

# OUR APPROACH TO DEFENSE AS A VALUE MANAGER

PZENA Investment Management

June 2026

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Pzena Investment Management applies a classic value approach to investing. We approach defense-related investments the same way we consider any investment issue: through an integrated bottom-up assessment of the risk/reward trade-offs for the specific company and the path to earnings recovery. Company risks and opportunities are considered as part of our integrated research process and are factored into the decision of whether to invest, as well as position sizing. We also actively engage on material issues as part of ongoing research and portfolio monitoring. For the defense sector specifically, this includes the development, governance, and deployment of products and technologies, alongside human rights considerations.

Philosophically, we believe the defense industry plays an essential role in maintaining peace, national security, and stability, on which economies and societies depend. In many ways, it is a precondition for the freedoms and institutions that responsible investment is designed to protect. Defense and related industries are therefore part of our investable universe across all strategies, with controversial weapons (as defined below) excluded from our Article 8 UCITS funds and Australian Trusts, through our pre-trade compliance process.

For clients with specific values-based requirements, we accommodate custom screens at the mandate level, including exclusions related to defense, weapons, or dual-use activities.

## DUAL-USE ACTIVITIES

Dual-use activities are an increasingly complex aspect of defense-related investments. “Dual-use” refers to the blurred line between civilian and military uses of technology, materials, and services. The development of artificial intelligence, quantum computing, advanced materials, and similar technologies has made this line harder to draw. We research and analyze these activities in line with our general investment approach, case-by-case and bottom-up. For clients that wish to exclude certain dual-use activities, we work with them to define scope, in the absence of a clear industry standard.

## CONTROVERSIAL WEAPONS

Consistent with market convention, we exclude controversial weapons in several of our funds.

For our Article 8 UCITS funds, as classified under the EU Sustainable Finance Disclosure Regulation (SFDR), we exclude controversial weapons, as defined below. These exclusions seek to promote specific social values as part of the definition of an Article 8 fund, independent of our integrated research process. We define controversial weapons for this purpose as companies involved in the production of any of the following:

- i. Cluster munitions, components, and delivery platforms
- ii. Landmines (personnel and vehicle)
- iii. Biological and chemical weapons and components
- iv. Nuclear weapons (more than 2% of revenues from such activities)
- v. Depleted uranium weapons, ammunition, and armor

For our two Australian Trusts, we specifically exclude cluster munitions in accordance with local regulation. The Emerging Markets Fund in Australia also excludes additional weapons manufacturers, in line with the exclusions for our Article 8 UCITS funds, as described above.

## SANCTIONS

As a U.S. registered investment adviser, we comply with all applicable sanction laws. We also monitor sanctions lists where applicable. We use third-party screening software to screen all firm holdings for inclusion on international sanctions lists. If a portfolio company is added to a sanctions list that we monitor, we receive notification from our compliance systems and take appropriate action.

## CONCLUSION

We remain committed to our bottom-up fundamental research process, while accommodating client-specific exclusions. Defense-related companies remain part of our investable universe, and we evaluate each investment opportunity on its individual merits. We also apply specific defense-related exclusions to certain products to meet regulatory requirements and/or client objectives.

## FURTHER INFORMATION

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*All investments involve risk, including loss of principal. 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.*

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