Hosking Partners®

Quarterly Commentary
Q1 2024

www.hoskingpartners.com | info@hoskingpartners.com | +44 (0) 20 7004 7850 | 11 Charles II Street, London, SW1Y 4QU

Spring has sprung!

The Hosking Partners portfolio saw another positive quarter of returns. This performance builds on recent strength, taking gross portfolio returns over the past three quarters to 20.9% versus 16.0% for the MSCI ACWI (in US dollar terms). The absolute and relative returns speak to a shifting of the investment sands. It would appear we are now at “the beginning of the beginning” of the long-awaited momentum unwind.

That the portfolio’s positive performance came notwithstanding the drag of the c.20% underweight to North America underlines this view. Encouragingly, the negative effect of the underweight to North America was more than offset by contributions from Japan and the Emerging Markets. Comprising a historically high two-thirds of the MSCI ACWI, the US market remains – for now – the centre of the investing world, especially in light of the dominant AI narrative. Despite this powerful technology thematic, we take solace from the increasing dispersion of shareholder returns among the dominant large cap US tech companies. Our longstanding zero weight to Apple (discussed in our last quarterly update) was, for the second time in three quarters, the largest single-stock contributor. That Tesla (also zero weight) was the second largest single stock contributor underlines the impact of index concentration unwinding. We watch the unfolding EV movie with interest, it is possible that Tesla has peaked in share price terms at the exact moment when the massively over-capitalised Chinese EV industry has started to export its glut of surplus vehicles. Stellantis CEO Carlos Tavares has referred to the situation as a competitive ‘bloodbath’. As capital cycle investors, focused on the supply side of industries, we have sympathy.

Whether the remaining Magnificent Seven companies are at such a risk is debatable. In a recent call with Empirical Partners, it was noted that in 2023, 50% of all S&P500 capex was deployed by just these 7 companies. The remaining 493 companies account for the remaining 50% of the index’s capex. It is clear that the Magnificent Seven are increasingly not ‘capital light’ businesses. As they move to compete in cloud, data centers and AI, their returns are, all else equal, likely to be pressured. This is the case in China, where the large tech companies compete head on in areas such as cloud and where valuations, for a variety of reasons, have collapsed.

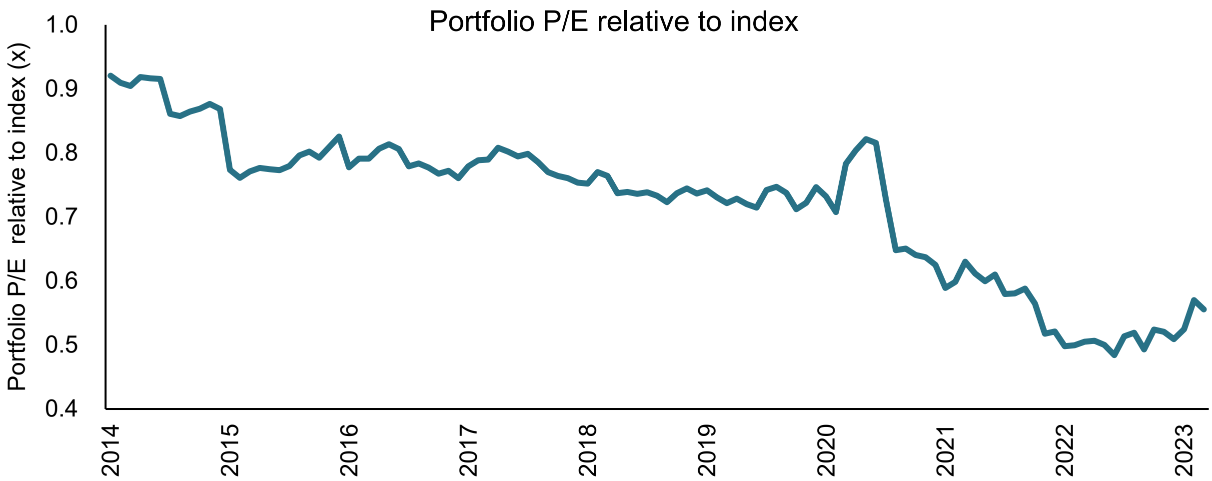
The renaissance of the Japanese stock market continued. Despite a 6.8% fall in the yen, MSCI Japan rose 11% in US dollar terms. The basket of over 50 Japanese names within the portfolio added value with a number of our small cap and activist-inspired investments seeing significant corporate activity. Whilst the pace of Japanese purchases slowed considerably in the quarter, with just two new single stock additions, we see significant latent value in our holdings particularly as industrial consolidation – a key part of the Japan value release puzzle – becomes a reality. Elsewhere, on a sector basis, the largest positive contributor was financials, while our exposure to memory semiconductors, stood out amid the portfolio underweight to IT.

It was gratifying to see a number of our idiosyncratic smaller cap shares make substantial contributions to the overall portfolio return. Our basket of nine Sri Lankan names rose c.17% in US dollar terms over the quarter. The Sri Lankan economy grew 4.5% in Q4 2023, the first positive quarter since the Covid-era economic crisis and subsequent IMF program. With tourism numbers increasing month by month, the investment outlook is bright, with foreign institutions still largely absent. Indeed, Hosking Partners was the largest institutional participant in the Sri Lankan stock exchange during 2023.

Detractors for the quarter came in the form of the underweight positions in notable US growth stock performers. At the sector level, our mining companies remained under pressure for much of the quarter. The debate over the Chinese economy and the CCP’s ability to deal with the deflation of a housing bubble continues, with commodity prices particularly sensitive to newsflow around any potential stimulative measures. Regular readers of these reports do not need reminding that our mining investments are predicated on supply curtailment and not speculation regarding China demand.

Turnover was c.2.8% for the quarter, with notable purchases in emerging markets and the mining sector. These included a new position in an Indonesian financial, Indian gold-loan company, and a Turkish warehouse operator that Django Davidson and Omar Malik met during a trip to Istanbul in October 2023. Mining investments saw additions to the copper basket where we see encouraging signs of our supply constrained capital cycle thesis playing out as described in our Copper Capital Cycle Hosking Post of March 2023. Whilst our investment thesis in copper is supply predicated, we recognise a clear benefit for copper should some of the more aggressive AI demand forecasts materialise. For instance, JP Morgan estimate that each 1 MW of data center power capacity requires 20-40 tonnes of copper, which would add up to 5 million tonnes of additional copper demand by 2030, equal to nearly one-fifth of annual primary copper supply.

The portfolio activity underscores a long run portfolio trend; the recycling of the portfolio's assets from cyclical ideas that have matured into situations where the opportunity lies ahead. Overlaid with a geographic skew that has seen the portfolio re-orientate from the expensive US market into lowly-valued emerging markets, Japan and Europe. This process has been a decade-long work in progress. These actions take advantage of those variables under our control and have led to a portfolio that has halved in value versus the index over the past decade (see chart below).



Source: Hosking Partners, FactSet. Representative portfolio as at 29 Feb 2024. Index is the MSCI ACWI Index.

This is relevant as we believe that we have avoided (or perhaps more accurately not participated in!) the major market excesses of the past decade. The period of normalisation is likely to take many years. The emerging outperformance of the portfolio feels like the arrival of Spring for long-term capital cycle investors. There will still be the occasional cold night ahead, but we are off to the garden to tend to the sweet peas.

Legal & Regulatory Notice

Hosking Partners LLP (“Hosking”) is authorised and regulated by the Financial Conduct Authority and is also registered as an Investment Adviser with the Securities and Exchange Commission. Hosking Partners LLP (ARBN 613 188 471) is a limited liability partnership formed in the United Kingdom and the liability of its members is limited. Hosking is exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 (Commonwealth of Australia) (“Corporations Act”) in respect of the financial services it provides to Wholesale Clients in Australia. Hosking accordingly does not hold an Australian financial services licence. Hosking is authorised under United Kingdom laws, which differ from Australian laws.

The information contained in this document is strictly confidential and is intended only for use by the person to whom Hosking has provided the material. No part of this report may be divulged to any other person, distributed, and/or reproduced without the prior written permission of Hosking.

The investment products and services of Hosking Partners LLP are only available to persons who are “Professional Clients” for the purpose of the Financial Conduct Authority’s rules and, in relation to Australia, who are also “wholesale clients” as defined in the Corporations Act of Australia (“Wholesale Clients”) and this document is intended for Professional Clients and, where applicable, Wholesale Clients only.

This document is for general information purposes only and does not constitute an offer to buy or sell shares in any pooled funds managed or advised by Hosking. Investment in a Hosking pooled fund is subject to the terms of the offering documents of the relevant fund and distribution of fund offering documents restricted to persons who are “Professional Clients” for the purpose of the Financial Conduct Authority’s rules and, for US investors, “Qualified Purchasers” or, for Australian investors, Wholesale Clients and whom Hosking have selected to receive such offering documents after completion of due diligence verification.

This document is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. Distribution in the United States, or for the account of a "US persons", is restricted to persons who are "accredited investors", as defined in the Securities Act 1933, as amended, and "qualified purchasers", as defined in the Investment Company Act 1940, as amended.

“Hosking Partners” is the registered trademark of Hosking Partners LLP in the UK and on the Supplemental Register in the U.S.

Opinions expressed are current as of the date appearing in this document only. This document is produced for information purposes only and does not constitute advice, a recommendation, an offer or a solicitation to purchase or sell any securities (including shares or units of any pooled fund managed or advised by Hosking) or any other financial instrument or to invest with Hosking or appoint Hosking to provide any financial services, nor shall it form the basis of or be relied upon in connection with any contract or commitment whatsoever. In addition, this document does not constitute legal, regulatory, tax, accounting, investment or other advice.

Opinions included in this material constitute the judgment of the author at the time specified and may be subject to change without notice. Hosking is not obliged to update or alter the information or opinions contained within this material. Hosking has taken all reasonable care to ensure that the information contained in this document is accurate at the time of publication; however it does not make any guarantee as to the accuracy of the information provided. While many of the thoughts expressed in this document are presented in a factual manner, the discussion reflects only the author’s beliefs and opinions about the financial markets in which it invests portfolio assets following its investment strategy, and these beliefs and opinions are subject to change at any time.

Any issuers or securities noted in this document are provided as illustrations or examples only for the limited purpose of analysing general market or economic conditions and may not form the basis for an investment decision nor are they intended as investment advice. Such examples will not necessarily be sold, purchased or recommended for portfolios managed by Hosking. Nor do they represent all of the investments sold, purchased or recommended for portfolios managed by Hosking within the last twelve months; a complete list of such investments is available on request. Partners, officers, employees or clients of Hosking may have positions in the securities or investments mentioned in this document.

Certain information contained in this material may constitute forward-looking statements, which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “target,” “project,” “projections,” “estimate,” “intend,” “continue,” or “believe,” or the negatives thereof or other variations thereon or comparable terminology. Such statements are not guarantees of future performance or activities. Due to various risks and uncertainties, actual events or results or the actual performance may differ materially from those reflected or contemplated in such forward-looking statements.

Please note that different types of investments, if contained within this material, involve varying degrees of risk and there can be no assurance that any specific investment may either be suitable, appropriate or profitable for a client or prospective client’s investment portfolio.

This document may include statistical data and other information received or derived from third party sources, and Hosking makes no representation or warranty as to the accuracy of that third party data or information.