Quarterly Report To Clients

INSIDE THIS ISSUE

TO OUR CLIENTS:

The first quarter's optimism in global equity markets again gave way to a return of fear and pessimism during the second quarter. Investors became re-obsessed with the continuing debt crisis in the Eurozone and on weakening economic data in the U.S. and China. For the third year in a row, the slow healing process coming out of the global financial crisis has led to enough uncertainty for investors to continue to seek the questionable safety of overpriced government bonds, high dividend-yielding and non-cyclical equities. While this doesn't make it easy to stay the course as value investors, it does make it ultimately very profitable to do so. The history of value cycles, as we have noted in the past, is to see great value opportunities created in those periods where economic visibility is the murkiest. The current economic environment is not nearly as frightening as in early 2009, yet the valuations of many cyclical businesses are approaching the levels reached back then. Cyclical industries, such as housing and mature technology businesses, are selling close to or at historically low valuations. Financials are selling at relative price-to-book valuations that put them in close proximity to where they were in March 2009. The timing of exactly how this will play out is still uncertain, but one thing is clear to us - significant value is created when investors' fears become so great that they are willing to "throw the baby out with the bath water" as investors seem to be doing today.

While performance this quarter was buffeted in a number of strategies due to this latest risk-off trading pattern, this afforded us the opportunity to add to our growing list of industry leaders at attractive valuations. Not surprisingly, Europe is now the cheapest region in our investment universe, where many industry leaders with global businesses have been disproportionately discounted due to their European domicile. We own a number of these businesses in our Global and non-U.S. portfolios, including Volkswagen, the world's second largest auto company. Volkswagen trades at a discount to its U.S. and Japanese peers despite its global footprint and leading manufacturing platform. We discuss the merits of Volkswagen in our highlighted holding section on page 14. Additionally this quarter, we established new positions in leading technology franchises including Google and Oracle, examples of high quality businesses with strong free cash flow yields trading at extraordinary valuations. Even assuming little change in their current financials, both these tech leaders are now in our cheapest quintile of stocks.

The fits-and-starts of the last few years have been extremely painful. Yet, as we discuss in our commentary, buying good businesses at low valuations has proven to be a winning strategy for the long-term investor. Accordingly, we continue to thoughtfully position our clients' portfolios in today's most attractively valued opportunities, and look forward to the day that markets ultimately recognize the true value of these leading businesses. ■

SECOND QUARTER 2012 VALUATION SUMMARY

	Portfolio P/N*	Universe P/N**
U.S. Large Cap Value	6.3x	11.6x
U.S. Value	6.4x	12.3x
U.S. Mid Cap Value	7.6x	12.5x
U.S. Small Cap Value	7.6x	12.6x
Global Value	6.1x	10.7x
International (ex-US) Value	6.2x	10.3x
European Value	5.7x	9.3x
Emerging Markets Value	6.3x	11.2x

*Price-to-Normalized Earnings ratio. **Reflects the investment universe price-to-normalized earnings ratio for the related strategy.

Pzena Commentary

Buying good businesses at low valuations has long been an advantage enjoyed by the long-term investor. We continue to take advantage of today's most attractively valued opportunities, and look forward to the market's recognition of the true value of these leading franchises.

Stay Focused on the Opportunity

Over the course of 16+ years of value investing, our firm's focus has always been on buying deeply undervalued securities in order to produce superior long-term investment returns for our clients. We have faced many challenging environments; the dot-com bubble, currency crises, financial crises, and recessions. Each period has presented its own unique set of issues, but the common denominator across these time periods is that in each, powerful consensus views drive wide valuation discrepancies. Today, the environment is dominated by the fear of a potential Eurozone meltdown and a weakening global economy. That has created a bubble in "safe" assets – U.S. government bonds, high dividend-paying stocks, and stable earners.

Although we are not insensitive to the outcome of macro events, we have learned that the valuation discounts created by these fears and uncertainties can offer significant rewards for the patient investor. Low valuation is the opportunity, but the key to successful value investing is understanding the business. Our focus, therefore, remains on identifying and owning ***good*** businesses, where we understand the reasons for undervaluation and where the long-term earnings power of the franchise is sustainable. We also look to protect against permanent impairment of capital by avoiding companies where financial risk (leverage in particular) can trump the equity holder's stake in the business. In light of today's heightened worries, we thought it useful to reinforce our investment process, including the lessons we have learned over the years to protect against permanent impairments. In this context, we review the current opportunities in our portfolios, including a range of global and regional industry leaders with high free cash flow yields and strong balance sheets that have been overlooked due to macro fears.

Methodically Identify Value

Companies may be undervalued for several reasons, including:

- The company itself has disappointed or undergone a stressful experience or mishap,
- The industry or geography the company operates in is cyclically depressed, or
- Investors fear the company's future may be vulnerable to structural change.

As is often the case, we are investing in companies where markets have developed a profoundly negative view that will take time to dispel. This is how we get to buy them cheaply. But because market valuations are partially driven by sentiment, negative perceptions can exist for extended periods, just as euphoria can lead to long phases of excessive valuation. Our objective is to identify the opportunities that flow from negative perceptions and position the portfolio to benefit as normal earnings power is realized, perceptions change, and the company is afforded a higher valuation.

Guard Against Permanent Impairment

We understand that we can't guarantee companies won't be impacted by near-term shocks, but we target those businesses that we believe can adapt and adjust to the environment, thereby protecting our downside. History supports this approach, as companies have had a consistent record of restoring returns in the face of a wide range of macro environments. Thus, a key element in our investment process is to guard against permanent impairment of capital, particularly during periods of near-term stress, so as to afford a company time to retool and recover.

We would contrast our approach with one of simple aversion to stock price volatility. Volatility has always been useful to the value investor: it creates the valuation opportunity. In fact, it is one of the reasons why the cheapest quintile of stocks has produced excess returns over the long-term – the "value advantage." The real challenge is to exploit volatility while also guarding against the permanent impairment of capital.

In 2010, we conducted a study which explored the impact of volatility on a deep value portfolio. One of our observations was that moderate volatility is good for the value investor. Extreme volatility, however, can actually detract from performance, as it may signal impending failure, either from excess leverage, or as a precursor to management actions that ultimately destroy value. Over the years, we have generally avoided high levels of leverage due to the increased risk of bankruptcy it introduced. Our study re-emphasized the need to be cautious about leverage, and provided another metric – extreme volatility – as a tool to improve downside protection and potentially enhance performance.

Based on this finding, our research reviews include a volatility profile for each company's trailing 12 month share price. We take this metric into consideration explicitly in our investment process, for both whether to invest and, if so, in establishing the

position size. The tangible result is that our portfolios today generally have less than 10% of their weight in the most highly volatile stocks in their universe. We view this as an enhancement to our investment approach which should improve our ability to exploit the long-term value advantage for our clients.

Today's Opportunities

Our bottom-up research process continues to identify deeply undervalued securities on a global basis, with some pronounced themes across geographies and sectors.

Europe is Cheapest

As the table below captures, equity markets are reflecting large perceived differences in economic risk by region. Geographies perceived to have the least stress are priced accordingly. Europe trades at a very significant discount to other markets, reflecting the sovereign debt crisis and fears about European financial institutions.

Market / Region - Pzena Investment Universe	Universe Median Price-to-Normalized Earnings Ratio
US – Small Cap	12.6x
US – Mid Cap	12.5x
US – Large Cap	11.6x
Emerging Markets	11.2x
Global	10.7x
International (ex-US)	10.3x
Europe	9.3x

Given these valuations, it is not surprising that in our Global and International Value portfolios we have significant exposure to European companies. It is important to note that this is not a contrarian view that European economic activity will prove more robust than the markets fear. Our European holdings, in large part, comprise companies that have a global footprint and are not solely exposed to activity in the European region. Their low relative valuations illustrate how broad macro fears create exploitable opportunities at the company level. Our holdings of this nature include names like Volkswagen (see page 14), Philips Electronics, Akzo Nobel, Cap Gemini, Royal Dutch Shell, BP and Total. Consider two examples. In the integrated oil sector, Shell trades today at 6x our estimate of normalized earnings, about half of our estimate of fair value. By comparison, Exxon Mobil, with a similar business mix, return on capital, and free cash flow profile, which we also view as undervalued, trades at 8x. In the coatings industry, Akzo Nobel trades at 7.3x our estimate of normalized earnings, while U.S. company PPG Industries trades at 9.1x. Both have international business, with Akzo developing a strong franchise in China.

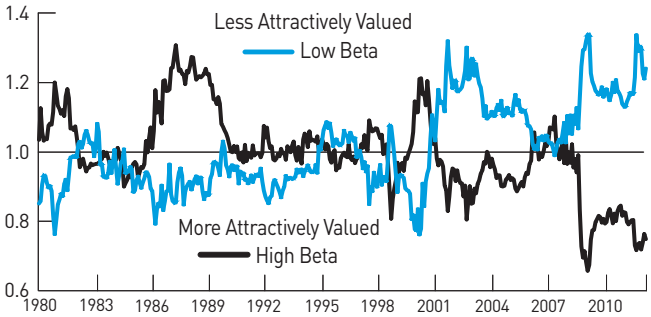
We recognize that Europe may record anemic growth as it tackles its debt issues. However, we see a European discount already built into valuations although companies we own are financially sound and have interests beyond Europe itself. Of course, the fear of economic slowdown extends beyond Europe with concerns about contagion. Around one-fifth of China's exports currently go to Europe. A slowdown in European demand would impact China, which is already showing signs of softer growth. Investors also fear that U.S. growth will slow and that we may see a synchronized global slowdown. We profess no edge in predicting macro events, but we do think carefully about scenarios that might affect the companies in which we invest. Typically, we find the type of consensus macro expectations we have laid out above (i.e., conventional wisdom) are already priced into markets and individual company valuations. And in today's environment of increasing skepticism over global growth, we see opportunities emerging in industries where earnings estimates are declining and valuations are starting to react accordingly.

Valuations in the U.S. small cap universe reflect an asset class which is viewed as less exposed to European stresses. We continue to identify what we consider to be some excellent unique small cap opportunities. On page 9 we highlight Actuant Corp., a global leader in hydraulic tools and lifting solutions, which has been discounted in part due to its European operations.

High Beta Is Value

Looking at the various sectors of the markets, we find that premiums are being paid for earnings certainty. Valuations in sectors like health care, consumer staples, utilities – the lower beta sectors - are at significant premiums to the higher beta sectors where fear is most acute (Figure 1).

Figure 1: Extreme Opportunity for High Beta Stocks
Relative Price-to-Book for High Beta vs Low Beta Stocks



Source: FactSet, Sanford C. Bernstein & Co., Pzena Analysis
Note: Data through June 30, 2012; Universe is MSCI Developed World

Pzena Commentary (cont.)

With the macro-driven risk-on/risk-off trade such a constant over the last two years, investors seem to be overlooking the value of good businesses that happen to be cyclical in nature, creating opportunity. Although consensus global GDP forecasts remain in the 2% to 3% range, markets are skeptical and seem to be pricing in something more pessimistic. Managements have been cautious, taking a wait-and-see approach to hiring, investing and making acquisitions until the prospects for sustained growth become much more visible. This has helped sustain corporate margins and cash flows at historically high levels.

Technology and defense are sectors where top down concerns and fears of structural change have generated some outstanding opportunities. These are high quality companies with very strong free cash flow profiles and flexible business models. Investors are not rewarding the strong cash flow these businesses are generating, driving cash flow yields to near peak levels. In fact, the free cash flow yield of the non-financial holdings in our portfolios is 10% in our U.S. Large Cap Value strategy, and 7% in our Global Value strategy.

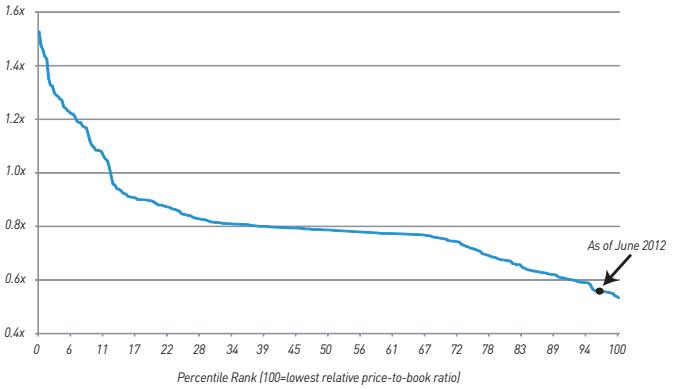
Below Trend Earnings Create Value

Two areas of the market stand out where earnings are well below trend. The first is housing, where building materials companies trade at modest valuations as investors extrapolate the currently low level of housing construction and renovation activity into the future. In our view, current activity levels are unsustainably low and will recover dramatically at some point. Meanwhile, there are many well managed companies generating solid operating results amid the difficult environment. Examples include Travis Perkins in the U.K.; Akzo Nobel in Europe; and Masco Corp., Fortune Brands Home and Security, and Owens Corning in the U.S.

The other area where earnings are significantly below trend is financials, a sector that is trading at historically low relative multiples on a price-to-book value basis (Figure 2). Practically all of our financial holdings trade at substantial discounts to book value, and are among the cheapest companies in our investment universes on a price-to-normalized earnings basis. Our portfolios contain broad financial sector exposure including insurance companies (life, property casualty and reinsurance), wealth management franchises, exchanges and processors, regional U.S. banks, and global money center banks, all of which have very different risk profiles. Within this broad group, credit-sensitive banks, which operate globally, are the cheapest names in our investment universes despite equity levels being among the highest in history and improving earnings.

We acknowledge that the current economic and financial climate continues to represent a risky backdrop for banks. In

Figure 2: Developed Markets: Financials Stocks Relative Price-to-Book Ratio Near Historic Lows* 1987 Through Early July 2012



*Largest 1,600 Developed Market Stocks; Capitalization-weighted data
Source: Empirical Research Partners Analysis, Pzena Analysis

Europe, in particular, credit ratings downgrades are almost daily occurrences and the state of the Greek banks and other institutions with banking activities in southern Europe is clearly of great concern. The lesson learned in the global financial crisis was that stress testing of banks' earnings will not protect the downside if there is a complete loss of confidence that forces a bank to raise dilutive capital in extreme circumstances. This idiosyncratic risk means that it is appropriate to have relatively modest exposure to individual names and a diversity of positions to mitigate risk. Picking outcomes in southern Europe is dubious, so we do not own banks listed in Greece, Spain or Italy. We have very limited and carefully sized exposure to European banks, and our holdings in U.S. and U.K. credit-sensitive names are individually modest across our portfolios. These leading franchises are trading at between 2x and 3.5x what we estimate they are capable of earning in normal conditions, which makes them compelling value and attests to the very gloomy scenario that has been priced into their valuations by the market today.

Portfolios Reflect Deep Undervaluation

Often, when economies go into recession it is after a period of boom conditions, when companies have been thriving and managements are taking more risks. Today, in developed markets, this is not the case. GDP is still below trend and companies have been very cautious, limiting capacity-extending capital expenditures, paring cost structures and generally cleaning up their balance sheets. Most are entering this period of economic uncertainty with very strong financial credentials.

Only hindsight will allow us to make a pronouncement on the ultimate length and magnitude of the current value cycle. But one thing is clear: as a result of investor uncertainties, we have

been left with a wealth of deeply discounted, cyclical businesses with sustainable franchises, strong balance sheets, and a demonstrated ability to adapt to a wide range of economic scenarios. Many of these businesses have global footprints, are industry leaders, and have demonstrated their ability to restore profitability quickly after an economic shock.

Stay the Course

Rather than succumb to the fear that is driving undervaluation, a true value manager gets excited when value opportunities abound. Today, many of our developed markets portfolios are among the cheapest in our firm's history. However, one characteristic of value investing – especially when investing before the catalyst for share price improvement is apparent - is that it requires time for improvement to be recognized and rewarded in share prices.

We believe we continue to be in the early stages of a value cycle, a cycle which is testing the pain threshold of even the most hardened, long-term investors. We remain true to our beliefs. Our conviction is supported by past experience and the rewards that eventually follow such periods of pain. Timing is impossible to predict, of course. All we can do is thoughtfully position our clients' portfolios in today's deepest value opportunities, having carefully assessed the range of potential outcomes for each company we own, and sized the positions accordingly. Underpaying for quality franchises is a long-term investor's true ally. The sign on our head trader's desk says it all: "Patience equals Profits." ■

A Note On Emerging Markets

To some degree, we feel we are in a different phase of the value cycle in emerging markets, where we have not witnessed the same stress factors that have brought such a broad range of deep value opportunities in developed markets. As a result, far fewer companies in emerging markets are under-earning their own history. We have likewise found few valuation opportunities in the emerging markets "domestic consumption" space, as investors have been paying up for exposure to this theme, particularly in China. That being said, there are opportunities.

The technology sector is one where we are finding many attractive, undervalued companies. Additionally, fear of weaker foreign demand has created opportunity in a number of manufacturers in China that have significant export businesses but also have exposure to domestic demand, namely shoe manufacturer Stella International and textile and clothes producer Texwinca Holdings (see page 13). Stella International started life in Taiwan as a dedicated, low-end shoe manufacturer for Wal-Mart and Kmart. Today it is the largest non-athletic footwear manufacturer globally with an estimated 10.5% market share. Its revenues have risen two-and–a-half times in the past seven years. Stella manufactures brands ranging from casual footwear (Clarks, Deckers, Rockport, Timberland, etc.), through fashion (Cole Haan, Nine West, etc.) to high end (Burberry, Prada, Hugo Boss, etc.). They maintain retail outlets in China (just 5% of revenues) but today the shares trade at less than 9x our estimate of normalized earnings on quite conservative assumptions about future growth and operating margins.

Concern about a recession-inspired contraction in world trade has created opportunities in the shipping sphere with fleet owner Pacific Basin (at under 5x our estimate of normalized earnings) and shipbuilder Hyundai Mipo (6x) both held in our Emerging Markets portfolios. Additional opportunities may emerge in economically sensitive sectors as valuations adjust to lower expectations for global growth. ■

Pzena Large Cap Value

Performance Summary

	2Q 2012	YTD 2012	Annualized as of June 30, 2012 One Year	Three Year	Five Year	Ten Year	Since Inception 10/1/00
Large Cap - Gross	-6.7%	6.9%	-4.7%	14.3%	-5.6%	4.6%	4.2%
Large Cap - Net	-6.8%	6.7%	-5.1%	13.8%	-6.1%	4.1%	3.7%
Russell 1000® Value	-2.2%	8.7%	3.0%	15.8%	-2.2%	5.3%	3.8%

All returns through June 30, 2012; see Performance/Portfolio notes on page 17

Top 10 Holdings (Representative Portfolio - See Portfolio Notes on page 17)

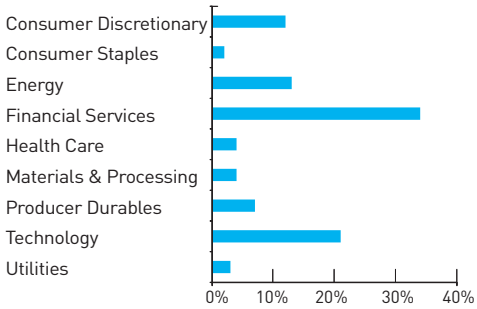
Royal Dutch Shell plc	4.7%
Hewlett-Packard Co.	4.5%
Staples Inc.	4.5%
BP plc	4.2%
Oracle Corp.	4.2%
Northrop Grumman Corp.	4.0%
Allstate Corp.	3.9%
TE Connectivity Ltd.	3.3%
L-3 Communications	3.2%
Axis Capital Holdings Ltd.	3.1%

Portfolio Characteristics

	Pzena Large Cap Value	Russell 1000® Value
Price to Normal Earnings	6.3x	11.6x*
Price / Earnings (1-Year Forecast)	9.4x	11.6x
Price / Book	1.2x	1.4x
Median Market Cap ($B)	$18.0	$4.7
Weighted Average Market Cap ($B)	$62.5	$85.6
Correlation (to Russell 1000® Value)	0.97	1.0
Standard Deviation (5-Year)	26.0%	20.4%
Number of Stocks (model portfolio)	36	690

Source: Russell 1000® Value, Pzena Analysis *Large Cap Universe Median

Sector Weights



* Pzena Large Cap Value Composite. Sector weights adjusted for cash - may appear higher than actual

Quarterly Portfolio Notes

We added Oracle and Google, two leading technology companies, to the portfolio as fears of cloud and mobile computing, respectively, have caused valuation multiples to compress. In energy, we initiated a position in Baker Hughes (page 7). These purchases were funded by sales which benefited from the flight to stability such as CA Technologies (software infrastructure), Fidelity National (title insurer benefitting from low mortgage rate driven refinancing), Abbott (health care), and Exxon Mobil (high quality, stable, energy producer).

Quarterly Performance Drivers

CONTRIBUTORS: Allstate Corp., PPG Industries Inc., Oracle Corp.
DETRACTORS: Staples Inc., Hewlett-Packard Co., Dell Inc.

Notable Portfolio Actions

PURCHASES/ADDITIONS: Oracle Corp., Becton Dickinson & Co., Google Inc.
SALES/TRIMS: PPG Industries, CA Technologies Inc., Fidelity National Financial Inc.

Highlighted Holding

Oracle is a leading enterprise software company whose earnings multiple has come under pressure, as market participants fear the impact of cloud computing. Oracle's software products, however, are well entrenched in the enterprise with a leading share in database and a strong #2 position in middleware (i.e., enterprise resource planning), with over 60% of software revenue derived from supporting or upgrading the current client base. Oracle's customer base is mostly made up of large global companies which we expect to move to the public cloud most cautiously. Moreover, the company has a cloud offering which, when it reaches scale, should be roughly as profitable as its current business. The company is well managed with industry leading margins and a history of strong free cash flow which it has successfully deployed in a combination of share repurchase and accretive acquisitions. Based on our research, Oracle trades at 7.8x our estimate of normalized earnings. ■

Pzena Value

Performance Summary

	2Q 2012	YTD 2012	Annualized as of June 30, 2012 One Year	Three Year	Five Year	Ten Year	Since Inception 1/1/96
Value - Gross	**-6.2%**	**8.0%**	**-2.1%**	**16.2%**	**-5.0%**	**5.5%**	**9.5%**
Value - Net	**-6.4%**	**7.7%**	**-2.8%**	**15.4%**	**-5.6%**	**4.7%**	**8.7%**
Russell 1000® Value	-2.2%	8.7%	3.0%	15.8%	-2.2%	5.3%	7.5%

All returns through June 30, 2012; see Performance/Portfolio notes on page 17

Top 10 Holdings (Representative Portfolio - See Portfolio Notes on page 17)

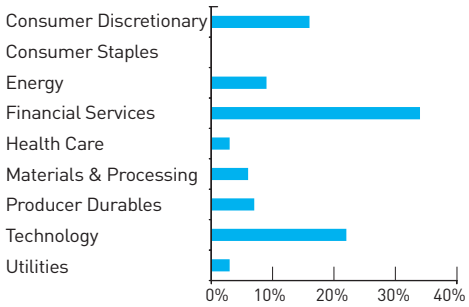
Staples Inc.	4.5%
Hewlett-Packard Co.	4.5%
Exxon Mobil Corp.	4.4%
Oracle Corp.	3.7%
Northrop Grumman Corp.	3.4%
Avnet Inc.	3.2%
Hospitality Properties Trust	3.1%
Royal Dutch Shell plc	3.0%
BP plc	3.0%
Allstate Corp.	3.0%

Portfolio Characteristics

	Pzena Value	Russell 1000® Value
Price to Normal Earnings	6.4x	12.3x*
Price / Earnings (1-Year Forecast)	9.9x	11.6x
Price / Book	1.2x	1.4x
Median Market Cap ($B)	$16.1	$4.7
Weighted Average Market Cap ($B)	$60.4	$85.6
Correlation (to Russell 1000® Value)	0.97	1.0
Standard Deviation (5-Year)	26.0%	20.4%
Number of Stocks (model portfolio)	39	690

Source: Russell 1000® Value, Pzena Analysis *Value Universe Median

Sector Weights



Sector	Pzena Value*	Russell 1000® Value
Consumer Discretionary	16%	8%
Consumer Staples	0%	7%
Energy	9%	16%
Financial Services	34%	27%
Health Care	3%	12%
Materials & Processing	6%	4%
Producer Durables	7%	9%
Technology	22%	6%
Utilities	3%	11%

* Pzena Value Composite. Sector weights adjusted for cash - may appear higher than actual

Quarterly Portfolio Notes

While our sector exposures have not materially changed over the last few quarters, we have made some shifts intra-sector. In technology, we sold CA and trimmed Ingram Micro and bought Google and Oracle, two industry leaders impacted by concerns over "all things Apple or Cloud." In energy we trimmed Exxon Mobil and bought Baker Hughes, described below. The risk-on, risk-off trade continues to buffet performance, yet has created significant investment opportunities.

Quarterly Performance Drivers

CONTRIBUTORS: PPG Industries Inc, Allstate Corp., Oracle Corp.
DETRACTORS: Staples Inc., Hewlett-Packard Co., Citigroup Inc.

Notable Portfolio Actions

PURCHASES/ADDITIONS: Oracle Corp, PartnerRe Ltd., Google Inc., Apollo Group Inc., Dell Inc., Staples Inc., MetLife Inc.
SALES/TRIMS: RenaissanceRe Holdings Ltd., Molson Coors Brewing Co., CA Inc., Jarden Corp., Ingram Micro Inc., Allstate Corp.

Highlighted Holding

Baker Hughes, the world's third largest energy services company, provides a broad line of products for drilling, evaluation, completion and production of oil and natural gas wells. The stock has fallen by almost half as the market fears a slump in activity due to a natural gas glut. While the near-term outlook is murky, the long-term secular trend continues to be good for services demand, as the industry is forced to continue to drill more complex, deeper wells that are under higher pressures and temperatures. We also believe Baker Hughes has unique upside, as it has been under-managed. We expect it to benefit, as it continues to integrate its acquisition of BJS services (pressure pumping) and the company optimizes its free cash flow by reducing its operating capital, which is running at levels above its competitors. We conservatively estimate that Baker Hughes is trading at 7.3x our estimate of normalized earnings. ■

Pzena Mid Cap Value

Performance Summary

	2Q 2012	YTD 2012	Annualized as of June 30, 2012 One Year	Three Year	Five Year	Ten Year	Since Inception 9/1/98
Mid Cap Value - Gross	-3.5%	10.2%	7.9%	23.9%	1.1%	8.8%	11.9%
Mid Cap Value - Net	-3.7%	9.8%	7.1%	23.0%	0.3%	8.0%	11.1%
Russell Midcap® Value	-3.3%	7.8%	-0.4%	19.9%	-0.1%	8.2%	9.0%

All returns through June 30, 2012; see Performance/Portfolio notes on page 17

Top 10 Holdings (Representative Portfolio - See Portfolio Notes on page 17)

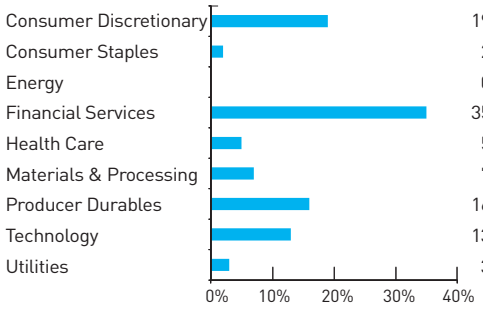
Staples Inc.	4.4%
Avnet Inc.	4.4%
L-3 Communications	4.2%
Invesco Ltd.	4.2%
Hospitality Properties Trust	3.6%
Omnicom Group	3.6%
Allstate Corp.	3.4%
Primerica Inc.	3.2%
TE Connectivity Ltd.	3.2%
Becton Dickinson & Co.	3.1%

Portfolio Characteristics

	Pzena Mid Cap Value	Russell Midcap® Value
Price to Normal Earnings	7.6x	12.5x*
Price / Earnings (1-Year Forecast)	11.0x	12.8x
Price / Book	1.3x	1.4x
Median Market Cap ($B)	$4.8	$3.8
Weighted Average Market Cap ($B)	$6.9	$7.7
Correlation (to Russell Midcap® Value)	0.97	1.0
Standard Deviation (5-Year)	27.2%	23.5%
Number of Stocks (model portfolio)	38	560

Source: Russell Midcap® Value, Pzena Analysis *Midcap Universe Median

Sector Weights



Sector	Pzena Mid Cap Value*	Russell Mid Cap® Value
Consumer Discretionary	19%	9%
Consumer Staples	2%	5%
Energy	0%	9%
Financial Services	35%	31%
Health Care	5%	7%
Materials & Processing	7%	6%
Producer Durables	16%	11%
Technology	13%	9%
Utilities	3%	13%

* Pzena Mid Cap Value Composite. Sector weights adjusted for cash - may appear higher than actual

Quarterly Portfolio Notes

We have maintained our exposures in materials and producer durable stocks, sectors that contributed positively to our quarterly performance. Technology continues to be attractively valued but struggled in the quarter as macroeconomic worries weighed on the sector. Overall, there was not a significant shift among sectors as we continued our higher exposure in consumer discretionary, technology and materials and lower exposure to utilities and energy while initiating our first position in health care since mid-2011.

Quarterly Performance Drivers

CONTRIBUTORS: PPG Industries Inc., Allstate Corp., Primerica Inc.
DETRACTORS: Staples Inc., Avnet Inc., Owens Corning

Notable Portfolio Actions

PURCHASES/ADDITIONS: DeVry Inc., URS Corp., Manpower Inc., Willis Group Hold, Laboratory Corp., Invesco Ltd.
SALES/TRIMS: Granite Real Estate, Sherwin Williams Co., Fortune Brands, Con-Way Inc., Jarden Corp., Entergy Corp.

Highlighted Holding

Invesco is a diversified global asset management firm with $650 billion of assets under management. Invesco offers investment products covering a wide range of asset classes, investment style and geography. During the first half of last decade, the firm struggled with a poor investment track record and a series of trading scandals. Since 2005, under the guidance of a new senior leadership team, the firm has focused on integrating a diverse group of independently managed firms and introduced consistent risk management and compensation structure across its business. The firm trades at 13.6x current earnings and 6.0x our estimate of normalized earnings. With opportunity for significant operating leverage through cost reduction and further integration, our estimate could prove conservative. In addition, strong free cash flow, low capital intensity and a balance sheet with minimal net debt provides excellent downside protection if the global macroeconomic environment deteriorates. ■

Pzena Small Cap Value

Performance Summary

	2Q 2012	YTD 2012	Annualized as of June 30, 2012 One Year	Three Year	Five Year	Ten Year	Since Inception 1/1/96
Small Cap Value - Gross	-2.0%	12.2%	5.3%	23.5%	1.7%	9.1%	13.3%
Small Cap Value - Net	-2.2%	11.6%	4.2%	22.3%	0.7%	8.0%	12.0%
Russell 2000® Value	-3.0%	8.2%	-1.4%	17.4%	-1.1%	6.5%	9.0%

All returns through June 30, 2012; see Performance/Portfolio notes on page 17

Top 10 Holdings (Representative Portfolio - See Portfolio Notes on page 17)

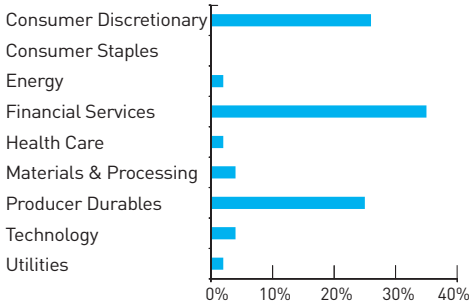
Valassis Communications Inc.	3.7%
Harte-Hanks Inc.	3.6%
Brady Corp.	3.4%
Huntington Ingalls Industries	3.2%
Primerica Inc.	3.1%
PHH Corp.	3.0%
Actuant Corp.	3.0%
Fortune Brands Home & Security	3.0%
Jones Group Inc.	2.9%
Argo Group International	2.8%

Portfolio Characteristics

	Pzena Small Cap Value	Russell 2000® Value
Price to Normal Earnings	7.6x	12.6x*
Price / Earnings (1-Year Forecast)	12.4x	13.4x
Price / Book	1.1x	1.2x
Median Market Cap ($B)	$1.1	$0.4
Weighted Average Market Cap ($B)	$1.4	$1.0
Correlation (to Russell 2000® Value)	0.96	1.0
Standard Deviation (5-Year)	29.6%	25.2%
Number of Stocks (model portfolio)	44	1419

Source: Russell 2000® Value, Pzena Analysis *Small Cap Universe Median

Sector Weights



Sector	Pzena Small Cap Value*	Russell 2000® Value
Consumer Discretionary	26%	12%
Consumer Staples	0%	2%
Energy	2%	6%
Financial Services	35%	36%
Health Care	2%	5%
Materials & Processing	4%	7%
Producer Durables	25%	13%
Technology	4%	11%
Utilities	2%	8%

* Pzena Small Cap Value Composite. Sector weights adjusted for cash - may appear higher than actual

Quarterly Portfolio Notes

We continue to find opportunities in industrial distribution, technology value added resellers and staffing companies. Our sector exposure has changed marginally with technology and utilities down slightly with the sale of Tech Data and Portland General. Proceeds were invested in the producer durables sector with Enersys (lead acid batteries) and Actuant (hydraulic tools). Skechers was the largest contributor to performance, up 60%, which somewhat offset weakness in our cyclical stocks.

Quarterly Performance Drivers

CONTRIBUTORS: Skechers USA Inc., Interline Brands Inc., Con-Way Inc.
DETRACTORS: Jones Group Inc, Diodes Inc., Griffon Corp

Notable Portfolio Actions

PURCHASES/ADDITIONS: DeVry Inc., Insight Enterprises Inc., Actuant Corp., Aspen Insurance Holdings Ltd., Brady Corp.
SALES/TRIMS: Interline Brands Inc., PNM Resources Inc., Tech Data Corp., Aeropostale Inc., Con-Way Inc.

Highlighted Holding

Although most U.S. small cap companies have limited international exposure, we recently purchased two companies with larger European operations than their peers where we believe that the market has over-reacted. Actuant Corp., one of these investments, is a diversified industrial company with exposure to numerous geographic and vertical end markets. The core franchise, Enerpac, is a global leader in high force hydraulic tools with revenue three times its nearest competitor. 35% of Actuant's revenues are classified as European which has depressed share prices. In reality, only about half of those sales are consumed within Europe: one third of those sales are for export to the Middle East, and about 20% of sales are to the global oil and gas industry. With a free cash flow yield of around 10%, this high quality franchise trades at just 8x our estimate of its normalized earnings power. ■

Pzena Global Value

Performance Summary

	2Q 2012	YTD 2012	Annualized as of June 30, 2012 One Year	Three Year	Five Year	Since Inception 1/1/04
Global Value - Gross	-9.3%	5.1%	-13.4%	9.5%	-8.7%	1.4%
Global Value - Net	-9.4%	4.8%	-13.9%	8.8%	-9.4%	0.7%
MSCI World® Index	-5.1%	5.9%	-5.0%	11.0%	-3.0%	4.2%

All returns through June 30, 2012; see Performance/Portfolio notes on page 17

Top 10 Holdings (Representative Portfolio - See Portfolio Notes on page 17)

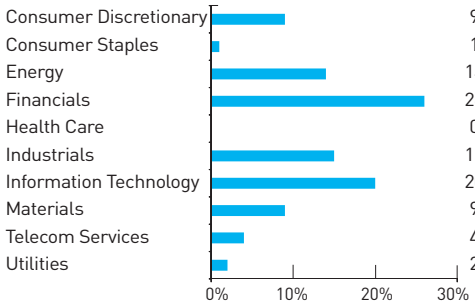
Hewlett-Packard Co.	4.0%
BAE Systems plc	3.6%
Staples Inc.	3.5%
Travis Perkins plc	3.4%
Deutsche Boerse AG	3.2%
Northrop Grumman Corp.	3.1%
BP plc	3.1%
Total SA	3.0%
Cap Gemini	3.0%
Akzo Nobel	2.7%

Portfolio Characteristics

	Pzena Global Value	MSCI World® Index
Price to Normal Earnings	6.1x	10.7x*
Price / Earnings (1-Year Forecast)	8.4x	12.0x
Price / Book	1.0x	1.7x
Median Market Cap ($B)	$25.3	$8.0
Weighted Average Market Cap ($B)	$55.1	$78.3
Correlation (to MSCI World® Index)	0.95	1.0
Standard Deviation (5-Year)	27.7%	20.9%
Number of Stocks (model portfolio)	43	1626

Source: MSCI World® Index, Pzena Analysis *Global Universe Median

Sector Weights

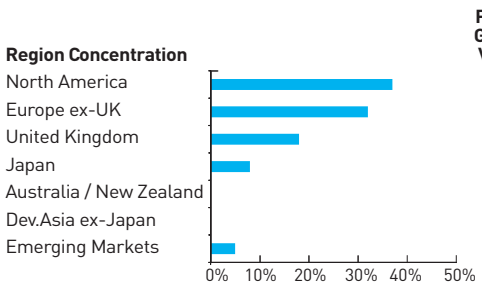


* Pzena Global Value Composite. Sector weights adjusted for cash - may appear higher than actual

Quarterly Portfolio Notes

Performance was impacted by significant exposure to sectors where the change in sentiment has been particularly tough on share prices. Continued investor focus on near-term earnings has created good valuation opportunities in companies where the franchise and balance sheets are sound and valuations discount significant downside. During the quarter, we added to our exposure in technology, energy, and consumer discretionary stocks.

Region Concentration



Country weights adjusted for cash - may appear higher than actual

Quarterly Performance Drivers

CONTRIBUTORS: PPG Industries, Allstate Corp., Northrop Grumman Corp., American International Group Inc.
DETRACTORS: Hewlett-Packard Co., Staples Inc., Akzo Nobel N.V., Barclays plc

Notable Portfolio Actions

PURCHASES/ADDITIONS: Oracle Corp., Google Inc., KDDI Corp., Wells Fargo & Co., Staples Inc., Deutsche Boerse AG, Total S.A.
SALES/TRIMS: Abbott Laboratories, Molson Coors Brewing, CA Inc., Microsoft Corp., Omnicom Group, Avon Products Inc.

Highlighted Holding

Google Inc. is the leading provider of digital advertising services globally and has been very successful in monetizing its technology and consumer knowledge in both PC-based and mobile searches. As digital continues to gain share of advertising dollars, we think Google is well positioned to deliver double-digit revenue and profit growth. The threats from potential consumer behavior changes and share gain by social networking sites and Apple do exist. However, with Google shares trading at over 8% free cash flow yield with free cash flow growing at high teens rate, the market is already discounting a slowdown in growth. We find Google an attractive opportunity in a leading global franchise trading at 6.8x our estimate of normalized earnings. ■

Pzena International (ex-US) Value

Performance Summary

	2Q 2012	YTD 2012	Annualized as of June 30, 2012 One Year	Three Year	Five Year	Since Inception 1/1/04
International Value - Gross	-11.0%	3.2%	-15.7%	9.2%	-6.1%	3.5%
International Value - Net	-11.2%	2.8%	-16.4%	8.2%	-7.0%	2.6%
MSCI EAFE® Index	-7.1%	3.0%	-13.8%	6.0%	-6.1%	4.0%

All returns through June 30, 2012; see Performance/Portfolio notes on page 17

Top 10 Holdings (Representative Portfolio - See Portfolio Notes on page 17)

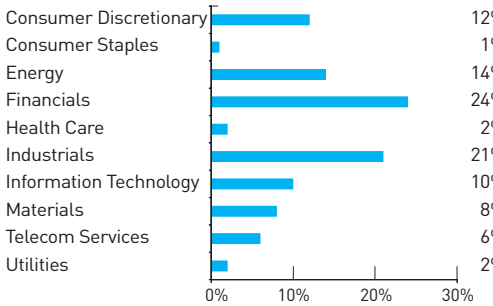
Travis Perkins plc	4.2%
Capgemini	4.0%
BAE Systems plc	4.0%
Azko Nobel	3.4%
Philips Electronics NV	3.3%
Royal Dutch Shell plc	3.2%
DCC plc	3.1%
Deutsche Boerse AG	3.1%
Gazprom OAO	3.0%
Total SA	3.0%

Portfolio Characteristics

	Pzena International Value	MSCI EAFE® Index
Price to Normal Earnings	6.2x	10.3x*
Price / Earnings (1-Year Forecast)	8.4x	10.8x
Price / Book	0.9x	1.3x
Median Market Cap ($B)	$14.6	$6.4
Weighted Average Market Cap ($B)	$37.3	$49.5
Correlation (to MSCI EAFE® Index)	0.94	1.0
Standard Deviation (5-Year)	28.7%	23.2%
Number of Stocks (model portfolio)	43	919

Source: MSCI EAFE® Index, Pzena Analysis *EAFE Universe Median

Sector Weights



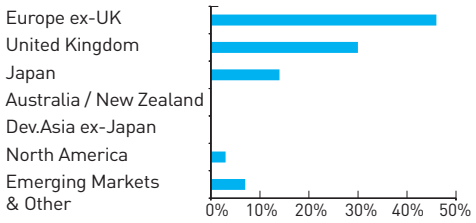
Sector	Pzena International Value*	MSCI EAFE® Index
Consumer Discretionary	12%	11%
Consumer Staples	1%	12%
Energy	14%	8%
Financials	24%	23%
Health Care	2%	10%
Industrials	21%	12%
Information Technology	10%	4%
Materials	8%	10%
Telecom Services	6%	6%
Utilities	2%	4%

* Pzena International Value Composite. Sector weights adjusted for cash - may appear higher than actual

Quarterly Portfolio Notes

The market focus on near-term earnings impacted cyclical sectors over fears of a synchronized global recession. While we fully appreciate the degree of uncertainty in the market place today, we believe our holdings represent significant opportunity. We added to our exposure in areas such as energy and consumer cyclicals in the quarter and reduced our exposure to the highly-valued staples sector.

Region Concentration



Region Concentration	Pzena International Value	MSCI EAFE® Index
Europe ex-UK	46%	41%
United Kingdom	30%	23%
Japan	14%	22%
Australia / New Zealand	0%	9%
Dev.Asia ex-Japan	0%	5%
North America	3%	0%
Emerging Markets & Other	7%	0%

Country weights adjusted for cash - may appear higher than actual

Quarterly Performance Drivers

CONTRIBUTORS: Vodafone Group plc, Koninklijke Philips Electronics N.V., PartnerRe Ltd.
DETRACTORS: Usiminas, Akzo Nobel N.V., Hon Hai Precision Industry Co. Ltd.

Notable Portfolio Actions

PURCHASES/ADDITIONS: PartnerRe Ltd., KDDI Corp, Total S.A., Gazprom OAO, Hon Hai Precision Industry Co., ING Groep NV
SALES/TRIMS: Home Retail Group, ACE Ltd., RenaissanceRe Holdings Ltd., NTT DoCoMo Inc., Volkswagen AG, Vodafone Group plc

Highlighted Holding

KDDI Corp is the second largest mobile service provider in Japan and an emerging provider of fixed broadband services. The Japanese market has been ahead of the rest of the world in the introduction of mobile data services and may potentially see stabilization in mobile revenue given the increasingly diminished importance of declining voice revenue. This should benefit all three major operators but in particular KDDI, which trades at a discount to its peers given more troubled recent history and near-term earnings impact from the introduction of the iPhone. Meanwhile, its money-losing fixed line operation continues to build scale and stands to further improve its earnings. Trading at 7x our estimate of normalized earnings, we find KDDI an attractive new addition to the portfolio. ■

Pzena European Value

Performance Summary

	2Q 2012	YTD 2012	Annualized as of June 30, 2012 One Year	Three Year	Since Inception 8/1/08
European Value - Gross	-12.1%	4.1%	-18.6%	8.2%	-2.3%
European Value - Net	-12.2%	3.9%	-18.9%	7.8%	-2.7%
MSCI Europe® Index	-7.5%	2.4%	-16.5%	6.3%	-5.3%

All returns through June 30, 2012; see Performance/Portfolio notes on page 17

Top 10 Holdings (Representative Portfolio - See Portfolio Notes on page 17)

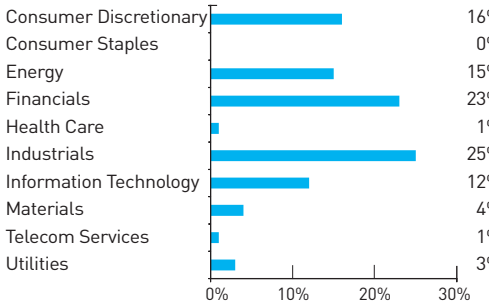
Travis Perkins plc	4.2%
BAE Systems plc	4.1%
Akzo Nobel	4.0%
Teleperformance	3.9%
Philips Electronics	3.8%
Cap Gemini	3.7%
Royal Dutch Shell plc	3.6%
Deutsche Boerse AG	3.3%
Lagardere S.C.A.	3.2%
Danieli & Co.	3.1%

Portfolio Characteristics

	Pzena European Value	MSCI Europe® Index
Price to Normal Earnings	5.7x	9.3x*
Price / Earnings (1-Year Forecast)	7.7x	10.4x
Price / Book	0.9x	1.3x
Median Market Cap ($B)	$11.0	$8.3
Weighted Average Market Cap ($B)	$36.4	$59.5
Number of Stocks (model portfolio)	40	445

Source: MSCI Europe® Index, Pzena Analysis *European Universe Median

Sector Weights



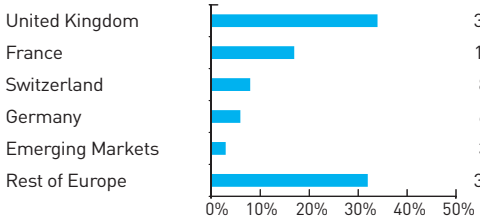
Sector	Pzena European Value*	MSCI Europe® Index
Consumer Discretionary	16%	9%
Consumer Staples	0%	15%
Energy	15%	12%
Financials	23%	18%
Health Care	1%	12%
Industrials	25%	11%
Information Technology	12%	3%
Materials	4%	9%
Telecom Services	1%	6%
Utilities	3%	5%

* Pzena European Value Composite. Sector weights adjusted for cash - may appear higher than actual

Quarterly Portfolio Notes

In Europe we are finding some of the most attractive valuations, particularly for leading global franchises that have diverse geographic exposure and strong balance sheets. The underlying quality of the franchises remain strong and valuations are getting close to levels last seen during the financial crisis. We selectively added to our exposure in areas such as consumer cyclicals and industrials in the quarter.

Region Concentration



Region Concentration	Pzena European Value	MSCI Europe® Index
United Kingdom	34%	36%
France	17%	14%
Switzerland	8%	13%
Germany	6%	13%
Emerging Markets	3%	0%
Rest of Europe	32%	24%

Country weights adjusted for cash - may appear higher than actual

Quarterly Performance Drivers

CONTRIBUTORS: Koninklijke Philips Electronics N.V., Vodafone Group plc, ACE Ltd.
DETRACTORS: N.V. Teleperformance, Danieli & C., Akzo Nobel

Notable Portfolio Actions

PURCHASES/ADDITIONS: Delphi Automotive, Indra Sistemas S.A., Gam Holding Ltd., ING Groep NV, Total S.A.
SALES/TRIMS: Home Retail Group, Ace Ltd., Vodafone Group plc, Inchcape plc, Aegis Group plc, Travis Perkins plc, BAE Systems plc

Highlighted Holding

Delphi Automotive plc, a global auto supplier, emerged from a transformative bankruptcy last year with a clean balance sheet, a focused and attractive product and customer portfolio, and a very competitive cost structure. It has strong positions in some of the highest growth and value added areas of auto supply, such as powertrain and electronics. GM North America now accounts for less than 12% of Delphi's global revenue. And with only 9% of the hourly workforce in high cost regions, the manufacturing footprint is one of the best in the industry. Investors' concern over near-term volume weakness in Europe and Asia is pressuring valuation. We find Delphi an attractive investment trading at 6.7x our estimate of normalized earnings. ■

Pzena Emerging Markets Value

Performance Summary

	2Q 2012	YTD 2012	Annualized as of June 30, 2012 One Year	Three Year	Since Inception 1/1/08
Emerging Markets Value - Gross	-12.1%	4.7%	-15.5%	7.8%	-1.8%
Emerging Markets Value - Net	-12.2%	4.4%	-16.0%	7.0%	-2.7%
MSCI Emerging Markets® Index	-8.9%	3.9%	-16.0%	9.8%	-3.8%

All returns through June 30, 2012; see Performance/Portfolio notes on page 17

Top 10 Holdings (Representative Portfolio - See Portfolio Notes on page 17)

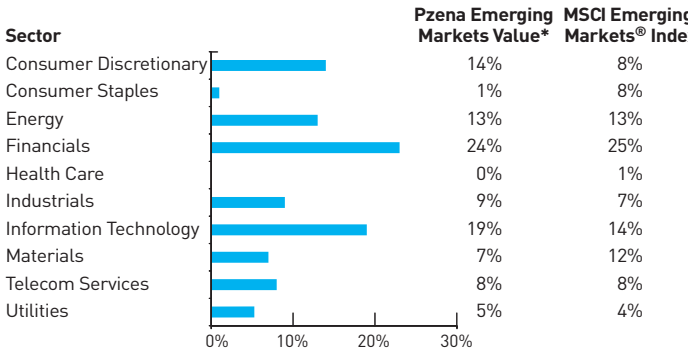
Gazprom OAO	3.6%
China Mobile Ltd.	3.5%
Hon Hai Precision Industry	3.2%
Taiwan Semiconductor Mfg. Co.	3.2%
Hyundai Mipo Dockyard	2.9%
Huadian Power Intl. Corp.	2.7%
Hana Financial Group Inc.	2.6%
Samsung Electronics Co. Ltd.	2.6%
Methanex Corp.	2.6%
Lukoil OAO	2.5%

Portfolio Characteristics

	Pzena Emerging Markets Value	MSCI Emerging Markets® Index
Price to Normal Earnings	6.3x	11.2x*
Price / Earnings (1-Year Forecast)	7.7x	9.9x
Price / Book	0.9x	1.5x
Median Market Cap ($B)	$5.4	$4.5
Weighted Average Market Cap ($B)	$32.7	$40.3
Number of Stocks (model portfolio)	48	819

Source: MSCI Emerging Markets® Index, Pzena Analysis *Emerging Markets Universe Median

Sector Weights

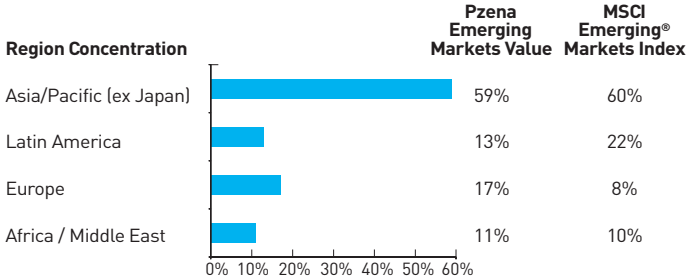


* Pzena Emerging Markets Value Composite. Sector weights adjusted for cash - may appear higher than actual

Quarterly Portfolio Notes

Thanks to weakness in cyclicals, we are finding opportunities in industrial names, such as Brazil's heavy equipment manufacturer Randon. As such, our industrial holdings increased during the quarter. We harvested proceeds from strong performers such as Bangkok Bank and Grand Korea Leisure, putting the proceeds to work in under-performing names, such as gas giant Gazprom and shipbuilder Hyundai Mipo.

Region Concentration



Country weights adjusted for cash - may appear higher than actual

Quarterly Performance Drivers

CONTRIBUTORS: Huadian Power International Corp. Ltd., China Power International Development Ltd., Turkiye Vakiflar Bankasi T.A.O.
DETRACTORS: Usiminas, Petrobras, China Dongxiang Group Co. Ltd.

Notable Portfolio Actions

PURCHASES/ADDITIONS: Akbank TAS, Randon SA, Implementos e Participacoes, Sberbank, Gazprom OAO, LG Electronics Inc.
SALES/TRIMS: Asya Katilim Bankasi, Bangkok Bank PCL, Samsung Electronics Co. Ltd., Grand Korea Leisure Co., Ltd.

Highlighted Holding

Texwinca Holdings is a leading global textile manufacturer, based in China. Its vertical integration, which includes yarn dyeing; fabric knitting, dyeing, and finishing; and producing and selling dyed yarns, raw fabrics, and finished knitted fabrics, enables Texwinca to operate with low cost and high efficiency. Earnings have come under pressure due to cyclically weak demand in Texwinca's end markets, ninety percent of which are in developed countries. In addition, margins are currently depressed as a result of a temporary spike in cotton prices. The company's strong balance sheet should enable it to easily weather the current storm, and it trades at 7x our estimate of normalized earnings. ■

HIGHLIGHTED HOLDING

Volkswagen (VW)

Volkswagen, the world's second largest auto manufacturer, has been tainted by its European domicile, yet this global leader outperforms its U.S. and Japanese counterparts and is capturing share in coveted emerging markets.

Volkswagen Earnings and Valuation Data

					Price/Earnings		
	Price	*F2011	F2012(E)	Normal	F2011	F2012(E)	Normal
Volkswagen	€125.26	€33.10	€21.47	€15.35	3.8x	5.8x	8.2x

As of June 30, 2012

Source: Company Reports, Pzena Analysis

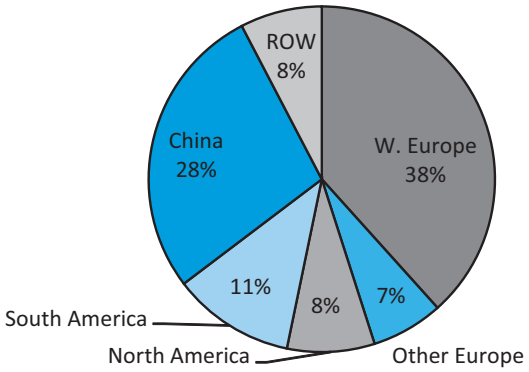
*F2011 EPS includes approximately €10 per share impact of other financial results from revalution of financial options

Macro concerns have weighed on automotive stocks, creating opportunities to invest in both OEMs and suppliers across the sector. Fears over declining sales and profitability have had a particularly negative impact on European-domiciled companies, including Volkswagen, a global leader with strong brand equity, leading cost position, and diversified product line-up and geographical footprint. Ongoing structural improvements make Volkswagen an attractive long-term investment beyond a cyclical recovery of the automotive industry.

Volkswagen Is A Secular Winner

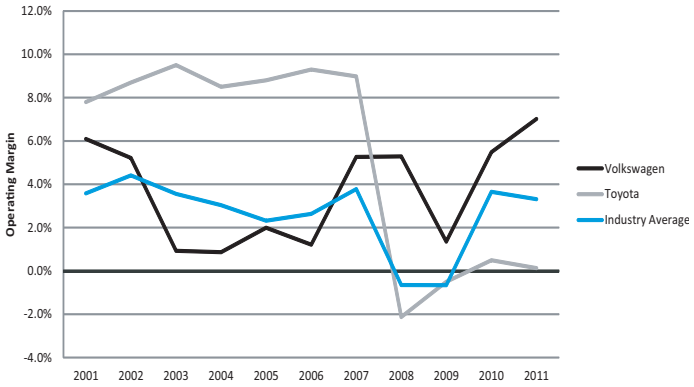
Volkswagen has become a benchmark for the automotive industry, with competitive products, excellent cost position, and a strong presence in emerging markets. After many years of investing in core technologies, product architectures and manufacturing systems, Volkswagen is now outperforming its global peers. The company's market share has increased 2.5% globally since 2007, including a 3.9% increase in the fast-growing Asia Pacific region. As a result, Volkswagen now derives 39% of its unit sales from emerging markets (Figure 1). Volkswagen also leads peers in terms of profitability with 7.0% operating margin in FY2011 vs. peer average of 3.3% (Figure 2).

Figure 1: 39% of 2011 Unit Sales from Emerging Markets



Source: Pzena Analysis

Figure 2: Volkswagen's Superior Margins



Source: Pzena Analysis

Volkswagen Should Command Premium Valuation

Volkswagen trades at a higher multiple than its European peers, but is more attractive than the other global players in a sector where valuations are attractive in general. On an enterprise value-to-sales basis, Volkswagen is discounted by 2% and 47% to U.S. and Japanese peers, respectively, despite its superior profitability and long-term growth outlook (Figure 3).

Figure 3: Volkswagen Valuation is Attractive

	Adjusted Enterprise Value to Sales
Volkswagen	0.24x
European Mass OEMs	0.15x
US OEM's	0.25x
Japanese OEMs*	0.45x
Korean OEMs	0.70x
Global Average	0.37x

*Based on FY2010 because of natural disaster impact on FY2011 results.
Source: Pzena Analysis

Volkswagen is the second largest auto manufacturer in the world, with industry-leading profitability and high exposure to fast-growing emerging markets. We believe that the company's profitability should be structurally better than that of mass automotive peers because of its presence in higher margin businesses – luxury cars and commercial trucks. In FY2011, Audi, its luxury car nameplate, accounted for 47% of operating profits, with its truck businesses (Scania and MAN) contributing 14%. Margins in those more attractive segments were 12.1% and 12.3%, respectively.

We also believe that Volkswagen has better long-term growth outlook than peers because of its strong market positions in fast-growing emerging markets. Volkswagen is a market leader not only in Western Europe, but also in China and Brazil with 18% market share in China and 22% in Brazil. In FY2011, China and Brazil accounted for 36% of Volkswagen's unit sales as compared to 38% contribution of Western Europe. We forecast that 80% of volume growth through 2016 will come from emerging markets, with China contributing over 50% of the growth. In addition, Volkswagen has been a share gainer in Western Europe thanks to its strong product line-up and competitive cost position.

Franchise Is Strong, Getting Stronger

Volkswagen is known as an industry leader in platform strategy. With fewer car platforms and high parts commonality across different models, the company derives scale advantages in purchasing as well as efficiency in product development and capital spending. This year, Volkswagen is taking a significant step forward with the introduction of new product architecture that will transform product design and manufacturing of cars. With this new approach, called "modular toolkit," the company will have only two product architectures for its eight million units with high module commonality. This should provide Volkswagen unmatchable scale advantage, with the company expecting reductions of 20% in unit costs and 30% in engineering hours. In contrast, General Motors and Toyota have similar sales volume to Volkswagen, yet GM currently manufactures 30 car platforms, and Toyota has only recently embarked on development of a new product architecture. Volkswagen plans to offset declining industry profitability with cost saves.

In addition, Volkswagen has a history of strong cash generation despite investments in research & development and capacity expansions in new markets, with a free cash flow margin of 5.9% in FY2010 and 5.3% in FY2011.

Short-term Challenges; Long-term Opportunities

In the short-term, we see a number of areas where Volkswagen may encounter headwinds. In China, we expect profitability in the luxury car segment to decline as supply and demand stabilize. In Europe, sales volumes will be challenged by a weakening economy and a roll-off of government incentives, putting pressure on Volkswagen's profitability in the region.

On the other hand, we believe that Volkswagen has opportunity to further improve its profitability through growth of Audi and turnaround of its U.S. operations in the long-term. Audi has established strong brand equity in Europe and China, and thanks to shared components with other Volkswagen brands, it has a cost advantage over BMW and Mercedes. Audi has a leading market position in China, the fastest growing luxury market in the world, and has an opportunity to grow in the U.S. market where it is underpenetrated. Volkswagen is also taking steps to improve the profitability of its U.S. operations, which incurred losses due to the high cost of imported models from Germany. Local production started last year in Tennessee, where they have lower labor costs than other U.S. manufacturers. Historically, the U.S. was the most profitable market for Japanese OEMs because of their labor cost advantage over the union-encumbered U.S. players. With cyclical demand recovery and potential share gain of VW/Audi, the U.S. can be a significant opportunity for Volkswagen.

We expect that Volkswagen profitability will decline over the next two years as the global economy slows, particularly in China. Every investor already expects this, as demonstrated in the forward price-to-earnings ratio of 5.8x. We believe there is an opportunity to own a global franchise at a low valuation because of these fears. Our long-term margin expectations for VW are far below the company's own plans, yet we find the company to be attractively valued.

Conclusion

We believe that the market under-appreciates the structural improvements in Volkswagen. Although the business faces some challenges in the near-term, we believe Volkswagen will maintain its strong franchise with superior margin in its core markets and products. Trading at 8.2x our estimate of normalized earnings, we find Volkswagen to be an attractive holding in a leading global franchise that has been punished in part due to its European domicile. ■

Pzena Investment Strategies

U.S. Strategies	Approximate Holdings	Universe[1]	Strategy Inception Date
Large Cap Value[2]	30 - 40	500 Largest U.S. Companies	10/2000
Value	30 - 40	1000 Largest U.S. Companies	1/1996
Small Cap Value	40 - 50	2000 U.S. Company Universe (Ranked 1001 - 3000)	1/1996
Mid Cap Value	30 - 40	1000 U.S. Company Universe (Ranked 201 - 1200)	9/1998

Global Strategies			
Global Value[2]	40 - 60	500 Largest U.S., 1500 Largest Non-U.S. Companies	1/2004
International (ex-US) Value[2]	30 - 50	1500 Largest Non-U.S. Companies	1/2004
Emerging Markets Value	40 - 80	1500 Largest Emerging Markets Companies	1/2008
European Value	40 - 60	750 Largest European Companies	8/2008

All our strategies follow the same value investment process and philosophy; the primary difference lies in the universe considered for investment.

[1]*While our investment process includes ongoing review of the companies in the listed universes, our ultimate investment decisions may include companies outside of these ranges at the time of purchase.*

[2]*More diversified versions also available.*

Portfolio / Performance Notes

Portfolio Notes

The specific portfolio securities discussed in the current portfolio strategy sections of this report were selected for inclusion based on their ability to help you understand our investment model for that particular product strategy. They do not represent all of the securities purchased or sold or recommended for our client accounts during the quarter, and it should not be assumed that investments in such securities were or will be profitable. Notable Portfolio Actions are selected from representative portfolios based on the most significant portfolio purchases and sales. Quarterly Performance Drivers are selected from composite performance based on the most significant contributors and detractors to performance. The specific portfolio securities discussed in the Highlighted Holdings section of this report were held in our Global, International (ex-US) and European strategies during the second quarter of 2012. Highlighted Holdings are selected randomly from a rotation of our product strategies and are not selected based on performance. Top 10 holdings for our strategies have been derived from a representative portfolio that best represents the implementation of the strategy. Holdings will vary among client accounts as a result of different product strategies having been selected thereby. Holdings also may vary among client accounts as a result of opening dates, cash flows, tax strategies, etc. There is no assurance that any securities discussed herein remain in your portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings.

The information in this document is for informational purposes only, and highlights certain investment products that Pzena Investment Management, LLC ("PIM") offers. It does not constitute an offer to sell, or a solicitation of an offer to buy, any products referenced herein. Any such offering will be made only in accordance with the terms and conditions set forth in the respective offering memoranda for the products.

Performance Notes

PIM is a registered investment adviser that follows a classic value investment approach. PIM is the operating company of Pzena Investment Management, Inc. Pzena Investment Management, Inc. is a publicly traded company whose shares are listed on the New York Stock Exchange under the ticker symbol "PZN." As of 6/30/12, PIM managed $13,109 million in assets under various U.S., international and global value investment strategies.

PIM has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS). Past performance is no guarantee of future results, and the past performance of any accounts or commingled funds managed by PIM should not be considered indicative of the future performance of any accounts or commingled funds managed by PIM. Investment return and principal value of an investment will fluctuate over time.

Additional information is available upon request regarding policies for calculating and reporting returns. To receive a complete list and description of PIM's composites and/or a full presentation that adheres to the GIPS standards, contact Joan Berger at (212) 583-1291, or write to PIM, 120 West 45th Street, 20th Floor, New York, NY 10036 or berger@pzena.com.

Performance Notes Specific to Domestic Products

The domestic product returns presented in this report are for our Large Cap Value, Value, Mid Cap Value, and Small Cap Value Services composites. The Large Cap Value Service is a portfolio generally consisting of 30-40 stocks taken from a universe generally consisting of the 500 largest U.S.-traded companies at time of initial purchase; the Value Service is a portfolio generally consisting of 30-40 stocks taken from a universe generally consisting of the 1,000 largest U.S.-traded companies at time of initial purchase; the Mid Cap Value Service is a portfolio generally consisting of 30-40 stocks taken from a universe generally consisting of the 201st - 1200th largest U.S.-traded companies at the time of initial purchase; the Small Cap Value Service is a portfolio generally consisting of 40-50 stocks taken from a universe generally consisting of the 1,001-3,000 largest U.S. stocks.

Each domestic product composite is size weighted, includes cash and cash equivalents, includes all fee-paying and non fee-paying; discretionary, non-wrap fee accounts managed in the particular style represented by such composite, and is in U.S. dollars. As of 6/30/12, 0.4% of the Value composite assets were represented by non fee-paying accounts. No leverage was employed in the accounts in any of the domestic product composites. Accounts enter the relevant domestic product composite at the beginning of the first full month under management. Closed accounts are included for each full month prior to closing. As of 6/30/12, the Small Cap Value composite included 44 accounts with total assets of $1,073.8 million and represented 100% of our assets in this style. As of 6/30/12, the Value composite included 74 accounts with total assets of $1,427.9 million and represented 100% of our assets in this style. As of 6/30/12, the Mid Cap Value composite included 6 accounts with total assets of $338.0 million and represented 100% of our assets in this style. As of 6/30/12, the Large Cap Value composite included 50 accounts with total assets of $4,259.5 million and represented 98.4% of our assets in this style.

The Value and Small Cap Value composites were each created on 12/31/95. The Large Cap Value composite was created on 10/1/2000. The Mid Cap Value composite was created on 9/1/02. For the period 9/1/98 (inception) through 12/31/01, Mid Cap Value returns are also included in our Value composite. No accounts with any significant client-imposed investment restrictions are included in any composite.

All domestic product returns in this report have been presented both gross and net of investment management fees. From 1996 through 2004, the returns are calculated on a time weighted, total return basis (i.e., include all dividends, interest, accrued income, realized and unrealized gains or losses and are after brokerage transaction charges) and are linked monthly. During that same period, cash flows of 10% or greater prompt a locking of market values on the day prior to the cash flow, creating sub-periods of performance which are then linked. From 2005 forward, returns are presented based on daily unit values (day weighted, total return which includes all dividends, interest, accrued income, realized and unrealized gains or losses and are after brokerage transactions charges) which are linked. As a result of the change to daily unit values, the need to lock values for large cash flows is no longer required. Net of fees returns reflect deductions of all management fees paid by the accounts in the relevant domestic product composite. Asset-based fees (which generally range from 0.5% to 1.5% of managed assets depending on account size) are recorded against such accounts monthly or quarterly depending on the fee arrangement applicable to the account. Such fees generally are recorded against accounts with quarterly fee arrangements in the first month of the applicable quarter. Fees for partial periods, such as those created when an account opens or closes during the middle of a month or quarter or when significant additional cash is added to an account, are recorded in the month of occurrence. A substantial performance fee was deducted in each of January 2002, January 2003, October 2003, October 2004 and October 2005 from a large account in the Value composite.

The standard annual fee payable by all PIM Small Cap accounts is 1%, except that from inception through 4/1/2002, the annual fee payable by the founding Small Cap account was 1.5%. Small Cap accounts with assets less than $10 million are charged 1.5% per annum with a $100,000 per annum maximum fee. The founding Small Cap account was opened 12/31/95, and was the sole account managed by PIM in the Small Cap style until 5/31/2000. The current standard fee schedule for both our Value and Mid Cap Value strategies is as follows: for accounts under $10 million, the fees are 1.5% per annum, with a maximum annual fee of $100,000; for accounts of $10 million or more, the fees are 1% per annum on the first $10 million; 0.75% per annum on the next $40 million; 0.60% per annum on the next $50 million; and 0.50% per annum thereafter. The current standard fee schedule for the Large Cap Value strategy is as follows: for accounts of $10 million or more, the fees are 0.70% per annum on the first $25 million of assets, 0.50% per annum on the next $75 million of assets, 0.40% per annum on the next $200 million of assets, and 0.35% thereafter; for accounts under $10 million, the fees are 1.00% per annum with a maximum annual fee of $70,000. All fees are recorded against each account in the composite monthly or quarterly (in the first month or quarter the account is under management) depending upon the fee schedule applicable to the account. To illustrate the compounded effect of the deduction of a 1% annual fee on a hypothetical investment of $1,000 in an account where the average annual return before fees was 10% for a 10-year period, and assuming reinvestment of all dividends and interest, the initial investment would have grown to $1,100 after one year before fees and $1,089 after fees; to $1,611 after five years before fees and $1,532 after fees; and to $2,594 at the end of ten years before fees and $2,346 after fees. Further discussion regarding our advisory fees is contained in our Form ADV, Part 2A.

The Russell 2000® Value Index is used as a benchmark for our Small Cap Value strategy; the Russell 1000® Value Index is used as a benchmark for our Value and Large Cap Value strategies; and the Russell Midcap® Value Index is used as a benchmark for our Mid Cap Value strategy. Each of these benchmarks, as well as the S&P 500 Index, is used to indicate the investment environment existing during the time periods shown in this report. Each Russell Index is a registered trademark or trade name of The Frank Russell Company. The Frank Russell Company is the owner of all copyrights relating to the Russell Indexes and is the source of certain performance statistics cited herein. The S&P 500 Index and all Russell Indexes are unmanaged and cannot be invested in directly.

Portfolio / Performance Notes (cont.)

Performance Notes Specific to International and Global Products

The international value returns presented in this report are for the Pzena International (ex-US) Value Service. The Pzena International (ex-US) Value Service is a portfolio generally consisting of 30-50 stocks taken from a universe generally consisting of the 1,500 largest non-U.S. companies at time of initial purchase. The global value returns presented in this report are for the Pzena Global Value Service. The Pzena Global Value Service is a portfolio generally consisting of 40-60 stocks taken from a universe generally consisting of the 500 largest U.S.-traded securities and the 1,500 largest non-U.S. companies at time of initial purchase. The European value returns presented in this report are for the Pzena European Value Service. The Pzena European Value Service is a portfolio generally consisting of 40-60 stocks taken from a universe generally consisting of the 750 largest European companies globally at time of initial purchase. The emerging markets returns presented in this report are for the Pzena Emerging Markets Value Service. The Pzena Emerging Markets Value Service is a portfolio consisting of 40-80 stocks taken from a universe generally consisting of the 1500 largest companies in non-developed markets at time of initial purchase. As of 6/30/12, the PIM's International (ex-US) Value Service composite included 3 accounts with total assets of $76.2 million and represented 100% of our assets in this style. As of 6/30/12, PIM's Global Value Service Composite included 19 accounts with total assets of $3,769.0 million and represented 100% of our assets in this style. As of 6/30/12, PIM's European Value Service Composite included 3 accounts with total assets of $54.4 million and represented 100% of our assets in this style. As of 6/30/12, PIM's Emerging Markets Value Service Composite included 3 accounts with total assets of $227.9 million and represented 100% of our assets in this style.

Each of PIM's International (ex-US) Value, Global Value, European Value and Emerging Markets Value composites is calculated on a time-weighted, total return basis and includes all dividends, interest, accrued income and realized and unrealized gains or losses. Returns are calculated in U.S. dollars ("USD"). The Composites are size weighted, includes cash and cash equivalents, includes all fee-paying and non fee paying; non wrap fee portfolios which are managed on a fully discretionary basis by PIM. As of 6/30/12, 0.2% of the Global Value Composite and 1.7% of the European Value Composite was represented by non-fee paying accounts. Eligible new portfolios are added to the Composites at the beginning of the first full month under management. Terminated portfolios are removed from the Composites after the last full month that the portfolio is under firm management. No accounts with any significant client imposed investment restrictions are included. No leverage was employed in the accounts in the composite. FX currency transactions were used to transact in equity securities only, where applicable.

The International (ex-US) Value and Global Value Composites were created on 6/1/08. Composites include all Pzena Global Value Service and Pzena International (ex-US) Value Service portfolios managed according to the respective service since product inceptions of January 2004. The European Value composite was created in 8/1/08. The Emerging Markets Value composite was created in 1/1/08. All international, global, European and emerging markets returns have been presented both gross and net of investment management fees.

Asset-based fees (which generally range from 0.5% to 1.0% of managed assets depending on account size) are recorded against such accounts monthly or quarterly depending on the fee arrangement applicable to the account. Such fees generally are recorded against accounts with quarterly fee arrangements in the first month of the applicable quarter. Fees for partial periods, such as those created when an account opens or closes during the middle of a month or quarter or when significant additional cash is added to an account, are recorded in the month of occurrence. The standard fee schedule for the International (ex-US) Value and Global Value Composites is currently: 1.00% per annum on the first $10 million, 0.80% per annum on the next $40 million, 0.70% per annum on the next $50 million, 0.60% on the next $200 million and 0.55% per annum on assets above $300 million. The standard fee schedule for European Value is currently: 0.75% per annum on the first €20 million, 0.55% per annum on the next €80 million, 0.45% per annum on the next €150 million, and 0.40% on assets above €250 million. The standard fee schedule for Emerging Markets Value is currently: 1.25% per annum on the first $10 million, 1.00% per annum on the next $40 million, 0.90% per annum on the next $50 million, 0.80% on the next $200 million and 0.75% per annum on assets above $300 million. For the time period of 1/1/04 to 1/31/06 the fee schedule for the International (ex-US) Value Composite was 1.25% per annum on all assets. For the time period of 1/1/04 to 4/30/06 the fee schedule for the Global Value Composite was 1.25% per annum on all assets. To illustrate the compounded effect of the deduction of a 1% annual fee on a hypothetical investment of $1,000 in an account where the average annual return before fees was 10% for a 10-year period, and assuming reinvestment of all dividends and interest, the initial investment would have grown to $1,100 after one year before fees and $1,089 after fees; to $1,611 after five years before fees and $1,532 after fees; and to $2,594 at the end of ten years before fees and $2,346 after fees. Further discussion regarding our advisory fees is contained in our Form ADV, Part 2A.

Composite returns for the International (ex-US) Value Service Composite are benchmarked to the MSCI EAFE Index (the "Index"). The benchmark is used for comparative purposes only and generally reflects the risk or investment style of the investments reported on the schedule of investment performance. The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada, and is net of withholding tax on dividends from a Luxembourg tax perspective. The Index cannot be invested in directly. Investments made by the Firm for the portfolios it manages in the Pzena International (ex-US) Value Service Composite may differ from those of the MSCI EAFE Index. Composite returns for the Global Value Service Composite are benchmarked to the MSCI World Index (the "Index"). The benchmark is used for comparative purposes only and generally reflects the risk or investment style of the investments reported on the schedule of investment performance. The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, including the U.S. and Canada, and is net of withholding tax on dividends from a Luxembourg tax perspective. The Index cannot be invested in directly. Investments made by the Firm for the portfolios it manages in the Pzena Global Value Service Composite may differ from those of the MSCI World Index. Investment results for the Composites will differ from those of the benchmark. Composite returns for the European Value Service Composite are benchmarked to the MSCI Europe Index (the "Index"). The benchmark is used for comparative purposes only and generally reflects the risk or investment style of the investments reported on the schedule of investment performance. The MSCI Europe Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of the developed markets in Europe, and is net of withholding tax on dividends from a Luxembourg tax perspective. The Index cannot be invested in directly. Investments made by the Firm for the portfolios it manages in the Pzena European Value Service Composite may differ from those of the MSCI Europe Index. Accordingly, investment results will differ from those of the benchmark. Composite returns for the Emerging Markets Value Service Composite are benchmarked to the MSCI Emerging Markets Index (the "Index"). The benchmark is used for comparative purposes only and generally reflects the risk or investment style of the investments reported on the schedule of investment performance. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets, and is net of withholding tax on dividends from a Luxembourg tax perspective. The Index cannot be invested in directly. Investments made by the Firm for the portfolios it manages in the Pzena Emerging Markets Value Service Composite may differ from those of the MSCI Emerging Markets Index. Accordingly, investment results will differ from those of the benchmark.

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Please note that PIM, LLC has presented a new composite for performance as of 6/30/08 for both the International (ex-US) Value and Global Value Services. The new composite includes all portfolios within each respective product that are not mutual funds. Previously, PIM presented two separate composites for performance that had been linked. The historical returns have also been updated to reflect the new, more complete composites. However, for the time period of 1/1/04 to 1/31/06 for the International (ex-US) Value Service, and the time period of 1/1/04 to 4/30/06 for the Global Value Service, there was only one portfolio for each product. These portfolios represented PIM's original funds which consisted of firm and employee capital.

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