Hosking Partners®

UK Stewardship Code
2023/24 Submission

April 2024

Foreword

At Hosking Partners, we consider stewardship, active ownership and engagement with investee companies to be fundamental components of the investment process that has delivered superior long-term returns for clients.

Not only are each key tenants of our fiduciary responsibility, but these activities also help us better understand the world in which we invest and inform the decisions we make.

We are proud to comply with the UK Stewardship Code, which provides an invaluable handrail for asset managers and owners alike.

If you have any questions, please do not hesitate to be in touch.

James Batting

Senior Partner

April 2024

Compliance with the UK Stewardship Code

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. This document describes Hosking Partners approach to stewardship and details its compliance with the UK Stewardship Code (as updated 1st Jan 2020).

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

CONTEXT

Hosking Partners LLP (the "Firm") is a Full-Scope Alternative Investment Fund Manager ("AIFM") authorised and regulated by the Financial Conduct Authority (FCA) in the United Kingdom and registered as an Investment Adviser with the Securities and Exchange Commission (SEC) in the United States. The Firm is also registered with the Financial Sector Conduct Authority (FSCA) of South Africa as a (Category 1 Intermediary Services) Financial Services Provider. Hosking Partners was established in the United Kingdom on 7th February 2013 under the name Seculum Asset Management LLP. The Firm's name was changed to Hosking Partners LLP in August 2014. The assets under management as at 16th April 2024 were USD $5.6 billion.

Hosking Partners is a limited liability partnership (LLP) which is wholly owned by its partners with no one partner owning more than 25% of the business. The Firm believes this ownership structure helps to ensure that the business remains focused on generating investment returns for clients rather than for external shareholders.

Hosking Partners' strategy focuses on investing predominantly in equities, such as but not limited to common stocks, preferred stocks, convertible bonds, warrants, depositary receipts, exchange-traded funds and other securities which are convertible or exercisable into shares or which, in the opinion of the Firm, have equity characteristics (such as income trusts). The Firm provides its investment management services to institutional and professional investors such as government entities, pension and superannuation funds, foundations and endowments, as well as pooled investment vehicles.

Hosking Partners' investment team is held together by its strong commitment to a shared investment philosophy. Faced with the challenge of distilling a large universe of opportunities into a portfolio with attributes that are associated with value creation, Hosking Partners focuses on the concept of the capital cycle. The 'Capital Cycle' investment approach was first developed by Jeremy Hosking (and colleagues) in the 1980s. It recognises the gradual changes that the supply of capital has on the competitive landscape of an industry and the inverse relationship that exists between supply-side dynamics and returns. Under the capital cycle approach, consolidation is regarded as bullish and the opposite, a proliferation of competing firms, is regarded as bearish. This approach leads the team to shun areas of the market where profitability is high, and investors are enthusiastic and to target areas where profitability is low, and investors are apathetic. This leads to investments that are contrarian and often give the portfolio a value bias.

The investment approach transcends sectors and countries. Each of the four autonomous portfolio managers has a remit to invest globally. Global generalists benefit from the neuroscientific finding that cognition is improved as contrast levels increase. For example, a Japanese pharmaceutical company is dramatically different to a Mexican cement company and, in most fund management architectures, the two are never compared directly due to silo-based investment teams. At Hosking Partners, we believe our generalist approach – which encourages contrasting areas of the market to be compared directly – should be a source of latent alpha. Additionally, in circumstances where two or more portfolio managers hold the same shares, often bought at different times, the probability success rate of such overlapping stocks benefits from what is an independent second opinion. Accordingly, the success rate of the investment in question is probably improved.

A range of valuation tools are employed, and the use of elaborate forecasting models is avoided. The portfolio managers prefer inference over forecasting and tend to invest if their beliefs are more optimistic than those inferred by the current market price. The investment team also make use of valuation metrics based on replacement costs, takeover values and revenues, which suit the long-term investment horizon. Valuation metrics are applied flexibly, adapting the approach depending on market conditions and sectors.

ACTIVITY

Hosking Partners charges a low base fee plus a performance fee. There is also a tiering mechanism which means the base fee lowers as firm-wide AUM increases. The Firm intentionally aligns its business interests with those of its clients and places emphasis on performance rather than asset gathering.

The Firm's qualitative investment strategy naturally encourages frequent and sustained engagement with investee companies. The Firm does not rely on quantitative modelling to screen the portfolio or investment universe. As such, active ownership, engagement and stewardship is an integral part of the investment process because it allows the portfolio managers to better understand how investee or prospective companies are positioning themselves with respect to the Firm's investment philosophy.

Consideration of ESG issues forms a key part of the Firm's investment analysis. Hosking Partners approaches ESG using an integrated approach, as the Firm does not think it appropriate to isolate any single aspect of a company's activities from the rest. Hosking Partners consults third-party ESG research, ratings and screens, but it does not exclude any geographies, sectors or stocks from its analysis based on ESG profile alone. Our generalist remit and independent stance affords us the perspective to think more broadly about long-term factors such as changes to regulatory conditions, liabilities not reflected in financial statements and reputational issues which are captured more completely by a qualitative approach.

OUTCOME

Hosking Partners is dedicated to serving the best interests of our clients and their beneficiaries and this is viewed as the ultimate purpose of the Firm. Having both a clear purpose and a consistent and well considered investment strategy drives a cohesive culture within the Firm. Having the whole Firm bought into this ethos means that there is a common goal for effective stewardship. In order to actually achieve effective stewardship, Hosking Partners employs the below actions:

The Firm maintains a constant dialogue with clients to ensure they are fully cognizant of current thinking, investment objectives, past performance, past and upcoming engagements. Furthermore, the Firm works with each client to ensure geographically varying definitions of fiduciary duty are individually met and managed. Over the past 12 months, Hosking Partners has continued to work with several clients to ensure their accounts are individually tailored to guarantee certain climate-related standards and have incorporated client specific enhanced modern slavery and climate-related reporting.

Engagement and proxy voting are fundamental parts of active ownership, and our procedures are designed to ensure Hosking Partners both actively engages and instructs the voting of proxies in line with our long-term investment perspective and client investment objectives. Voting is undertaken on all shareholder meetings and reported to clients. Engagement is discussed in more detail under Principles 9-11, and voting under Principle 12, with associated data provided.

Furthermore, to underline the Firm's commitment to the ESG issues on which clients and beneficiaries are increasingly focused, Hosking Partners has in the past year renewed its commitment as a listed signatory of the United Nations Principles for Responsible Investment (UNPRI) and Supporter of the Taskforce on

Climate-Related Financial Disclosures (TCFD). The Firm continues to be a supporter of the charity GAIN (Girls Are INvestors), which seeks to increase female representation in the asset management industry. Hosking Partners welcomed its first GAIN intern over Summer 2023 and will be joined by its second in Summer 2024.

More broadly, in the last 12 months the Firm has continued its enhanced ESG-related communications to clients (and publicly), via its ESG & Active Ownership Report. This quarterly publication not only includes voting and engagement data, but also detailed qualitative discussion on a range of ESG and stewardship-related issues. Public versions of this document (which are shorter than the client versions) are available on the Firm's website. Notably, in Summer 2024 the Firm will publish its first enhanced climate-related disclosure report under the Financial Conduct Authority's Enhanced Climate-related Disclosure (ECR) regulations. This will mark a significant uptick in the Firm's public reporting transparency against a range of metrics including Scope 1 & 2 emissions (which until this year we have only released to clients).

Principle 2

Signatories' governance, resources and incentives support stewardship.

ACTIVITY

Hosking Partners' belief is that active ownership – in the form of long-term analysis of investments, active exercise of voting rights, and constructive engagement – improves management accountability, and long-term returns. The average holding period of investments at Hosking Partners is around 10 years and engagement with governance and related issues is therefore seen as a cornerstone by the portfolio management team to the oversight of their holdings. Shareholder engagement is therefore integral to Hosking Partners' investment process.

The Firm's governing body is the Management Committee which is responsible for the strategic direction and the running of the business. Matters reserved to it for decision include approval of the following:

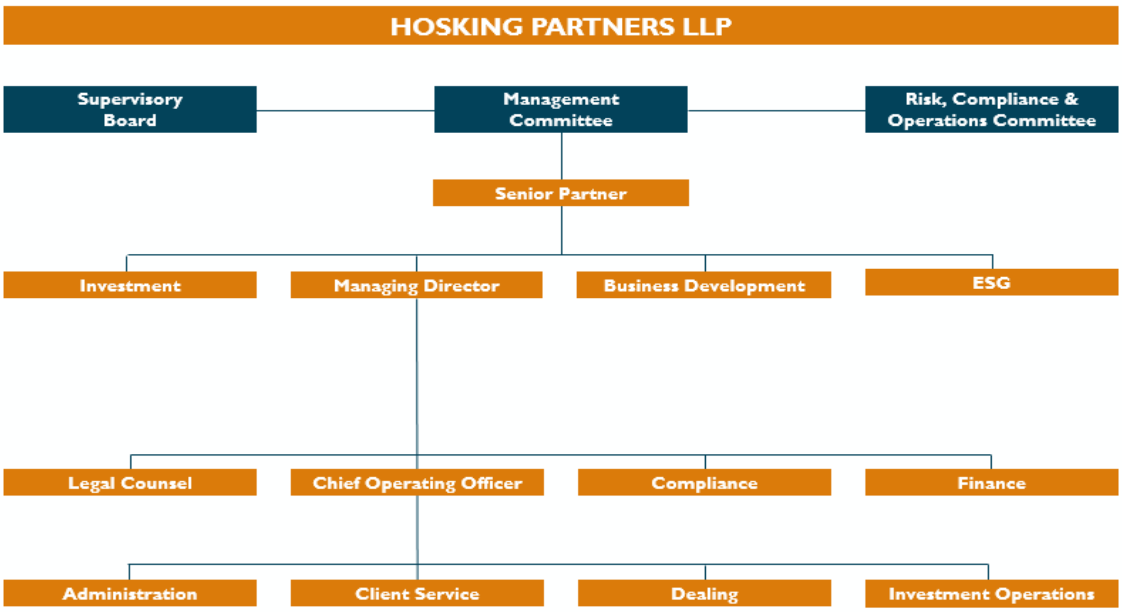
- Strategy and Management (including approval of business plans, oversight of the Firm's operations, adequacy of internal systems and controls, changes to Firm's management and structure, new appointments, review of performance, new products, contingency and succession planning, oversight of research and service provision);

- Structure and Capital (including approval of Annual Audited Financials, ICARA, oversight of regulatory capital, bank facilities);

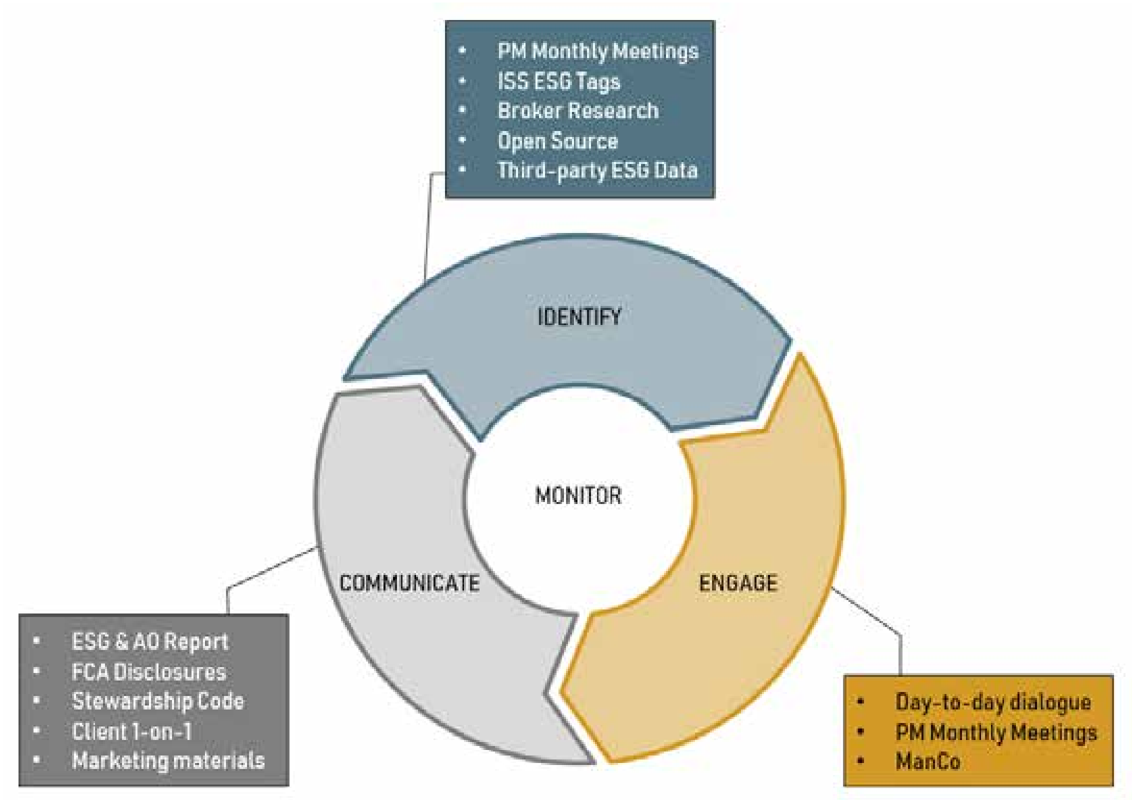
- Internal Controls (including approval of policies governing Firm's operations, compliance reports, approval of any significant outsourcing arrangements); and

- Other matters (including escalated engagement, legal matters, public relations).

Overall responsibility for Hosking Partners' stewardship and engagement strategy rests with the Management Committee. Day-to-day responsibility sits with the Head of ESG and the Investment team. Compliance provides a control function and assurance. The overall governance structure of the Firm is displayed below:



Whilst an informal dialogue regarding stewardship, engagement, and ESG integration is encouraged and achievable due to the small size of the Firm, it has also been recognized that formal processes are required to ensure decisions are recorded, communicated, and appropriately scrutinised. A continual dialogue is maintained between the four portfolio managers, Head of ESG and business development teams. This dialogue is formalised in monthly ESG-focused meetings between the Head of ESG and each member of the investment team, but in practice stewardship and ESG are integrated on a day-to-day basis. The Firm follows a process that identifies and takes opportunities for engagement, and then communicates that engagement. Hosking Partners believe this approach to governance to be appropriate for the size of the Firm as it enables the team to work closely but cross-functionally, while the formalised meetings add rigour and document the rationale for decisions. A graphical depiction of this process, and the internal inputs to it, is provided below:



Hosking Partners currently engages a range of research and service providers, from big banks to small independent boutiques. Because stewardship and engagement are integrated into the investment process from the bottom-up, each of these providers helps inform the Firm's approach despite the fact that few focus on stewardship solely or specifically. Research and service provision is discussed in more detail under Principle 8.

Remuneration for the investment team is not linked specifically to ESG or stewardship outcomes, but both are integral to the extent they contribute to overall Firm success in terms of client retention and long-term investment performance. Furthermore, the calculation of the Firm's performance fee over rolling 5-year periods across the majority of our AUM reduces short-term thinking and is aligned with the elements of stakeholder theory that suggest a constructive approach to ESG and stewardship increases value over time. As long-term investors, Hosking Partners are therefore incentivised to consider stewardship and material ESG issues as part of their core investment activity.

Hosking Partners is an equal opportunity Firm, and candidates for employment are judged on their merits and suitability for the role. Any recruitment firms used source candidates from a broad pool (encompassing several diversity metrics) and share our commitment to equal opportunity. The Firm operates with a small team (circa thirty persons) and hires only experienced professionals for key roles in the investment team and

other areas of the business. The team are experienced professionals and many are members of relevant professional bodies and institutes.
All employees of the Firm are subject to continual professional development and the culture encourages individuals to participate in learning and development opportunities. The Firm is aware of key person risk in a small firm and succession planning is an ongoing priority. Diversity and Inclusivity are a key part of the culture and the Firm maintains a strict Anti-Discrimination and Anti-Harassment Policy.

OUTCOME

Hosking Partners continually seeks ways to further improve its structures and processes, both in support of stewardship and wider goals. At the end of 2019, Hosking Partners became a signatory to the UNPRI. This was promptly followed in 2020 by the publication of a formal ESG Statement, a document which sets out the Firm's philosophy and approach to incorporating ESG into the investment decision making process, and the strategy for voting and engaging with investee companies. Active ownership was a main area of focus through 2020-2021 and the approach was formalised with the publication of a Shareholder Engagement policy. Throughout 2021 internal monitoring procedures were further developed to enable the documentation of engagement and voting efforts in the form of a quarterly Active Ownership report. This report was designed to support client oversight obligations and give additional transparency on voting and engagement activities on various ESG matters. Following the hiring of a Head of ESG in December 2021, the following calendar year (2022/3) saw the Active Ownership report upgraded once more to include a quarterly ESG report and more granular detail and data regarding stewardship and shareholder engagement.

The last twenty-four months have seen the Firm continue to expand its ESG and stewardship communications, both through the Active Ownership Report and related multi-media content including podcasts and media articles. Additionally, procedures and governance structures have been further strengthened, particularly with a view to ensuring there is a formal system for flagging emerging risks (including geopolitical, reputational etc) to the Management Committee and, if necessary, the Supervisory Board. While this function has not been exercised to date, the Firm has spent much of the past 12 months thinking carefully about how to better incorporate geopolitical and country risk into investment decisions, a topic which we have written about here, here and here.

In response to an increasing level of interest from clients and the broader investment community, there has recently been an increased focus on the carbon intensity of the portfolio and understanding the transition risks arising from the move to Net Zero by 2050. This is a major area of analysis at the Firm, and consideration of physical and transition risk is factored into all investment decisions. The Firm has also written extensively on the topic (e.g. see here, here, here and here). As an active member of the AIMA, IIMI, and UNPRI, the Firm frequently engages with other industry actors to discuss the complexities of investing for Net Zero. Furthermore, over the past 12 months the Firm has continued its active involvement in industry consultations on the FCA's incoming Enhanced Climate-Related Disclosure Requirements ("ECR"), and has submitted feedback at several points. The Firm will produce its first report under the ECR regime in Summer 2024.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

CONTEXT

Hosking Partners has an organisational structure that works in concert with our investment goals. This structure also serves to minimise the likelihood of conflicts of interest from the outset. To recap, the relevant fundamental principles on which our business has been modelled are:

- Single strategy;
- Low base fee plus long-term performance fee; and
- Perpetual partnership that discourages the sale of the business, assists succession planning and maintains the boutique structure of the Firm.

Several of these principles directly contribute to reducing conflicts of interest, particularly in relation to our duty as stewards. Hosking Partners manage one strategy only, that being global equities. This product provides the sole source of income for the Firm. The Firm therefore generally avoids the sorts of conflicts of interest inherent in multi-strategy firms. Similarly, the Firm's performance fee structure keeps the team focused on investment performance. In particular, the fact that the Firm measures its performance fee using a long-term approach (typically 5-year rolling) inherently reduces the likelihood of short-term conflicts of interest and principle-agent problems. It also significantly reduces the likelihood of conflicts of interest *between* portfolio managers, who are equally incentivised to deliver the best long-term performance for clients rather than themselves.

Augmenting these fundamental principles is a robust Conflicts of Interest policy designed to ensure all decisions are taken wholly in the interest of its clients, and that any potential and actual conflicts are identified, evaluated, managed, monitored and recorded. The Conflicts of Interest Policy is available to read on our website (here) and defines activities that have potential to present conflicts of interest, and sets out the procedures to manage those conflicts. Of particular note with regards to stewardship, the Firm's Conflict of Interest Policy specifies appropriate steps to identify and avoid conflicts between the Firm and its clients.

ACTIVITY

Examples of procedures that help identify and manage conflicts of interest are listed below. Our conflict of interest policy can be found on our website. These examples highlight areas of particular relevance to ensuring good stewardship.

- The Firm typically executes client orders on an aggregated basis so that each client included in the block transaction obtains the same average price, with transaction costs shared pro rata between clients based on their proportionate share of the aggregated transaction. Where the Firm aggregates client orders, the Firm must be satisfied that it is unlikely such aggregation will work overall to the disadvantage of any client included in the aggregation.

- The Firm has strict controls in place to manage conflicts between the Firm and its clients. These controls are set out in policies covering Best Execution, Order Handling, Aggregation & Allocation, and Inducements. All these policies are fully available to clients upon request. The Firm does not have any soft dollar / use of dealing commission arrangements with its brokers.

- The Firm has developed detailed and effective strategies for determining when and how any voting rights are to be exercised, to the exclusive benefit of its clients. Should a conflict of interest arise, the Firm's Management Committee will take such steps as it considers appropriate to achieve fair treatment. Should any conflict arise which the Firm's arrangements do not enable it to manage, as required by the FCA rules, the clients would be notified.

- The Firm maintains a register of Outside Interests for all personnel including the Firm's partners. There is a requirement on all partners and personnel to inform the Compliance Department of any outside interests and these are reviewed on no less than an annual basis to confirm that they do not give rise to any conflicts that cannot be managed by the Firm's internal procedures and that such conflicts do not negatively impact clients' interests.

- The Firm has in place a Personal Account Dealing Policy which requires staff to obtain prior approval for personal transactions. The procedures include black-out periods prior to and after dealing in securities for clients.

- The Firm has in place a Gifts & Entertainment Policy which requires all gifts and entertainment to be notified to Compliance. Prior approval is required before accepting gifts or corporate hospitality from brokers as well as for any gifts or corporate hospitality with a value greater than £50 per contact in any twelve-month period.

OUTCOME

Examples of the management of conflicts in practice are noted below. During the past 12 months, no material conflicts of interests have been identified at Hosking Partners.

Trailing 12-Month Examples (to 30th April 2024)	
Example Topic	Example Narrative
Difference between the stewardship policies of managers and their clients	As stated in response to Principle 1, Hosking Partners does not generally isolate any single aspect of a company's activities from the rest, including those related to ESG. However, the Firm recognises that in today's market there exists considerable diversity of opinion on certain ESG matters, and particularly the issue of how best to address climate change and reach Net Zero by 2050. These differences can result in minor conflicts regarding the stewardship policies and investment priorities of managers, clients, and beneficiaries. Over the past year, Hosking Partners has continued to work with a major client to ensure their portfolio account stays within a predetermined level of carbon intensity. In the past 12 months specifically, the Firm has continued to evolve this process – in dialogue with the client in question – to ensure client aims are being accomplished in the most effective and efficient manner possible.
Stock-specific exclusions and the response to Russia/Ukraine	The Firm accommodates a range of stock-specific exclusions, sector exclusions and geographical exclusions. Following the Russian invasion of Ukraine, several clients requested the Firm divest its remaining holdings in Russian equities (listed either on the Moscow Stock Exchange or held as internationally listed depositary receipts), while some other clients were content to retain these positions or defer to the investment team's judgement and the ever-changing sanctions restrictions imposed by worldwide jurisdictional bodies. The Firm has continued to work closely with all clients as the conflict has continued over the last 24 months, and the evolving regulatory and sanctions landscape continues to be actively monitored. Hosking Partners is focused on ensuring that any sanctions risks are mitigated, and any potential associated conflicts are minimised.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

ACTIVITY

As a long-term investor Hosking Partners considers a diverse array of financial and non-financial factors when making investments. The Firm believes that the generalist remit of its investment team allows it the perspective to think broadly about the interaction of investee companies and both the market-wide and systemic environment in which they operate. Perturbations at the macro level are directly relevant to the valuation Hosking Partners apply to these companies, and indeed the Firm's capital cycle approach is at least partly reliant on an assessment of which sectors (and constituent companies) are best positioned to navigate market-wide and systemic risks. For example, the Firm consistently seeks to understand issues such as exposure to future regulatory changes, financial liabilities carried off balance sheet, legislative risks, and reputational issues before making an investment decision.

Hosking Partners' approach to identifying and responding to systemic risks avoids setting formalised criteria and considers each situation on its own merits. The investment team are all generalists, and do not have defined areas of focus, which brings a unique perspective to discussions of global trends. The team strives to avoid groupthink and challenge assumptions, using a wide-ranging and carefully selected range of third-party research providers to assist in this effort. Hosking Partners also routinely participate in wider industry initiatives and forums, including UNPRI, AIMA and IIMI. Examples of how the Firm has approached systemic risks over the past 12 months are provided below.

Trailing 12-Month Examples (to 30th April 2024)	
Example Topic	Example Narrative
Development and introduction of a climate risk scenario analysis process	The Firm recognises the market-wide, systemic risk posed by climate change. Over the past 12 months, and in preparation for the Firm's first reporting cycle under the FCA's Enhanced Climate-related Disclosures regulation in Summer 2024, the Firm has worked both internally and with third parties to develop and implement a climate scenario analysis tool. This is designed to both aid the investment team internally in assessing risks affecting the portfolio and identifying opportunities for engagement, but also to provide increased transparency for external clients and prospects. The first FCA report and climate scenario analysis summary will be published publicly in Summer 2024.
Continued use of 'red cord' system following the Russian invasion of Ukraine	Following the Russian invasion of Ukraine in February 2022, the Firm reviewed and updated its procedures for managing novel and emerging risks. In May 2022, having completed a thorough review, the Firm first introduced a new system designed to concentrate attention on novel risks if and when they are identified. Over the past 12 months the Firm has continued to practice and evolve this system, which encourages any member of the Investment Team, Management Committee, or Compliance Team to convene an all-hands meeting to assess a perceived emerging or novel risk to client interests. This extends beyond potential investment risks to include broader reputational, ESG-related, or stewardship-related issues. To date, the Firm has not been required to exercise this function, although several minor issues have been raised to the ManCo for initial consideration.

OUTCOME

Hosking Partners actively consider the ever-changing risks associated with the market as outlined in the examples provided above. Over the past year, the Firm has tightened its processes and procedures in response to growing market and wider geopolitical instability. This tightening includes the introduction of climate-related scenario analysis and continued use of the red cord system noted above, but also a wider range of minor alterations to operational procedures to better safeguard clients' assets. This culture of continual improvement is a key facet of Hosking Partners' working practice and is driven by our Senior Partner supported closely by the Managing Director. The Management Committee routinely monitor the effectiveness of these procedures both internally and as part of a two-way dialogue with our clients and is currently assessed as strong but with further room for incremental improvement.

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

ACTIVITY

Hosking Partners' belief is that active ownership – in the form of long-term analysis of investments, active exercise of voting rights, and constructive engagement – improves management accountability, and long-term returns. Shareholder engagement and stewardship is therefore integral to our investment process.

Hosking Partners has a robust framework in place to support the investment team's approach to stewardship. The Management Committee provide overall oversight of processes and compliance (discussed below), and will also contribute to active ownership issues that go beyond routine engagement. The Operations team collates data on engagement and voting for reporting, client communications, and internal trend analysis. Examples of this data can be found under responses to principles 9-12. The Business Development team works with the Management Committee, portfolio managers, and Operations team to ensure stewardship and engagement policies, actions, and data (respectively) are clearly communicated to clients. The Head of ESG sits outside these teams and works across all staff functions to lead development and evolution of the underlying policies and processes, facilitate open and constructive interaction between teams, and ensure ESG and stewardship reporting is fair, accurate, and balanced.

OUTCOME

Ashland Partners International LLC complete an annual internal controls audit in accordance with ISAE 3402. With regards to stewardship specifically, we are proud signatories of UNPRI and the UK Stewardship Code, and intend to continue to remain signatories and produce updated reports as and when required. UNPRI provides external assurance of our policies and processes. The implementation and assurance of these policies and procedures is reviewed annually and signed off by the Management Committee.

Our first publicly available UNPRI report was published during 2023.

Examples of continuous improvement in our approach to stewardship from the previous 12-months are:

Trailing 12-Month Examples (to 30th April 2024)	
Example Topic	Example Narrative
Expansion of Head of ESG's role with regards to stewardship and engagement leadership	As the Head of ESG has now been in role for over 2.5 years, in the past 12 months they have been handed additional responsibility in identifying and leading engagement tasks on behalf of the wider investment team. This includes drafting and coordinating written engagements, several of which are described under Principle 7.
UK Stewardship Code 2020	Hosking Partners originally signed up to the 2012 version of the UK Stewardship Code in 2015. When the code was updated in 2020, the Firm committed to renewing its signatory status. Over the past 12 months, the Firm was proud to be certified as a signatory and looks forward to continuing its commitment to the Code in 2024/25. In recent months, the Firm has consulted with the FRC to support the subsequent iteration of the Code.

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

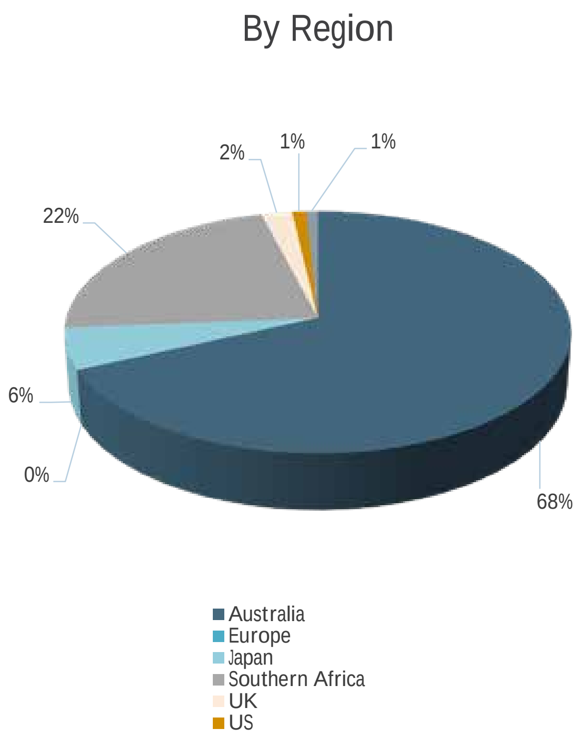
CONTEXT

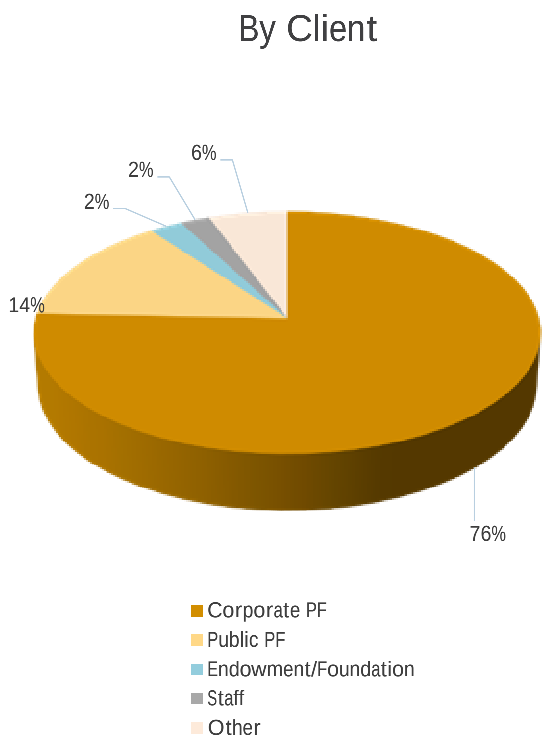
As described under Principle 1, Hosking Partners is a single-strategy firm. The entire team is dedicated to managing global equities for institutional investors. Hosking Partners charge a low base fee plus a performance fee. There is also a tiering mechanism which means the base fee lowers as firm-wide AUM increases. The Firm intentionally aligns its business interests with those of its clients and place emphasis on performance rather than asset growth.

The investment strategy is best described as all-cap core, with a very long-term approach and eclectic style. Over the team's long history of working together, the portfolio has tended to have a value bias (which has recently been increasing). That said, the investment team is not precluded from investing outside of this space and indeed make use of a variety of approaches as part of our analysis that may tend to favour different market sectors, industries, styles and strategies over time.

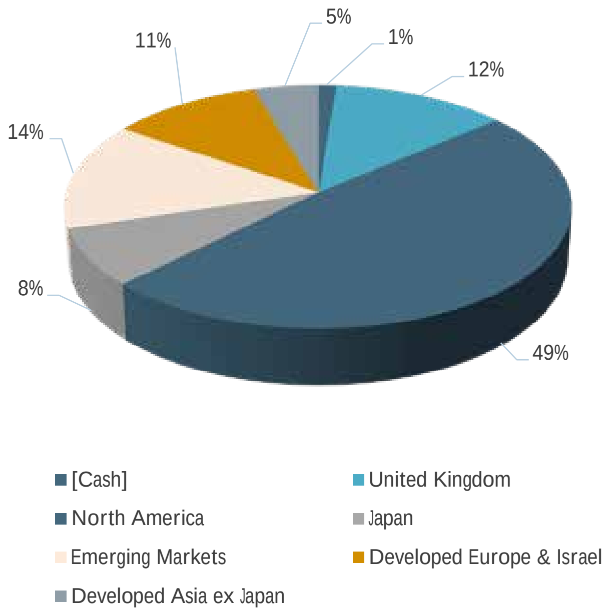
In general, Hosking Partners have observed markets becoming increasingly short-term, with many asset managers mirroring this outlook. In contrast, the Firm's patient investment approach results in an average holding period of around ten years and leads to opportunities not available to short-term players. In other words, the Firm "fishes where the fish are, not where the fishermen are". The Firm believes its patience, rather than its concentration, displays the conviction in its portfolio and also allows tolerance during periods of underperformance, which typically sets the stage for periods of significant outperformance.

Breakdowns of our AUM by geography of the client base and the type of client are depicted below. Also included is a breakdown of our portfolio investment by geography (correct at 20th April 2024).





Breakdown of clients by both region and type

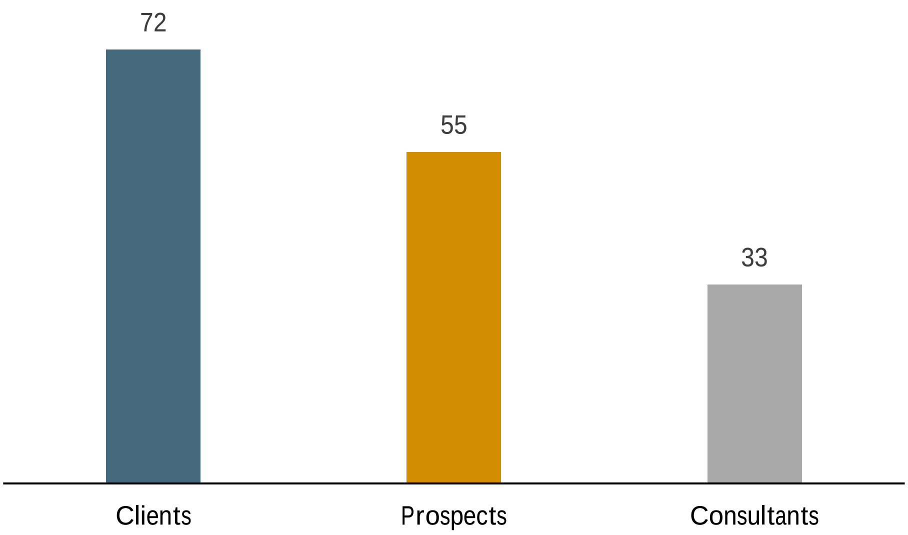


Breakdown of portfolio investments by region

ACTIVITY

Client engagement and communication is a cornerstone of Hosking Partners' core mission. The Firm is in routine communication with all of its clients, in both a responsive and proactive capacity. Given the long investment holding periods, the Firm's is committed to at least one formal meeting with each client per annum, which is always attended by at least one portfolio manager. In practice, the Firm often meets with clients more frequently, and communicates digitally on a regular basis. Portfolio managers are 'on rotation' for these formal meetings, to ensure clients can meet and discuss issues with each portfolio manager in turn, since all four can speak to the global equity strategy that is relevant for all clients. Hosking Partners believe this system is more beneficial to clients' interests than a policy of placing each client in a silo with a single portfolio manager indefinitely, as adopted by some firms.

Some simple statistics describing the total number of client, prospective client, and consultant meetings conducted in 2023 are provided below:



In addition to regular meetings, Hosking Partners produces monthly and quarterly investment reports. The monthly report includes performance returns and a full portfolio holdings list. Quarterly reports include investment commentary, portfolio and performance analysis – attribution, security, regional and sector exposures vs. the benchmark. The Firm also produces a quarterly ESG and Active Ownership Report for clients. This covers ESG and stewardship, voting, and engagement in detail. Complimenting this drumbeat of reporting, the Firm also produces investment thought pieces, the Hosking Post, several times a year. Further, bespoke information is made available to clients upon request.

OUTCOME

Examples of how Hosking Partners have taken the views of clients into account, and resulting actions from the past 12-months, are provided below.

Trailing 12-Month Examples (to 30th April 2024)	
Example Topic	Example Narrative
Client-specific climate-related portfolio targets	Over the past year two clients requested that Hosking Partners tailor their accounts to stay within a predetermined level of carbon intensity, which they felt would best align with the interests of their beneficiaries. The team worked closely with the clients in question to accommodate their requests. The Firm has subsequently updated its investment approach with respect to these clients and adapted relevant processes accordingly. In the last 12 months, the discussion with one client has continued, as they have sought to introduce greater nuance to their carbon emission reduction methodology. The Firm felt this was a welcome change, as the Weighted Average Carbon Intensity (WACI) metric previously utilised is a fairly simplistic measure that can serve to sector-bias a portfolio without offering a clear lever to real-world effect. The Firm continues to work closely with the client in question to further develop the processes that underwrite their conceptual intent, and to ensure that carbon emissions limits can be maintained without negatively affecting either the composition or performance of the associated portfolio account. We expect this process to be finalised in H1 2024.
Stock-specific exclusions and the response to Russia/Ukraine	The Firm accommodates a range of stock-specific exclusions, sector exclusions and geographical exclusions. Following the Russian invasion of Ukraine, several clients requested the Firm divest its remaining holdings in Russian equities (listed either on the Moscow Stock Exchange or held as internationally listed depositary receipts), while some other clients were content to retain these positions or defer to the investment team's judgement and the ever-changing sanctions restrictions imposed by worldwide jurisdictional bodies. The Firm has continued to work closely with all clients as the conflict has continued on over the last 24 months, and the evolving regulatory and sanctions landscape continues to be actively monitored. Hosking Partners is focused on ensuring that any sanctions risks are mitigated, and any potential associated conflicts are minimised.
Voting	Several of the Firm's segregated account clients vote their own proxies. Over the past 12 months the Firm has refined its processes to ensure that these clients are advised of the Firm's voting position in a timely and detailed manner to ensure better alignment of voting positions – this is especially important when the Firm disagrees with the recommendations of management and/or ISS, our provider of proxy voting research and voting platform.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

CONTEXT

As long-term investors Hosking Partners consider many non-financial factors when making investments, including the presence of a significant inside owner, management incentives and other behavioural factors. While the Firm actively considers ESG factors and acts in accordance with the principles set out in the UK Stewardship Code and UNPRI, it does not incorporate formal ESG 'screens' in the same way that it avoids creating and relying on financial models (although Hosking Partners may take notice of models and screens created by others in order to help stimulate discussion and prompt investment ideas).

Hosking Partners believe that the generalist remit of the investment team allows it the perspective to see the wood for the trees. In so doing, the Firm focuses on less obvious risks such as exposure to future regulatory changes, financial liabilities carried off balance sheet, legislative risks, reputational issues, and capital misallocation. These may materialise in any industry, and are relevant across the spectrum of the E, S, and G areas. The hiring of a dedicated Head of ESG in December 2021 enhanced this expanded coverage, and over the course of 2022 and 2023 this resource became further embedded within the investment team, helping to coordinate and lead engagements and adding capacity to the portfolio managers. Engagement remains a key part of the Firm's approach; if an issue which the investment team believes could negatively affect the value of the company is identified, and it is determined that engagement may rectify matters, Hosking Partners will actively engage with the company management/board as appropriate. This is discussed in more detail under Principle 9.

As well as engaging in specific situations and in response to (or ahead of potential) controversies, Hosking Partners focuses on company management and how they are rewarded, considering whether they are exposed to more corrupting incentives which elevate short-term rewards above longer-term success, or more thoughtfully designed schemes promoting better thinking. All investment managers, even the most activist, are essentially subcontracting the majority of capital allocation decisions to underlying managers of the underlying portfolio companies. Part of getting capital allocation right is to think and act on the (often) intangible risks and opportunities captured by the E and the S in ESG, along with other factors that might affect long-term valuations. We discuss this topic at length in our quarterly Active Ownership Report. Careful consideration is therefore undertaken by the portfolio managers assessing whether management teams' time horizons and incentive frameworks come close to aligning them with the company's shareholders.

Given the Firm's contrarian investment approach, it remains alert to the opportunity to exploit the ESG rating process where it is inevitable that there will be certain companies that are rejected by negative screens for reasons which may not be valid (e.g. historic behaviour which is being addressed by concrete governance changes, or quirks in certain climate assessment metrics which unfairly disadvantage certain revenue models). In contrast to relying purely on a simplistic rating system, a contrarian instinct leads Hosking Partners to look below the surface and understand the underlying issues at a fundamental rather than descriptive level.

Hosking Partners consider proxy voting to be a fiduciary duty and an integral component of the investment process. The Firm employs Institutional Shareholder Services (ISS) to assist with proxy voting and provide recommendations prior to implementing the votes on the Firm's behalf. All recommendations are reviewed by a member of the investment team before being accepted. This is discussed in more detail under Principle 12.

ACTIVITY

The relevance and weighting given to ESG, and these other issues depends on the circumstances relevant to the particular investee company and will vary from one investee company to another. This includes the consideration of socio-cultural factors that may be more or less relevant in one geography (or indeed sector) than another. For example, while a mining company operating in South Africa will likely consider broadly the same set of ESG-related risks as a similar company operating in Canada, it may prioritise them very differently. Indeed, the materiality of those issues are likely to vary considerably across geographies. The increasing standardisation of ESG across the financial system can serve to smooth these important differences. This is a key area in which Hosking Partners believes active managers continue to play a critical role in pricing the cross-sectoral and cross-border nuances of ESG issues. As such, the Firm plays close attention to local influences when assessing the materiality of an ESG topic and will also adjust its engagement strategy appropriately to take into consideration cultural norms.

Whilst Hosking Partners may use third-party ESG research, ratings or screens, the investment team does not exclude any geographies, sectors or stocks from its analysis based on ESG profile alone. The Firm's multi-counsellor approach, which is deliberately structured so as to give each autonomous portfolio manager the widest possible opportunity set and minimal constraints on making investment decisions, means that ESG and other issues relevant to the investment process are evaluated by each portfolio manager separately rather than on a firm-wide basis.

In the past 12 months, Hosking Partners have further refined the policies and processes used to ensure ESG continues to be integrated into the Firm's investment decision-making, across the investment, operations and business development functions. This information flow is coordinated by the Head of ESG and driven by monthly ESG meetings with each of the portfolio managers. These meetings ensure shared situational awareness on current ESG issues, engagements, and focus topics. A culture of constructive challenge ensures portfolio managers are encouraged to consider ESG matters, even where they do not form a primary part of their investment thesis or idea, without interfering with their independence and primacy in making the final investment decision. These meeting also cultivate the consideration of longer-term ESG 'themes', which are addressed in the quarterly ESG and Active Ownership Report. In keeping with the Firm's contrarian approach, these themes often address areas of ESG investment that are overlooked or misunderstood and therefore present opportunities which Hosking Partners may look to seize. For example, certain 'hard to decarbonise' sectors (such as aviation or construction materials), are frequently ignored by ESG funds because they appear 'dirty' when viewed cross-sectionally, even though they present some of the best opportunities to reduce gross carbon emissions over time.

On a broader firm level, all members of staff continue to learn more about emissions reporting, led by the Head of ESG. Key areas of focus include the work conducted by the Task Force on Climate-related Financial Disclosures (TCFD), the Transition Pathway Initiative (TPI), and issues and challenges relating to achieving Net Zero by 2050. In the last year, the incoming FCA ECR and SDR regulation has also been a topic of focus. Hosking Partners undertakes to completely offset its own Scope 1, 2 and 3 emissions (less investments) via an agreement with carbon offset providers C-Level. Furthermore, Modern slavery has always been a risk factor in our investment decision making process. Due to new legislation coming from the UK and Australia on this subject, Hosking Partners are now in the process of creating a formalised policy on modern slavery, both at the corporate level and within the context of the investment portfolio. This work is ongoing in partnership with our clients and has recently been formalised within the relevant client mandate.

OUTCOME

Examples of acquisition, monitoring, and exit decisions made primarily or partly on the basis of ESG factors are provided below, with the caveat that Hosking Partners rarely (if ever) makes an investment decision on the basis of a single factor, ESG-related or otherwise. As such, each of the below examples represents a decision reached by integrating a wide list of rationale, of which ESG formed a contributory input:

Trailing 12-Month Examples (to 30th April 2024)	
Example Topic	Example Narrative
Acquisitions and additions (Governance)	**Various Japanese companies**. The Tokyo Stock Exchange has been at the heart of an apparent renaissance in the Japanese stock market in 2023. Specifically, focus has been rightly paid to the TSE's edict, published in the

Spring, imploring Japanese corporates to increase their focus on capital efficiency, improve returns on capital, and thus tackle the significant undervaluation of domestic shares versus global counterparts. A price-to-book ratio ('PBR') below 1x is no longer tolerable.

Corporate governance reform in Japan was first championed by Shinzo Abe in 2013. Codified in 2015, the Corporate Governance Code sought to raise and equalise standards for domestic companies with those of their global peers. With limited independent board representation (less than 5% in 2014), strong bank and crossholding influence on company strategy, and de minimis shareholder involvement in capital allocation decisions, the reforms seemed a promising development for one of the world's major economic superpowers. And yet in 2023, over 50% of Japanese shares still trade at less than 1x PBR, cross-holding ownership remains high (the average Japanese corporate owns 20% of net assets in equities excluding treasury stock), and despite near 40% of listed Japanese companies boasting net cash balance sheets worth over 20% of equity, dividend payout ratios remain stubbornly low.

Importantly, trading at over 1x PBR is not the final destination, but rather the first stop on a longer journey. The Japanese market boasts global market leaders, innovative niche disruptors, and dominant monopolistic businesses. Contrary to popular opinion, it is also a market that grows. Through 2010-2023 the growth rate for Topix-listed corporates' earnings per share was over 11% in US dollar terms, only 1% shy of the Nasdaq equivalent. Why the TSE was understandably reluctant to share what an ideal end destination looks like, it acknowledges that the journey ahead – and opportunity therein – is long-lived. Of this longer list of objectives, arguably the simplest to achieve is encouraging increased usage of English in reporting and disclosure. Perhaps more challenging is the stated objective to improve female Board representation – a target has been set of at least 30% of executive members by 2030 from only 11% in 2022 – but nevertheless the direction of travel is constructive.

These reforms are already gaining traction. The potential is clear, and a snowball effect is building. Companies' investor updates are now making frequent reference to initiatives designed to improve ROE, sharing progress on the shedding of cross holdings, and highlighting the strategic importance of raising PBRs. Total shareholder returns are at all-time highs for the post-War era.

Furthermore, investors themselves are playing an important role in establishing and sustaining this momentum. In recent years the approval ratings for Japanese management teams and boards of directors have reached the lowest levels in reported history. Even domestic investor voting practises – which have traditionally been passive – are increasingly reflecting a renewed challenge towards corporate Japan. Bloated balance sheets, poor returns on capital, and miserly shareholder returns are now being voted accordingly. Activist investors are also playing an important role in encouraging progress. Today over seventy activists are present in Japan – a number that has grown 10x over the past decade – with each pursuing a handful of campaigns on average. Whether public or private, shareholder proposals at general meetings are increasing, and the number of successful campaigns is testament to the largely thoughtful and respectful way they are being pursued. Over the past year, Hosking Partners has 'piggy-backed' on the work of a number of these activists. This strategy allows us to leverage their influence without the need to build concentrated – and therefore potentially risky – single-stock positions.

	As of March 2024, the Hosking Partners portfolio has approximately 12% of client assets invested in Japan across a basket of over 50 holdings.
Exit (Social)	**Chinese solar company**. Chinese solar was heralded by many Western analysts in 2020-21 as a realm of value and opportunity. Margins and market shares were strong, China was a cost-leader, and a moat was emerging in technology R&D. Compared with wind, solar has clear scope to continue getting more efficient – and therefore potentially cheaper – without running into engineering problems where further gains are capped by hard physical laws. As in semiconductors, the intangible value of technological leadership – and the barrier to competitive forces it exerts – is magnified by the rapid pace of change. Comparisons with Taiwan's burgeoning semiconductor industry in the early 2000s did not appear unreasonable. To gain some exposure to this seemingly exciting theme, Hosking Partners initiated a small position in LONGi Green Energy in July 2021. LONGi has a particular focus on manufacturing solar modules, where it is a technology leader. The company has no manufacturing sites in Xinjiang and claimed to have taken the unusual step of requesting 150 of its suppliers make a written commitment against forced labour. Nevertheless, in September 2021 we began a long-running engagement with the company to encourage greater transparency over the issue. The engagement spanned background research, 1-on-1 calls with management, and a series of formal letters over 2021, 2022 and 2023. We worked to gain a more complete understanding of the regulatory and reputational risks facing LONGi due to forced labour allegations. We asked the company how they managed the risk of forced labour, and how their revenues could be affected by related US sanctions. We encouraged them to offer more transparency through their supply chain, citing examples of good practice drawn from elsewhere in our portfolio. For example, we highlighted how Associated British Foods' subsidiary Primark has published a supply chain map and associated human rights audit data. Concurrently, we conducted an in-depth assessment of the broader Chinese solar market. The outcome of this work would help our investment team assess whether to expand our exposure to the sector beyond a single position or reduce it. Despite our efforts, we made relatively little progress determining the scope of LONGi's exposure to forced labour. It was difficult to ascertain the true nature of the problem in general, let alone attribute involvement at the company-level. LONGi itself made some limited efforts to address our concerns, but ultimately seemed unable to fully engage on the issue as the Chinese government effectively prohibits companies from accepting in the first place the proposition that Uyghur forced labour exists at all. This makes it difficult for companies to be open about the extent of their involvement, restricting them to general statements about being opposed to forced labour in principle. Furthermore, LONGi was unwilling to call into question the activities of their major suppliers – most notably Daqo and Hoshine – many of whom form long-term 'strategic partnerships' as part of the industry's complex JV network. Our inability to encourage greater transparency on the materiality of the forced labour risk – combined with a deteriorating and related supply-side picture– led us to sell the portfolio's position in LONGi in August 2023.
Acquisition (Environment)	**US renewables royalties company**. Hosking Partners initiated a position in Altius Renewables Royalties (ARR), a US renewables royalty company. ARR offers exposure to the renewables theme, but without the sorts of risk which have decimated sector returns over the past twelve months (a detailed

	exploration of the ESG-related thinking behind this acquisition is provided in this report). Unlike mineral royalties whose resource is eventually depleted, renewable royalties should theoretically last forever. In fact, they may even become more valuable over time as the infrastructure used to capture the energy (solar panels, wind turbines, etc) is replaced with more technologically advanced and efficient upgrades. Furthermore, a renewable project's connection to the grid creates free optionality for the royalty holder from future projects on that land. This will become increasingly relevant as nimbyism asserts itself. The portfolio approach to development projects breaks the link between where capital is allocated and where the royalties come from. Once sufficient royalties have been created, the company retains an ongoing option to acquire royalties in the remaining projects in the developer's portfolio at a predetermined 10.5% IRR, which in simple terms is a valuable option on interest rates. Overall, Altius' model allows the Firm exposure to the renewable energy theme, while providing protection against the short-term, unpredictable swings driven by the macro environment.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

ACTIVITY

Hosking Partners engages a range of research and service providers, from big banks to small independent boutiques. Because stewardship and engagement are integrated into the investment process from the bottom-up, each of these providers helps inform the Firm's approach despite the fact that few focus on stewardship solely or specifically. The high-quality online resources available through the UNPRI, MSCI and ISS are utilised throughout the Firm, and the portfolio managers draw ESG information from numerous sources including independent third-party research, annual reports, financial statements, broker research, road shows, company meetings and proxy voting research from ISS.

The list of engaged research and service providers is reviewed regularly by the portfolio managers and Management Committee. This review process includes a qualitative discussion of the research and services already provided, and the extent to which they are meeting expectations and providing value for money. The Firm also considers additions to the list, especially where gaps in coverage are identified as new investment ideas increase in prominence. The portfolio managers drive proposals for inclusion, but any member of staff is able to suggest a new provider for consideration by the Management Committee. Furthermore, the Head of ESG has the responsibility to review the use of ESG products and services specifically.

OUTCOME

Hosking Partners continuously monitor the market of ESG research providers for alignment with our investment philosophy and are currently engaging with ISS, Canbury, MSCI, and Integrum to see if their product offerings would support our portfolio managers' and Head of ESG's analysis, and our related reporting process. The Head of ESG leads this process, with a particular focus on service/data providers. Hosking Partners feel that the current market for ESG data is still in the process of maturing, with many offerings remaining overly simplistic or deterministic is their coverage. That said, the market is evolving rapidly, and the Firm will continue to assess new offerings as they arise throughout 2024. In the past 12 months, this has particularly included an evaluation of potential partners who could support the Firm's upcoming reporting under the FCA's Enhanced Climate-Related Disclosure regime.

As has been previously mentioned, Hosking Partners employ ISS to assist with proxy voting. ISS provide recommendations and implement the votes on the Firm's behalf. All recommendations, whether on ESG or other matters, are reviewed by a member of the investment team before being accepted. Where deemed appropriate, an ISS recommendation may be overruled. In each case this decision is justified and recorded, with relevant data and examples communicated to clients quarterly as part of the ESG & Active Ownership Report. In some specific cases clients may express a view on a specific vote issue, which the Firm will consider and action as appropriate. It should be noted that this is not generally encouraged as it may dilute the strength of the Firm's overall vote. More detail on voting, including data from the past 12 months, can be found under Principle 12.

During the last 12 months, the Firm has continued to engage with one provider of carbon emissions data to improve the quality and timeliness of the data provided. This in an area that requires further improvement, as many data providers continue to deliver incomplete or out-of-date information which the Firm has to continuously manually review. The Firm is supportive of the FCA's upcoming regulation of ESG ratings providers, and over the past year has contributed to the ongoing industry consultation on the topic, as well as attended several collaborative sessions (including several organised by the IIMI) which have focused on the area.

Principles 9-11

Signatories engage with issuers to maintain or enhance the value of assets.

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Signatories, where necessary, escalate stewardship activities to influence issuers.

ACTIVITY

Each of Principles 9-11 focus on engagement, so the Firm has elected to collate its responses into a single section to avoid repetition. Hosking Partners' Engagement Policy can be found here.

Engagement is an important part of our process and our willingness to take on large stakes in companies allows us more effectively to put to use the potential value of our engagement. As well as engaging in specific situations, Hosking Partners focus on company management, and careful consideration is undertaken to assess whether the management teams' time horizons and incentive frameworks are aligned with the long-term interests of our clients. The Firm also seeks to confirm management's understanding of capital allocation and believe part of getting capital allocation right is to consider environmental and social risks, along with other factors that might affect a company's long-term valuation.

Hosking Partners are open to engagement in any portfolio company, regardless of the size of holding or topic of engagement, if the Firm deems that there is a material shareholder (or wider stakeholder) benefit to such action. Areas the Firm pays close attention to include (but are not limited to): minority interests; capital allocation strategies; forced labour in the supply chain; energy transition planning; and conflicts of interest.

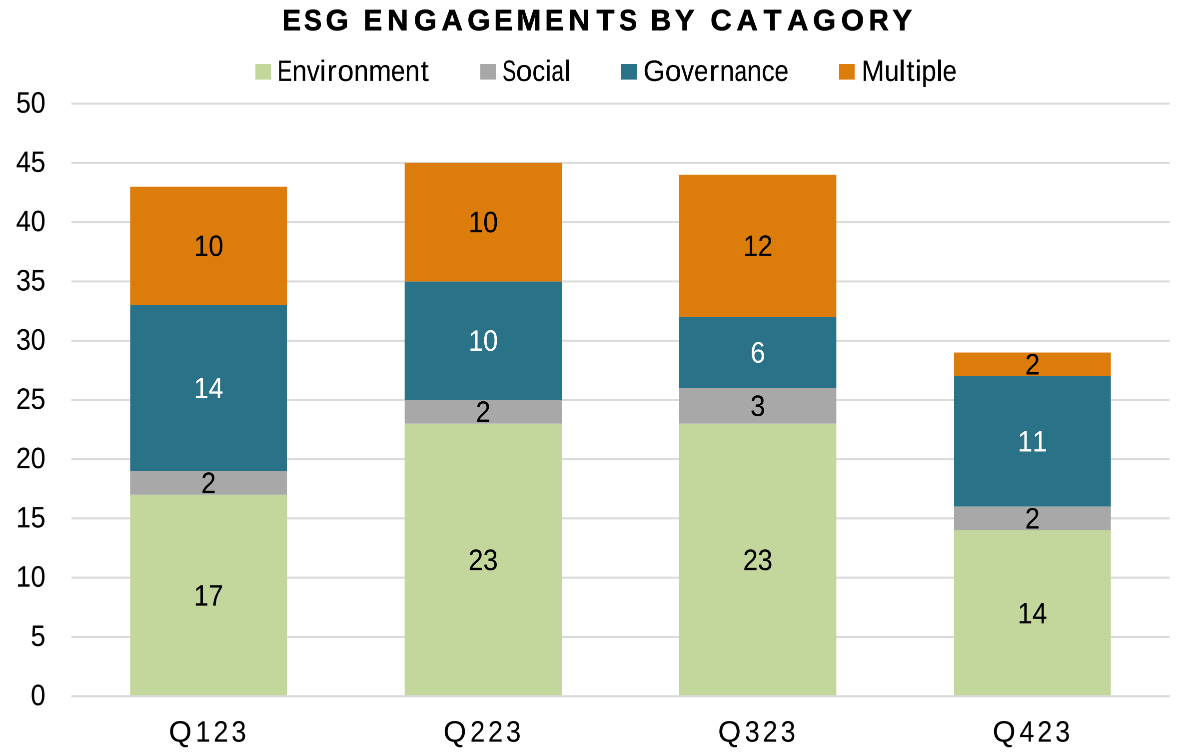
Hosking Partners look to engage with companies generally, and in particular where there is a benefit in communicating its views in order to influence the behaviour or decision-making of management. Engagement will normally be conducted through periodic meetings and calls with company management. Our approach to engagement is consistent across Clients in that the investment strategy is consistent. However, how Hosking Partners looks to engage may differ across geographies. This takes many forms depending on the circumstance and location of a specific engagement. For example, the Firm will be particularly sensitive to avoiding unnecessary publicity when engaging with a Japanese or South Korean company, as these business cultures do not respond in the same way to pressure via publicity as their Western equivalents, for whom this is a recognised engagement tactic. Another example is that engagements with Chinese companies generally take place over a longer time period than elsewhere due to local nuances around transparency, government regulation, and shareholder primacy. Understanding and working within the strictures of local nuances such as these is vital for a global investor like Hosking Partners, and the Firm routinely tailors engagement objectives and timelines accordingly.

Where necessary, Hosking Partners will escalate engagement, with each escalation assessed on a case-by-case basis to determine the appropriate next steps. The decision to escalate considers myriad factors, including: size of holding; geography and sector; cultural differences; time-sensitivity; the aim to be achieved; and outcomes of comparable previous engagements. This may include further contact with executives, meeting or otherwise communicating with non-executive directors, voting, communicating via the company's advisers, submitting resolutions at general meetings, or requisitioning extraordinary general meetings. The Firm may conduct these additional engagements in connection with specific issues or as part of the general, regular contact with companies.

Hosking Partners recognises that there are occasions when it is better to work with other shareholders to effect change. Where Hosking Partners considers that it is likely to enhance its ability to engage with a company, and it is permitted by law and regulation, it will work with other investment firms. This may involve sharing views and ideas with such other institutions. It may also involve meeting companies jointly with other shareholders or using the services of third-party membership organisations or other collaborative or informal groups. Examples of collaborative engagement are provided below.

OUTCOME

The frequency of engagements with companies has increased in the last 12 months given the hiring of the Head of ESG in the prior reporting period and the introduction of three investment analysts to the team. A graphical depiction of ESG-related engagements conducted over calendar year 2023 is included below.



Recent examples of engagement (both individual and collaborative) are provided below.

Trailing 12-Month Examples (to 30th April 2024)	
Example Topic	Example Narrative
Social (individual/collaborative mix)	In Q1 2022 we initiated an ongoing engagement with Sime Darby Plantation ('SDP') regarding allegations of forced labour in the supply chain. This engagement concluded in Q2/Q3 2023. Specifically, there were concerns over the employment of migrant workers, some of whom were being placed into debt bondage by third-party recruitment agencies contracted by SDP. These allegations led the US Customs and Border Protection ('USCBP') to implement a ban on the import of SDP products to the United States. Furthermore, the Roundtable on Sustainable Palm Oil ('RSPO') initiated an independent assessment of SDP's operations to ensure continuing compliance with its standards, particularly around respect for workers' rights. At the time, we engaged with a range of related parties including the company itself, the activist that had originally highlighted the case, as well as Impactt – a consultancy designed to help companies protect human rights – which had been engaged by SDP to provide third-party input to the internal review process related to the allegations. We concluded that while the initial allegations likely had some truth to them, the company had been proactively and comprehensively responded to the allegations and was in the process of

	implementing a thorough review aimed at both resolving historic issues via financial reimbursements and updating policies and procedures to minimize the likelihood of future breaches. Furthermore, we were satisfied that the forced labour issues highlighted were not directly implemented by the company's own operations, but rather related to insufficient oversight of third-party recruitment agencies. We maintained our position in the company subject to ongoing monitoring of the situation and awaited the conclusion of the USCBP and RSPO review processes. The USCBP's import ban was lifted completely in February 2023. In its determination on the issue, the USCBP stated that the comprehensive report provided by SDP "establishes by satisfactory evidence that the subject palm oil and derivative products are no longer mined, produced, or manufactured in any part with forced labor." In so doing, SDP became only the second company in history to have an import ban related to allegations of forced labour overturned by the USCBP (the first was Top Glove in 2020). Furthermore, in May 2023 the RSPO review concluded that SDP's operations are supportive of workers' rights and as such the company remains an accredited member of the Roundtable. In its decision letter, the RSPO stated that SDP had been "proactive and supportive" in responding to the review, and that "the actions taken have addressed the action plan request" related to minimizing the risk of forced labour. As of June 2023, SDP remains the world's largest producer of sustainable palm oil as certified by the RSPO. This engagement demonstrates the importance of conducting thorough, proprietary due diligence following allegations of ESG-related standards breaches, and – where appropriate – of taking a long-term approach that allows companies the opportunity to address such issues internally before considering further escalation. Going forward, the Firm will continue to engage with SDP to ensure the newly introduced standards are upheld.
Governance (individual/collaborative mixed)	Over the course of 2023, Hosking Partners carried out an extensive engagement exercise with British automotive firm Pendragon to untangle a shareholder deadlock that has weighed on the company over the past 18 months. The saga started in Spring 2022, when the company's largest single shareholder – Hedin Group with 29% of the float – approached the company with an offer valued at 28p per share. This was rejected by the board without wider shareholder consideration. A few months later, Hedin blocked a rival approach at 29p by US firm Lithia. Hedin then made a second approach, also at 29p, but failed to turn this into a firm offer amidst rumoured financing difficulty. Meanwhile, Pendragon's share price languished around 18p. Throughout, the situation was complicated by an indecisive board and competing interests among management, board, and different groups of shareholders. In February 2023, activist investor Palliser Capital emerged on the scene. It sought support from other shareholders for a letter to the Pendragon board urging a more proactive approach to resolving the shareholder deadlock, as well as for the company to carry out a thorough strategic review. Following discussions with the C-suite, board members, and other shareholders, we gave our support to the letter, subject to conditions. Hosking Partners made clear that our preferred solution would be one whereby Pendragon sold its legacy automotive business but retained ownership of its promising software enterprise, Pinewood. We valued the business at around 30p per share on a

	look-through basis, around a 50% premium to its share price at the time. At the AGM we supported the company, on the understanding that changes to the board would be announced subsequently, and the strategic review carried out. In September 2023, we were pleased to see our faith rewarded when Lithia announced a fresh approach worth a total of 27.4p per share. The offer was structured as a Class 1 transaction, requiring a simple majority (50%) of supporting votes to pass. This prevented Hedin from unilaterally blocking the deal, and so broke the shareholder deadlock. As we saw this as an attractive outcome for shareholders, we agreed to sign an irrevocable undertaking to accept the offer subject to the condition that this would fall away if a subsequent rival offer at a higher price received a board recommendation. Days later a bidding war broke out. Hedin and another US auto-retailer, Autonation, both launched all-cash offers at 32p per share. Our support for the Lithia approach, which had left the door open for other bidders, was rewarded when Lithia then responded with a raised offer, similarly structured to the first but priced at the higher level of 35.4p. At this point, Hedin and Autonation dropped out of the running, and the Lithia proposal was overwhelmingly approved by shareholders at a general meeting held on 26th October 2023. This successful outcome demonstrates the value of persistent and wide-ranging engagement. It further demonstrates the importance of careful collaboration with others, as well as the value of prudence and caution when agreeing to commit voting shares, particularly to a course of action that is strongly supported by management. We plan to retain our holding in the new listed entity – Pinewood Technologies – and look forward to continuing to work closely with the company in the interests of our clients.
Governance (individual)	Cosmo Energy was, until recently, a holding we shared with the activist Yoshiaki Murakami. After he acquired 20% of Japan's third largest oil refinery company, the board implemented a poison pill to prevent him acquiring more without approval via an EGM vote. When he announced a desire to increase his stake to 25%, the board set a date accordingly and launched a campaign to corral votes against Mr Murakami. Hosking Partners have been actively engaged with Cosmo throughout 2023, meeting them in person in Japan in September, in addition to hosting the CEO at our offices in London in the run-up to the EGM. The management had articulated concerns that Mr Murakami's interests were not aligned to long-term value creation, as they feared he intended to use his increased leverage over the company to force it into a buyback into which he would tender his own shares. Ahead of the proposed EGM, ISS sided with management on the basis that (1) the poison pill proposal met its technical framework for support, and (2) because Mr Murakami had "not presented concrete suggestions that would provide unaffiliated shareholders with sufficient comfort to support a larger stake". In our view, Cosmo's concerns were unconvincing. Mr Murakami's organisation (City Index Eleventh) had publicly stated that its goal was not to offload their stake into buybacks, but rather to improve Cosmo's share price to above 1x PBR, in line with both the Tokyo Stock Exchange's recent edict and wider shareholder interests. The actions taken by Mr Murakami since initiating his 20% shareholding in Cosmo had been supportive of this stated aim, and we were hopeful that a larger stake might catalyse

	further industry consolidation. As such, we communicated our thoughts to management, and planned to vote against the poison pill. However, as it happened, the EGM never took place. Instead, the energy and gas services company Iwatani emerged as Cosmo's 'white knight' when they acquired Murakami's stake for a small premium to the market price, and thus replaced him on the register. This unexpected development is a reminder that the increasing activism we are seeing in the Japanese market will not be without its fair share of surprises. However, this experience has not fundamentally altered our thesis on Cosmo (or Japan more broadly), where we feel there remain several 'ways to win'. The importance of maintaining such upside optionality in Japan has been underlined by the sequence of events surrounding the Murakami-Cosmo incident. The coming year promises to be an interesting one for Japan's three refining companies; two refineries will close, withdrawing approximately 10% of industry capacity. It seems likely overall capacity utilisation will be high as a result, which is likely to support profit margins in the absence of a larger-than-expected decline in demand for petrochemical products. Against that backdrop Cosmo – like so many Japanese companies – is executing a strategy to optimise its balance sheet, improve ROE, and enhance shareholder returns. Our engagement with the company has supported these goals. They have committed to returning at least 60% of cumulative returns to shareholders (excluding inventory adjustments). Last year they returned 40% which equated to a 5.2% dividend yield and, all-else-equal, the yield will rise to the high-single-digit range (or higher if refining margins rise) as the pay-out ratio progresses towards the target level. Hosking Partners has several investments in global refineries, and we anticipate improving returns as the decline in capacity shifts into a deficit situation. We will continue to engage with Cosmo as part of our broader work within the Japanese market as the new year unfolds.

Principle 12

Signatories actively exercise their rights and responsibilities.

CONTEXT

Hosking Partners believe that active ownership – in the form of long-term analysis of investments, active exercise of voting rights, and constructive engagement – improves management accountability, and long-term returns. The Firm votes proxies in accordance with the procedures set forth below. The procedures apply to any voting or consent rights with respect to securities of the pooled funds and segregated clients (where delegated to the Firm). Our full Voting Policy can be found here.

Hosking Partners maintains proxy voting policies and procedures that are designed to ensure that it instructs the voting of proxies and the exercise of other rights attached to shares, taking account of the Firm's long-term investment perspective and its clients' investment objectives and policy and interests, subject to any restrictions attached to the exercise of such rights. Hosking Partners uses the proxy voting research coverage of ISS. Recommendations are provided for review internally and where the portfolio manager wishes to override the recommendation, they give instructions to vote in a manner in which they believe is in the best interests of its clients. This is discussed in further detail under 'Activity'.

The Firm will consider a range of factors in relation to proxy voting which include (but are not limited to) the following:

- *Board of Directors and Corporate Governance.* Factors such as the directors' track records, the issuer's performance, qualifications of directors and the strategic plans of the candidates.

- *Appointment / re-appointment of auditors.* The independence and standing of the audit firm, which may include a consideration of non-audit services provided by the audit firm and whether there is periodic rotation of auditors after a number of years' service.

- *Management Compensation.* Factors such as whether compensation is equity-based and/or aligned to the long-term interests of the issuer's shareholders and levels of disclosure provided by issuers regarding their remuneration policies and practices.

- *Takeovers, mergers, corporate restructuring, and related issues.* These will be considered on a case-by-case basis to determine whether they are in the best interests of shareholders.

In certain circumstances, Hosking Partners' instructions regarding the exercise of voting rights may not be implemented in full, including where the underlying issuer imposes share blocking restrictions on the securities, the underlying beneficiary has not arranged the appropriate power of attorney documentation, the relevant securities are out on loan or the relevant custodian or ISS do not process a proxy or provide insufficient notice of a vote. In addition, the exercise of voting rights may be constrained by certain country or company specific issues such as voting caps, votes on a show of hands (rather than a poll) and other procedures or requirements under the constitution of the relevant company or applicable law.

Clients are informed of upcoming votes in advance and in some specific cases may write to Hosking Partners to express a view on voting intention, although this is not generally encouraged as it may dilute the strength of the Firm's overall vote. Where an instruction is placed by a client that is contrary to the house position, Hosking Partners will vote the account's shares in accordance with their instruction. Generally, this process is only facilitated for large institutional clients who are required by their own internal policies to support or oppose certain types of resolution (e.g., climate change) in line with a pre-determined position. Such instructions remain rare.

ACTIVITY

The Firm entered into a proxy voting service agreement with ISS on 17 June 2014. ISS is a provider of corporate governance solutions for asset owners, investment managers, and asset service providers. ISS' solutions include objective governance research and recommendations and end-to-end proxy voting and distribution solutions.

The Firm has subscribed to the 'Implied Consent' service feature under the ISS Agreement to determine when and how ISS executes ballots on behalf of the funds and segregated clients. This service allows ISS to execute ballots on the on the funds' and segregated clients' behalf in accordance with the ISS vote recommendations. However, the Firm retains the right to override the vote if it disagrees with the ISS vote recommendation by using the ISS Proxy Exchange platform to communicate override instructions to ISS. In practice, ISS notifies the Firm of upcoming proxy voting and makes available the research material produced by ISS in relation to the proxies. The Firm then decides whether or not to override any of ISS' recommendations.

Hosking Partners' investment strategy is founded on a multi-counsellor approach with each portfolio manager operating on an autonomous basis. The decision as to whether to follow or to override an ISS recommendation or what action to take in respect of other shareholder rights is ultimately taken by the individual portfolio manager(s) who hold the position. In circumstances where more than one portfolio manager holds the stock in question, it is feasible, under this multi-counsellor approach, that the portfolio managers may have divergent views on the proxy vote in question and may vote their portion of the total holding differently. Any decision to override the ISS recommendation is reviewed by Compliance to check that it does not give rise to any conflicts of interest and records are maintained.

Data describing the voting practices of Hosking Partners for calendar year 2023 is provided below. The '% shareholder' column describes the proportion of the relevant category and instruction which were shareholder proposals (e.g., 2% of the 5,188 proposals voted 'FOR' were shareholder proposals).

2023 FULL YEAR THEMATIC BREAKDOWN	FOR		AGAINST		ABSTAIN		AGAINST ISS	
	Total	% share-holder	Total	% share-holder	Total	% share-holder	Total	% share-holder
Director related, elections etc	**2,958**	1%	**239**	6%	**23**	-	**64**	11%
Routine/Business	**951**	<1%	**48**	17%	**-**	-	**2**	-
Capitalisation incl. share issuances	**482**	-	**44**	-	**-**	-	**7**	-
Remuneration & Non-Salary Comp	**595**	2%	**105**	4%	**-**	-	**15**	7%
Takeover Related	**58**	-	**8**	-	**-**	-	**--**	-
Environmental, Social, and Corporate Governance	**81**	46%	**81**	93%	**1**	100%	**16**	94%
Other	**63**	19%	**31**	23%	**1**	-	**11**	18%
Total	**5,188**	2%	**556**	20%	**25**	4%	**115**	19%

Notable examples of voting decisions taken over the past 12 months are provided below:

Trailing 12-Month Examples (to 30th April 2024)	
Example Topic	Example Narrative
Vote FOR (with Management, against ISS)	On multiple occasions over 2023 ISS recommended to vote against the appointment of certain directors due to the proportion of the company's net assets allocated to cross-shareholdings. ISS suggest this is a misallocation of

	capital and therefore a failing of top management. However, this is common practice in Japan, cross-shareholdings are when a company holds shares of another company, the purpose of which can be to strengthen relationships with customers, suppliers and other stakeholders, in addition to pure financial investment. However, ISS suggest that such material interests pose a potential threat to objectivity if any holding becomes too influential, or concentration risk if one were to collapse. We understand ISS's concern and agree that substantial cross-shareholdings do need to be monitored, however we recognize their benefit and consider both the financial and reputational impact associated with an abrupt disposal of these holdings. The issue of cross-shareholdings was raised in several meetings and was reviewed on a case-by-case basis, but in respect of Dai Nippon Printing we recognize the recommendation by ISS was purely mechanical, and the company was able to satisfy our concerns by outlining the reductions undertaken so far and the plans to achieve a level below ISS's threshold over a multiyear horizon.
Vote FOR (with Management, against ISS)	A request raised frequently at AGMs is to approve a share repurchase (i.e., buyback) program. As per their Policy on share repurchase programs, ISS generally will not support a program if its value exceeds 10% of market capitalisation. However, we believe that the opportunity to carry out buybacks at attractive prices generally outweighs the risks, and as such have voted with management on several of these requests. Luceco Plc was one such company. In this instance ISS were in support since the size of the buyback was within their recommended limits. However, on this occasion a consequence of the buyback was that the aggregated voting interest of a Concert Party would further increase, triggering Rule 9 of the Takeover Code which would usually require the Concert Party to make a general offer for all the remaining equity share capital. The company had requested that this obligation be waived. The purpose of this rule is to protect the company against a creeping takeover and ensure that shareholders receive a control premium if control of the company were to shift. The Concert Party communicated that their intentions did not include taking control or changing the operation or structure of the company. Under external advisement, the Independent Directors of Luceco were satisfied with the Party's intentions and "consider the waiver… to be in the best interests of the company and non-concert party shareholders". As such we resolved to vote with management, satisfied with the review, and reiterating that the value of the buybacks outweigh the risk of creeping takeover.
Vote FOR (with Management, against ISS)	ISS, has developed several voting policies to automate their recommendations, based on pre-determined measures, generally benchmarked against relevant peer groups. This allows ISS to deliver research and recommendations more quickly than they could otherwise, as well as ensuring consistency in their judgement of ESG standards. Although efficient, this approach has its limitations. For example, it does not always have the flexibility to fairly assess the appropriateness of practices within a company subject to atypical circumstances. One victim of this in Q3 2024 was Champion Iron Ltd, an iron ore exploration company operating out of Canada, but incorporated in Australia. This geographic dislocation was the key source of a disconnect between ISS and the company. ISS recommended voting AGAINST the company's remuneration report, citing misalignment between the pay for performance model and shareholder outcomes, which ISS state are inconsistent with accepted market practice. Specifically, ISS raised concerns such as the upper discretion exercised on the Short-Term Incentive Plan (STIP), inconsistencies between the company's Long-

	Term Incentive (LTI) programme compared with those of other ASX200 listed companies, and excessive termination benefits awarded to the former CFO. ISS has flagged these concerns repeatedly and as a result ISS also recommended voting AGAINST the re-election of the company's Head of Remuneration for bearing ultimate responsibility for these practices. Finally, ISS recommended voting AGAINST the re-election of the Executive Chair, due primarily to their classification as an over boarded director given he also serves as Chair of Burgundy Diamond Mines Ltd. Hosking Partners consulted with Champion Iron Ore to discuss ISS' concerns. The company highlighted several factors not reflected in ISS' judgement, including the sensitivity of financial performance to market conditions outside of management's control, for which the STIP parameters were sympathetically adjusted. Further, in response to ISS' comparison of standard market practices, the company highlighted that, although incorporated in Australia where the ASX200 might be a relevant comparator, the company's workforce and operations are all based in Canada, where the LTI programme is in line with local market practices. On a similar note, the termination benefits paid to the former CFO were required by local Quebec law, further highlighting the inappropriate application of ISS' rules-based approach. Finally, although the company recognised that the Executive Chair is over boarded by ISS standards, they evidenced his clear commitment to the company by his perfect attendance record, and his position as the company's founder and largest shareholder. Champion Iron Ore has appealed persistently to ISS to recognize the relevant policy differences between their country of incorporation and their country of operation, but thus far have had no such success. This meeting highlights the importance of independent review and the need for managers to play an active role in proxy voting, even whilst proxy research providers like ISS become increasingly efficient and adaptive. Fund managers should remain cognizant to the limitations of a low-touch, rules-based application for providing subjective judgement. Simultaneously, this encourages healthy communication with management, which improves mutual understanding between management and shareholders, and furthers alignment of interests accordingly.
Vote FOR (against Management, mixed ISS)	In addition to management proposals, shareholders will occasionally submit their own proposals for company meetings. These proposals, although generally non-binding, allow investors to raise concerns to management and other shareholders, which they expect management to appropriately address. Typically, management are opposed to such proposals, which tend to limit their autonomy, however they should give adequate attention to these concerns to ensure alignment of goals and long-term cooperation, especially when such proposals garner strong shareholder support. Hosking Partners tend to side with management on such proposals. As per the statistics on page 28, in 2023 we were ten times more likely to vote against a shareholder proposal than in favour of it. This is because in general, we believe that management performs best when given the flexibility to make effective decisions, and shareholder proposals are often unduly restrictive. We prefer to allow management a reasonable level of autonomy, while carefully monitoring their actions to ensure they continue to act in the best interests of shareholders and wider stakeholders.

	Several shareholder proposals were raised during Q4 2023 for one of our holdings, Texas Pacific Land Corporation, including the right to call a special meeting, right to act by written consent, adoption of a share retention policy, require an independent board chair, adjust classification of meeting proposals, and restrict severance agreements. ISS were in support of some of these proposals, whilst they viewed others as superfluous, although not entirely without merit. The board of Texas Pacific have a poor record of shareholder engagement following similar proposals in the past. In this case, we felt that shareholder rights are being neglected, and as such voted in favour of all shareholder proposals, each of which promotes shareholder empowerment, effective governance, and should better align the goals of senior executives with shareholders. Whilst we recognise some of the proposals may be verging on excessive in this regard, we feel it is important to reflect our discontent with the company's lack of response towards legitimate shareholder concerns.
Vote FOR (against Management, mixed ISS)	Several shareholder proposals were submitted for the Microsoft Annual General Meeting in Q4 2023. As is common in businesses of its size, the company tends to be highly proactive in identifying and managing new and evolving risks and provide extensive reporting and disclosures on their assessments. Consequently, ISS recognise that many shareholder proposals are unnecessary, with sufficient information already available. As such, at this meeting, ISS recommended against all shareholder proposals bar one. The proposal in question expressed concern about Microsoft's plans to expand data centres in locations mentioned in the U.S. State Department's Human Rights Reports, particularly in Saudi Arabia. It argued that Microsoft has not disclosed how it will uphold its commitment to protecting fundamental rights as per the Trusted Cloud Principles, to which the company is a signatory. The proposal asserted that Microsoft's support for laws allowing government data requests in Saudi Arabia contradicts international human rights standards, undermining privacy and enabling state surveillance. Furthermore, Microsoft has not conducted a human rights impact assessment or engaged stakeholders. The proposal called for a comprehensive evaluation of Microsoft's human rights due diligence processes regarding the location of cloud computing operations. ISS argued that the proposal expressed valid concerns regarding the expansion of Microsoft's data centres (with $2.1 billion committed in Saudi Arabia alone). The lack of transparency on how Microsoft plans to uphold its commitments to fundamental human rights raises legitimate questions about potential risks associated with the company's operations in such regions. The Microsoft board's opposition statement downplayed the importance of additional reporting, citing existing commitments and due diligence processes. However, ISS argued that the increasing demand for cloud computing infrastructure, combined with potential risks of complicity with human rights violations, underscores the importance of enhanced disclosure in this case. Although we recognise the need to keep up with growing customer demands, we also share the concern that any heightened risk to human rights should be thoroughly and proactively assessed. As Microsoft embarks on a substantial build-out of data centre operations, additional transparency is crucial for shareholders to evaluate the company's management of associated risks. In essence, supporting the proposal aligns with the need for comprehensive information to make informed assessments regarding Microsoft's human rights

	efforts in high-risk countries. As such, we voted in line with ISS in support of this proposal.

OUTCOME

An example of a notable outcome resulting from resolutions on which the Firm voted over the past year is provided below:

Trailing 12-Month Examples (to 30th April 2024)	
Example Topic	Example Narrative
Governance / Social	The 2023 AGM for Kroger saw a shareholder resolution raised requesting improved reporting on 'say on pay' / pay equity. This is a complex issue which we tend to assess on a case-by-case basis. In this case, Hosking Partners voted FOR this resolution, as on balance we believe food retailers such as Kroger would benefit from greater transparency on pay inequality. The vote passed with 51% of the vote and are looking forward to the work Kroger produce as a result.
Governance	See engagement example for Pendragon on pages 24-25, which resulted in an important voting outcome to which the Firm actively contributed.

Statement of Compliance

Hosking Partners LLP is authorised and regulated by the Financial Conduct Authority in the United Kingdom and registered with the Securities and Exchange Commission in the United States. The investment objective is to achieve rates of return in excess of the benchmark over the long term via investment in a portfolio of global securities.

The UK Stewardship Code is overseen and published by the Financial Reporting Council, the independent regulator overseeing financial reporting, accounting and auditing and corporate governance. The Code, first published in 2010, sets the benchmark in the UK for institutional investors to meet ownership obligations in respect of their holdings of UK equities.

Hosking Partners' multi-counsellor approach is deliberately structured to give each autonomous portfolio manager the widest possible opportunity set and minimal constraints to make investment decisions.

Hosking Partners supports the aims of the Stewardship Code for its UK investments and supports the Principles as best practice for its other investments. Hosking Partners considers that it complies with the recommendations of the UK Stewardship Code. Set out in the preceding document is the approach taken in respect of the key recommendations.

Contact

Please direct any questions regarding Hosking Partners' approach to stewardship to one of the following:

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Signatory of:

Supporter of: