheless, our discussions with management typically have one or multiple of the following purposes in mind:

1. Test assumptions – once we have become knowledgeable of the company and industry, we test the assumptions of our investment thesis with company management. These conversations are intended to challenge and/or deepen our understanding of issues that we have identified as material, or potentially material, to the investment.
2. Maintain an informed dialogue – we seek meaningful discussions with management and heads of major business segments to stay apprised of strategic and operational decisions. We continuously evaluate whether any incremental information/company developments are consistent with long-term shareholder value creation, and the drivers of our investment thesis.
3. Advocacy – we advocate for decisions that we believe will enhance long-term shareholder value, with a responsibility to all constituencies. With increasing regularity, and as we demonstrate the thoroughness of our research, companies also proactively seek our input on a range of issues.

In some cases, our engagements with management teams play a heightened role, particularly when the ESG controversy itself has created the value opportunity. Integrating our assessment of the ESG controversy into our valuation work, and engaging with management to influence both the financial and ESG outcomes, can result in significant future upside.

As active owners, we also believe we have the potential to influence the decisions and trajectory of companies in which we invest. That is not to say engagement makes every company investable. Rather, our deep research and industry knowledge allow us to determine which companies have the potential for improvement, ESG or otherwise. When we decide to invest, we implicitly commit to engaging management teams, helping steer companies toward long-term shareholder value.

<u>Example 1</u>: Ford, American car manufacturer, B rated by MSCI

Ford Motor Company is the eighth largest automaker in the world with a history dating back to 1903. Headquartered in Dearborn, Michigan, the company primarily sells vehicles under the Ford and Lincoln brands and is best known for its F-Series pickup, which has been America's best-selling vehicle for 40 straight years.

Our investment thesis for Ford was tied to the company's restructuring plan and adoption of electric vehicles (EVs). At the point of investment, Ford had significant operational issues hindering profitability and was viewed as at-risk from a transition to EVs. We saw an opportunity for earnings improvement from a combination of redesign and cost controls, and a belief that the Ford brand would still be relevant as consumer preferences moved toward EVs.

Our conversations with management over our investment period led us to believe they were making all the right moves to position the business for higher margins, including discontinuing sedans in North America, focusing Europe on commercial vehicles, exiting unprofitable international geographies, getting warranty costs under control, and driving material cost improvements through de-contenting vehicles. Taken together, Ford's restructuring initiatives would help the company achieve its margin goals by 2023 – a forecast that has recently become market consensus.

With the quickening pace of EV adoption, Ford had to further restructure the company and speed up its plans for EV development. While costs to transition the company are massive – Ford is forecasting $30B through 2025 – the real risk to Ford was not moving fast enough in its electrification transition. Retaining market share would become increasingly difficult the longer it delayed its EV transition.

Our engagements with senior management pushed for more clarity on Ford's financial commitment and timeline for investing in EVs. We were supportive of CEO Jim Farley's strategy to position Ford as a leader in electrification. To that end, Ford is targeting 40% of fleet volume sales to be electric by 2030 and has priced its recently announced F-150 Lightning electric truck on par with a comparable ICE version. The strength of Ford's iconic models is likely to help it weather the transition successfully.

Ford's current B rating from MSCI somewhat misrepresents its role in the electrification transition and takes a rather backward-looking view of Ford's overall performance. While we do not discount the very real issues the company has to contend with, we remain confident in Ford's ability to execute on its ongoing global redesign and plan for electrification.

Example 2: Hon Hai Precision Industry Co., Taiwanese multinational electronics contract manufacturer, BB rated by MSCI

Hon Hai is the world's largest electronic manufacturing services (EMS) / original design manufacturer (ODM) company, providing a range of services from assembly to component and whole device manufacturing. Hon Hai leverages its scale, operational expertise, and proprietary technologies to maintain its leading position on existing and new technology platforms.

When we invested in Hon Hai, the company was just coming out of a series of social scandals related to worker suicides, significantly damaging its reputation. The seasonality and tight margins of the business appeared to drive a culture of long hours, tough working conditions, and relatively low pay. In response to investor and customer pressure, Hon Hai took action to improve labor practices. Nevertheless, we considered social issues a tail risk that we needed to continue to monitor.

More recently, Hon Hai was accused of using controversial Uighur labor. We took these allegations seriously and engaged with Hon Hai. In so doing, we could not find any evidence of complicity in the mistreatment of Uighur and other minorities inside and outside Xinjiang. Hon Hai, along with a wide range of manufacturers in China, was required to participate in the government's 'poverty alleviation' program, and employed Uighur workers in its factories in the past. However, as the program generated significant controversy, Hon Hai told us they discontinued participation.

From a business perspective, ensuring a supply chain that meets international standard is critical to the long-term success of Hon Hai. For example, Hon Hai has been subject to inspection of its facilities and practices by customers, including Apple, for which it is a major supplier. Management has been focused on ensuring compliance with best practice operating standards, including a commitment to human rights and equal treatment of workers. We have advocated for increased transparency of reporting on these issues, and have been pleased to see incremental disclosure. We maintain an ongoing dialogue with the company on social issues.

Our view of the corporate governance foundation at Hon Hai has become more favorable since the largest and controlling shareholder stepped down as CEO and chairman. Under his leadership, we were concerned that capital allocation was not always in the best interests of long-term shareholders. We engaged extensively on this issue and are pleased with its increasingly prudent approach to capital allocation.

For all these reasons, we think that the future of ESG at Hon Hai is stronger than past incidents, as an ESG rating from MSCI oscillating between B and BB might also suggest. There is, of course, always room for improvement in the management of social issues for a company that relies on the mobilization of a large low-cost labor force. We will continue to engage to encourage the adoption of best practices, including further transparency and disclosure.

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 risk of total loss.

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.

Hon Hai Precision Industry Co. was held in our Emerging Markets Focused Value, Emerging Markets Select Value, Global Focused Value, Global Value, International Focused Value, International Value, and other strategies during the fourth quarter of 2021. Ford Motor Company was held in our Focused Value, Large Cap Focused Value, Large Cap Value, Mid Cap Focused Value, Mid Cap Value and other strategies during the fourth quarter of 2021.

The MSCI information may only be used for internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the MSCI Parties) expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.

For U.K. Investors Only:

This financial promotion 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 Mirabella Advisers LLP, which is authorised and regulated by the Financial Conduct Authority. The Pzena documents are only made available to professional clients and eligible counterparties as defined by the FCA. 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.

For EU Investors Only:

This financial promotion 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.

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 Corporations (Repeal and Transitional) Instrument 2016/396. 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, LLC nor the activities of any functionary with regard to either Pzena Investment Management, Ltd. or Pzena Investment Management, LLC 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).