

Our integrated investment approach benefits from having sector analysts lead investment research, supported by our three-person ESG team. This combination strengthens our analysis of material investment issues.

INTRODUCTION

Our ESG-integrated investment approach means that the entire investment team is responsible for analyzing all material issues affecting the companies we invest in. We achieve this through a “best-of-both-worlds” structure. Our team of global sector analysts is responsible for undertaking bottom-up company research, supported by our three-person ESG team, advising on subjects that often cut across the companies and industries we invest in.

Our ESG team is an integrated part of our investment team and fulfills two core functions: research and reporting. What follows is an overview of these specific functions, and an explanation of why we think having a small subset of our investment team as ESG professionals enhances our integrated investment approach.

RESEARCH

Company Research

As value investors, we are used to looking at companies experiencing some kind of difficulty, which may or may not be related to sustainability. Our sector analysts are responsible for researching and analyzing all material issues for the companies under their coverage. As a component of an initial review, the sector analyst is expected to have identified the primary, company-specific key controversies, including any related to sustainability, if relevant. If we decide to take the company beyond the initial review to a final review, the ESG team is available to the sector analysts as a resource to help research these issues in more depth and/or breadth.

When analyzing a risk or opportunity that impacts a company’s sustainability, and that is therefore core to our investment thesis, the ESG team can help the sector analyst examine aspects of the issue in more depth and provide a perspective on how this issue has manifested in other companies or industries. In other cases, the ESG team can help the sector analyst

identify other sustainability issues where the impact may not be immediately clear. The ESG team’s role is to articulate how these issues might have the potential to become financially material over time, or under different potential scenarios. The sector analyst makes the final decision about materiality and whether to include it in the materials prepared for the final review.

Opportunity List

Companies on the Opportunity List are ones for which these issues are among the most financially material and where we believe engagement could have an impact. The ESG team supports the sector analysts, helping to identify potential candidates for the Opportunity List, as companies move through our research process; the team also proposes the related engagement objectives. These objectives are discussed in the final review and, if we choose to invest, the same group of decision-makers will convene every six months to determine whether the engagement objectives have been met or if we need to escalate our engagement and/or adjust our objectives.

Thematic Research

Thematic research is focused primarily on topical or emerging issues, as a complement to our bottom-up fundamental investment process. For example, the ESG team conducted topical research into best practices for assessing the credibility of a company’s Net Zero plans. This type of analysis is helpful to a variety of sector analysts covering companies in hard-to-abate sectors that may be pursuing decarbonization initiatives. Critically examining the credibility of transition plans helps the investment team focus engagement on material opportunities, dependencies, and/or challenges. Similarly, when the ESG team focuses on emerging sustainability issues, it helps the investment team think about where and how new risks and opportunities may emerge in the portfolio. Current priorities for emerging thematic research include biodiversity and climate adaptation. To ensure there is alignment with the priorities of the

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investment team and to avoid siloed thinking, the ESG Steering Committee (comprised of senior members of the investment team), helps prioritize focus areas for thematic research.

Proxy Voting Research

Recently, the ESG team has taken on a more formalized role in the proxy voting process. This includes reviewing all relevant materials (internal company notes and proxy policy, as well as company proxy filings, ISS reports, and other publicly available information) and sending a synthesized view of the key issues—including vote recommendations—to the sector analyst to enhance efficiency and help ensure consistency of thinking across the team. The sector analyst uses the analysis as an input to the final vote decision. If we decide it is necessary to engage with the company on a particular proxy issue, the ESG team helps to coordinate and research any additional issues that may arise.

REPORTING

Effective external communication to clients is a key part of our integrated research process. The ESG team leads our responses to various external reporting obligations, including the annual PRI and Japanese Stewardship Code submissions. We also publish an annual stewardship report to showcase the most significant engagements and proxy votes from the prior calendar year. Every two years, we also publish a Corporate Social Responsibility (CSR) report intended to explain what Pzena does as a firm to address sustainability issues, separate from our investment approach.

CONCLUSION

An integrated research approach means that sustainability issues are a fundamental part of our investment research. Consequently, our sector analysts research and analyze these issues, just as they would any material, operational, or financial issues. Importantly, having a few dedicated ESG professionals sitting within our investment team enhances our focus. They provide expert advice and context to our team of global industry analysts, while leaving the ultimate decision making with the analysts and portfolio managers who are closest to the companies we are invested in.

FURTHER INFORMATION

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