Overly prescriptive shareholder proposals and questionable corporate governance practices were some of the more complex issues we faced in the 2023 proxy season. We illustrate our voting thought process and our ongoing engagement with corporate boards and management teams.

We take the opportunity in the third quarter to profile some of the more significant proxy votes from the season. As an active manager, proxy voting is one of the tools we have at our disposal to exert influence on the companies we own in the direction of long-term shareholder value creation. Below, we highlight three such examples from the 2023 proxy season, where the issues at hand were particularly controversial.

EXAMPLE 1: DOW, U.S. COMMODITY CHEMICAL COMPANY

One of the key environmental issues facing the chemicals sector is exposure to revenue generated from plastic products, particularly single-use plastic. The financial materiality of this issue is largely driven by regulation seeking to ban plastic products with limited recyclability and/or regulation that encourages "circularity" (i.e., a system where plastic materials are reduced, redesigned, and reused or recycled to recapture any "waste" as a resource for new plastic materials). A truly circular economy would result in a reduction in virgin plastic demand, which would be an adverse outcome for virgin plastic producers such as Dow.

Given the materiality of this issue, it is perhaps not surprising that a shareholder put forward a proposal for Dow to commission an audited report on the business impact from reduced plastics demand. The proposal made specific reference to one particular scenario—*System Change Scenario*—put forward in a report by The Pew Charitable Trust. While we agree with the materiality of this issue, we decided to vote against the proposal for two considered reasons:

1. Dow is already adopting principles of circularity. For example, Dow has committed to making 100% of products reusable or recyclable by 2035, commercializing three million tons of circular and renewable solutions annually, and has entered into various joint ventures to develop circular plastics.

2. We viewed the proposal itself as overly specific and narrowly deterministic in nature, such that the demands were a poor use of management time and resources. The specific scenario put forward by the proponent is highly theoretical, hypothetical, and, in our view, unlikely to materialize as stated. Many of the assumed interventions in the plastic value chain have no basis in existing or proposed regulation. Even if all plastics bans currently under consideration came into effect, the estimated result would affect less than 2% of Dow's total sales based on 2022 revenue.

While we voted against this specific proposal, we continue to engage Dow management on this topic as part of our [Opportunity List](). Our ongoing research and engagement is focused on better understanding the evolving regulatory environment, determining which products may move in and out of the scope of single-use plastic regulation, and advocating for greater clarity on the associated capex and opex required to develop a more circular plastics business.

EXAMPLE 2: ENEL, DIVERSIFIED ITALIAN UTILITY

As long-term shareholders, one of the more important votes we cast for companies every year is for the individual directors that comprise the board of directors. The role of the board is to oversee the strategic decisions of the management team, ideally with long-term shareholder value creation in mind. This is why we voted for the slate of directors at Enel proposed by activist Covalis Capital. The slate proposed by Covalis would have meant a majority independent board and independent Chairman, which, in our view, would have best represented the interests of non-government shareholders who still own the majority of shares outstanding. The other options were the Italian government's slate (the government owns ~24% of shares outstanding) and a slate proposed by the Assogestioni, an association of Italian asset managers.

The backdrop to this vote was the decision earlier in the year, under pressure from the Italian government, to replace the former CEO, Francesco Starace. We were supportive of the business strategy pursued under Starace's leadership. Absent a credible reason for the government's loss of confidence in Starace, we generally view leadership transitions under such circumstances as potentially value destructive. The influence that the Italian government maintains over decision-making at Enel—without a controlling stake—provided further justification to back the slate of independent directors proposed by Covalis.

Unfortunately, the activists' slate received less than 10% of the vote, while the government slate received 49% and the association's slate received 43%, resulting in six government nominees and three association nominees being named to the nine-person board. Nevertheless, we will continue to engage the new management team to ensure that there is business continuity, particularly with respect to Enel's transition plan, which we have long viewed as industry-leading, and the prudent use of capital.

EXAMPLE 3: DUERR, GERMAN INDUSTRIAL EQUIPMENT AND ENGINEERING AND CONSTRUCTION COMPANY

Repricing any aspect of an executive compensation plan mid-cycle falls afoul of our philosophy on executive compensation. Such adjustments are typically made to insulate management from a negative event or further capitalize on a positive event. Either defeats the purpose of the fundamental pay-for-performance principle that should underscore all compensation packages. That is why we decided to vote against the pay package for the CEO of Duerr.

Duerr changed the short-term incentive (STI) target—100% EBIT margin based—in the CEO's pay package retrospectively to insulate the ultimate payout from negative events, specifically the ongoing China shutdown and Ukraine war. The change resulted in payouts above the target of 110%, equating to approximately EUR1M rather than the EUR600k that would have been paid out if the goalposts had not been moved.

We engaged with the company to express our dissatisfaction with this decision. We learned that the decision was taken by the board to reward the CEO for hard work done throughout the year, which, in the board's view, had been overshadowed by external business shocks out of the CEO's control. While we acknowledge that the management team is executing well, we could not, in good conscience, vote in favor of a compensation package that altered terms to reward management at the expense of long-term shareholders. Ultimately, the company did the right thing in other ways, specifically by not paying out the long-term incentive (LTI) because 3-year EBIT margin targets were missed, the total compensation was not out of line with the market, and the company updated 2023 compensation to include two additional helpful metrics—free cash flow in the STI and total shareholder return in the LTI. We will re-engage on this issue, if required, in the 2023 compensation cycle.

We will continue to use our vote, as needed, to establish our position on an issue and/or escalate concerns. We use our vote in combination with direct engagement, such that we communicate our position on controversial issues directly to the management teams of companies we own. As an important element of active ownership, we will never outsource proxy voting to a separate team or third party. Proxy voting has been and will remain a fundamental part of our ESG-integrated investment process.

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.

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).

© Pzena Investment Management, LLC, 2023. All rights reserved.