



Hosking Partners[®]

ESG & Active Ownership Report Q1 2025

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Foreword



We start 2025 in sterling contrarian spirit, with a report by portfolio manager Omar Malik outlining our thesis for a basket of names in the downtrodden European chemicals industry.

This is a story that gets to the heart of what we believe it means to invest responsibly: finding and backing management teams who have a genuinely long-term mindset, whose industries operate at the nexus of powerful global trends, and whose priority is the sustainable generation of value for both shareholders and wider societal stakeholders.

In our voting discussion section, we return to Japan, where we continue to act in support of the country's nascent corporate governance revolution, where a renewed focus on improving ROE is a top priority.

We also report on an ongoing engagement with Platinum Group Metals (PGM) miner and long-term portfolio holding Sibanye Stillwater, who continue to improve their oversight and protection of labour standards in South Africa.

We hope you enjoy the report, and please do reach out with any questions.

Roman Cassini

Portfolio Specialist & Head of ESG

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VOTING SUMMARY	Q1	2025
Meetings Voted	39	39
Proposals Voted	389	389

ENGAGEMENT SUMMARY	Q1	2025
ESG	18	18
Total Direct (I-on-I)	51	51
Total Indirect (Group)	11	11
Conference	6	6



Metamorphosis: The capital cycle in chemicals

- European chemical stocks trade below the cost of rebuilding their plants, reflecting extreme pessimism after energy shocks and inventory destocking.
- As European re-industrialisation, green demand and constrained new capacity converge, earnings and ROIC could rebound sharply from today's cyclical trough.
- We favour names that are reallocating capital from commoditised units to higher-margin, lower-carbon specialties, signalling disciplined, responsible, and forward-looking leadership.

"Omnia mutantur, nihil interit."
(Everything changes, nothing perishes.)

Ovid

Alchemy, the speculative precursor to modern-day chemistry, sought to turn base metals into gold. While that transmutation proved more useful as allegory than practical possibility, the modern chemicals industry is no stranger to transformative change. Today, the industry stands at the nexus of powerful global forces: the energy transition, geopolitical shifts, and an emerging trend towards European re-industrialisation. The products that chemicals companies produce underpin much of modern life – from cosmetics and agriculture to medical and packaging – making their survival and evolution a matter of strategic importance.

Yet today's market views European chemical firms with pessimism, expecting sustained pressure from energy scarcity, restrictive ESG policies, and geopolitical volatility. These headwinds, accelerated by the curtailing of Russian pipeline gas since the invasion of Ukraine, have resulted in a perfect storm for the sector, pushing earnings to near 15-year lows. But beneath the surface, a powerful shift is unfolding.

In this article, we explore the rationale behind an investment thesis that sees chemical companies as potential alchemists ready to conjure renewed value from a harsh downcycle. The Hosking Partners portfolio is invested in a basket of four such companies: **Lanxess**, **Synthomer**, **Croda**, and **LyondellBasell**.

These businesses have management teams that embody the long-term mindset that we value in management teams, and which defines our approach to

responsible investment. Whether it is by reducing the energy intensity of production, meeting demand for more sustainable products, or repurposing legacy assets for the challenges of the future – all while exhibiting capital allocation discipline – we believe these companies are well-placed to capture the upside as the chemicals cycle rebounds.

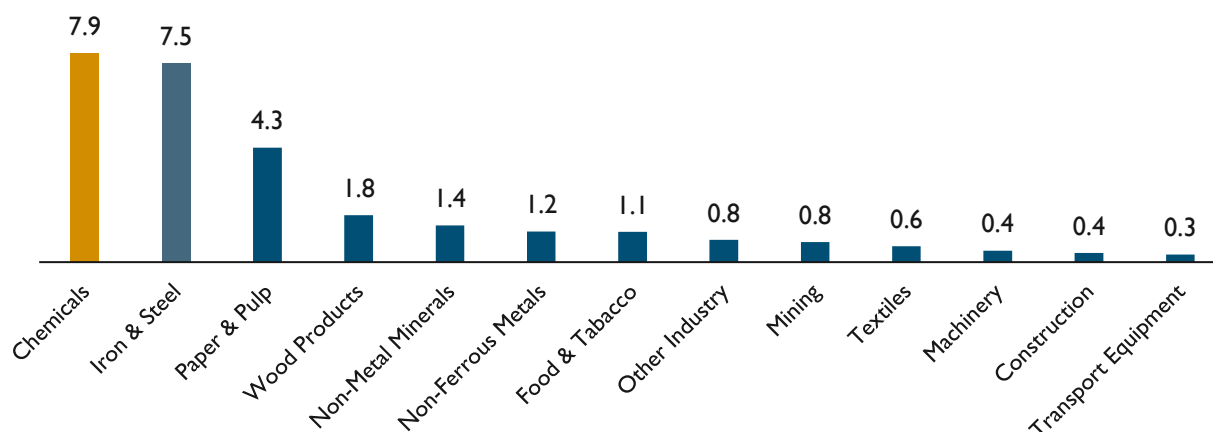
The perfect storm

In the wake of the pandemic, the chemicals industry found itself in an almost unprecedented predicament. Initially, as global supply chains faltered, customers stockpiled raw materials: everything from basic feedstocks to high-end specialty chemicals. When supply chains began to normalise, these same customers reversed course, rapidly destocking their inventories. Meanwhile, the surge in energy prices in 2022, exacerbated by geopolitical tensions, hit the energy-intensive chemicals sector hard. This effect was multiplied in Europe, where (largely Russian) natural gas had become both a critical primary feedstock and power source, and where the energy cost per dollar of sectoral economic output is especially high (see Figure 1, next page).

This collision of events represented a 'double whammy' for chemical manufacturers. First, they were forced to sell expensive inventory produced at high energy prices. Second, they suffered from reduced operating leverage, as low utilisation rates meant that fixed costs were spread over fewer units of production. For executives who have endured multiple recessions, many labelled this the worst downcycle of their careers. Evidence can be seen in Europe's largest chemical clusters – such as Ludwigshafen in Germany – where major



Figure 1: European industry energy intensity
Terrawatt-Hours / €bn GDP



Source: Thunder Said Energy

producers have been temporarily shutting down or mothballing key facilities to stem losses.

Yet investors must remember that the chemicals sector is cyclical. Today's low earnings do not necessarily reflect the true earnings power of these businesses, especially once energy costs normalise and destocking cycles end. The waves of low demand and high input costs will eventually subside, and those with the foresight to buy when assets are depressed often stand to benefit the most from the subsequent upswing.

Valuations: Below build costs?

Chemicals companies frequently maintain large physical plants. These are hard assets that take billions of dollars in capital expenditures to build, maintain, and operate. Yet the four companies in the Hosking Partners portfolio currently trade below the tangible assets recorded on their balance sheets. In other words, the market valuations for some of these firms are effectively pricing them below the cost it would take to rebuild their physical infrastructure from scratch.

This is not simply a cyclical bottom, but a sign of extreme market pessimism. In effect, the market is pricing in the possibility that large swathes of the European chemical industry may not exist at all in a decade. And yet a shifting energy and supply chain landscape, alongside efforts to rebuild regional industrial capacity, could act as powerful counter-currents to that consensus view.

In a normalised earnings environment where demand is more robust, and feedstock prices stabilise, earnings could rebound significantly. The chemicals cycle typically reverts more quickly than traditional commodities like copper or iron ore, because chemical

producers can swiftly reduce output, accelerate cost savings, and draw down inventory to generate cash in downturns. Once demand resurges, prices often snap back, driving an outsized earnings recovery.

Capital cycle shifts

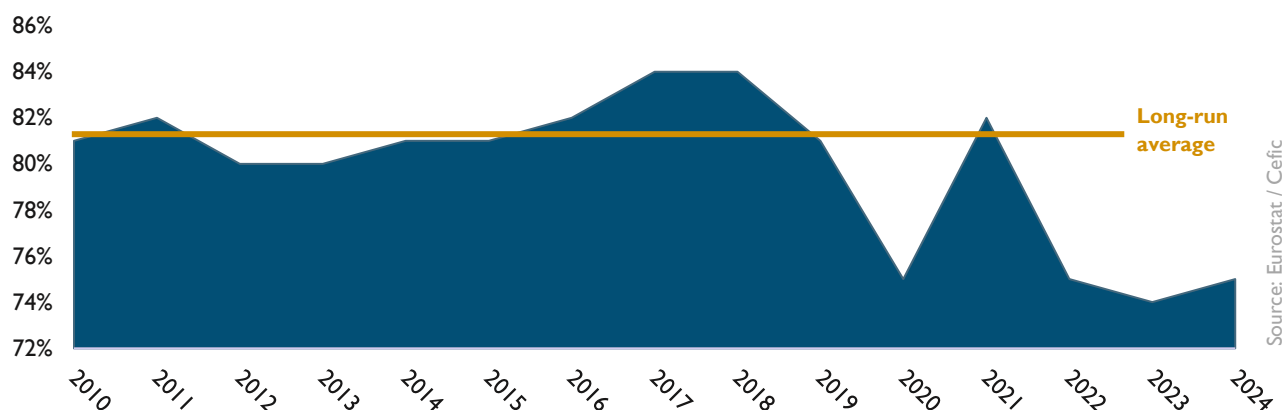
The logic of the capital cycle shapes the trajectory of any commodity-influenced sector, and chemicals are no exception. Over the past decade, several trends have emerged across various geographies.

In Europe, the chemical industry has enjoyed a stable position thanks to advanced technology, skilled labour, and proximity to major end markets. However, the 2022 energy crisis undercut Europe's feedstock competitiveness. In response, many European players, have announced closures of older, less efficient cracker capacity (ethylene and propylene production units). Some industry estimates suggest that as much as 20% of Europe's cracker capacity has been shuttered or earmarked for closure over the last year. Beyond cyclical rationalisation, these closures also reflect a strategic shift. In a region increasingly focused on energy security, industrial resilience, and decarbonisation, we see leading players selectively exiting commodity petrochemicals to double down on specialty segments aligned with long-term demand – serving sectors such as life sciences, construction, green materials, and food security.

In the US, the shale revolution led to a wave of capacity expansions as cheap natural gas liquids provided a feedstock advantage. Yet the bulk of these projects have now come online, and producers are unlikely to greenlight major new projects until there is evidence of improved margins. LyondellBasell, for example, has publicly signalled caution on new build-outs, opting instead to focus on improving its existing footprint



Figure 2: EU27 Chemicals Capacity Utilisation



and returning capital to shareholders. Furthermore, one of LyondellBasell's largest competitors, Dow, recently paused construction of its \$10 billion cracker in Alberta.

Meanwhile, over the last five years, China has been the most significant driver of new supply globally, driven by government ambitions to become self-sufficient. As a result, the entire region has been operating around break-even for four years, given soft local demand and a lack of regional feedstock advantage. In response, 10% of the nameplate Asian ethylene capacity has been taken offline, with the hope that pricing will recover. Ultimately, we believe much of this capacity will be closed. While China is likely to continue to add capacity through to the end of the decade, LyondellBasell, the global leader in the technology for new plants, is seeing a slowdown in licensing sales in China.

Against this backdrop, capital expenditures are declining across multiple regions: Europe is closing older and less efficient plants due to the energy cost spike and policy headwinds, and capacity utilisation is at multiyear lows (see Figure 2, above); North America is nearing the end of a capacity expansion wave sparked by the shale revolution; and Asia (particularly China) is grappling with the reality of overbuilt facilities and sluggish local demand. The combined effect is a slower pace of new capacity coming online, which should gradually tighten the supply-demand balance.

When the next cyclical upswing in demand arrives (even if it's modest), those producers who have kept their facilities efficient, specialised their product lines, or judiciously rationalised excess capacity may see healthier margins. In other words, the industry's inclination to rein in capital spending now could end up positioning it for stronger profitability once consumer and industrial markets rebound.

Time to harvest?

Over the last decade, many chemical companies embarked on aggressive M&A sprees, buying up specialty firms and building or expanding plants to carve out new markets. Today, confronted by tight capital markets and lower share prices, management teams seem to be entering 'harvest mode'. Most of these firms have scaled back capital expenditures for the next several years.

With fewer acquisitions in the pipeline, the prevailing mood is one of consolidation and optimisation. Executives in our basket have signalled that if valuations remain depressed even as earnings recover, they are ready to employ buybacks, which could drive meaningful per-share value accretion. This shift in capital allocation strategy could also mean higher free cash flow (FCF) generation in the next decade than in the previous one, precisely because companies are not spending as aggressively on expansions or acquisitions. Looking at the last 10 years of FCF for each company relative to its current market cap, Synthomer stands out. Its cumulative FCF for the period is equivalent to 372% of its present market cap. LyondellBasell follows with 148%, Lanxess at 64%, and Croda at 36%. These ratios offer a glimpse into the dry powder these businesses have historically been able to generate. If the next decade sees less capital outlay and a return to cyclical normalcy, that cash generation potential could be significant.

Downside protection

Commodities like copper or oil often present investors with the 'bleeding bucket' problem: in a downturn, mines or wells can continue to produce at a loss, draining balance sheets as they wait for a price



recovery. Chemicals, however, behave differently. Since manufacturers can reduce throughput rapidly and scale down production runs, they can cut variable and some fixed costs more effectively. Additionally, the liquidation of existing inventory can free up cash. This dynamic can result in record cash generation even when earnings are under pressure.

For example, when global demand for ethylene dropped dramatically in 2020, LyondellBasell idled certain facilities, cleared inventory, and focused on core assets. Despite the drop in revenues, the company still managed to strengthen its balance sheet through prudent working capital management. Chemical prices are notoriously volatile and can rebound with surprising speed, which is precisely why many investors are spooked by the sector. Ironically, that is also the source of outsized opportunities.

Indicators of recovery?

Beyond the financial statements, there are tangible signs that the cycle may be turning. Natural gas futures in Europe have fallen dramatically from their peaks in 2022. If prices remain moderate, European chemical plants will regain some cost competitiveness. Meanwhile, although Chinese growth has not recovered to pre-pandemic levels, a steady return of consumer demand, especially for durable goods and automotive, is a positive signal for chemical end-markets. Even modest improvements in construction or infrastructure spending tend to cause a positive knock-on effect for base chemicals. Furthermore, many Western producers continue to pivot toward increasingly sustainable and 'green' processes, which can command price premiums and may insulate margins from commodity-like competition.

Our portfolio holdings are distinguished by their management teams' thoughtful approach to this dynamic. Each is confronting Europe's structural headwinds head-on and turning them into a competitive advantage while the market is fixated on the current earnings trough. Croda has doubled-down on critical ingredients for pharma, selling its last industrial chemicals unit in 2022 and shifting capital toward drug delivery systems for vaccines and mRNA/gene-editing therapeutics where historical EBIT margins have been above 25%. Over the last eight years Lanxess has pruned out its burdensome commodity limbs (rubber, polyamides) to reveal nine niche franchises where it already holds a top-three market share and – crucially – are exposed to far lower energy and raw-material intensity. LyondellBasell is running a hard strategic review of its European footprint, while cheaply repurposing uncompetitive assets to produce green feedstocks that

already command contracted price premia from FMCG buyers with sustainability mandates. Repurposing that capital costs barely a tenth of annual capex. And under new leadership, Synthomer has sold or shut enough commodity units to shrink its site count by a third, re-orienting the portfolio toward specialties that can sustain higher returns. These actions are precisely the long-term, capital-disciplined behaviours we look for as responsible investors; they will not rewrite earnings overnight, but they lay the foundations for a structurally higher ROIC when the cycle turns, a nuance that seems missed by a market consensus hooked on quarterly numbers.

Conclusion

The long-term investment thesis rests on three critical points. First, valuations are flirting with or even dipping below the cost to rebuild the physical assets, suggesting substantial upside if normal earnings return. Second, capital allocation has entered a new phase of discipline, prioritising debt reduction, dividends, or buybacks over risky expansions. Finally, the nature of chemical production allows for rapid capacity closure and inventory liquidation in downturns, offering a form of downside protection rarely seen in other commodity-related sectors.

If history is any guide, cyclical troughs in this industry often precede moments of remarkable value creation, as was observed in the recovery following the global financial crisis in 2009–2010 or the rebound from the oil price slump in 2016. If European re-industrialisation gains traction – driven by protectionist trade policies, defence spending, and reshoring of critical supply chains – then chemicals could be central to the next wave of industrial growth. In such a scenario, today's valuations appear highly attractive.

Like the alchemists of old, today's chemical companies may appear to be 'base metals' trading at depressed valuations. However, with patience and a clear eye on the longer-term supply-demand fundamentals, they have the potential to undergo their own metamorphosis – an alchemy that could transmute today's struggles into a new era of value creation for patient, contrarian investors.

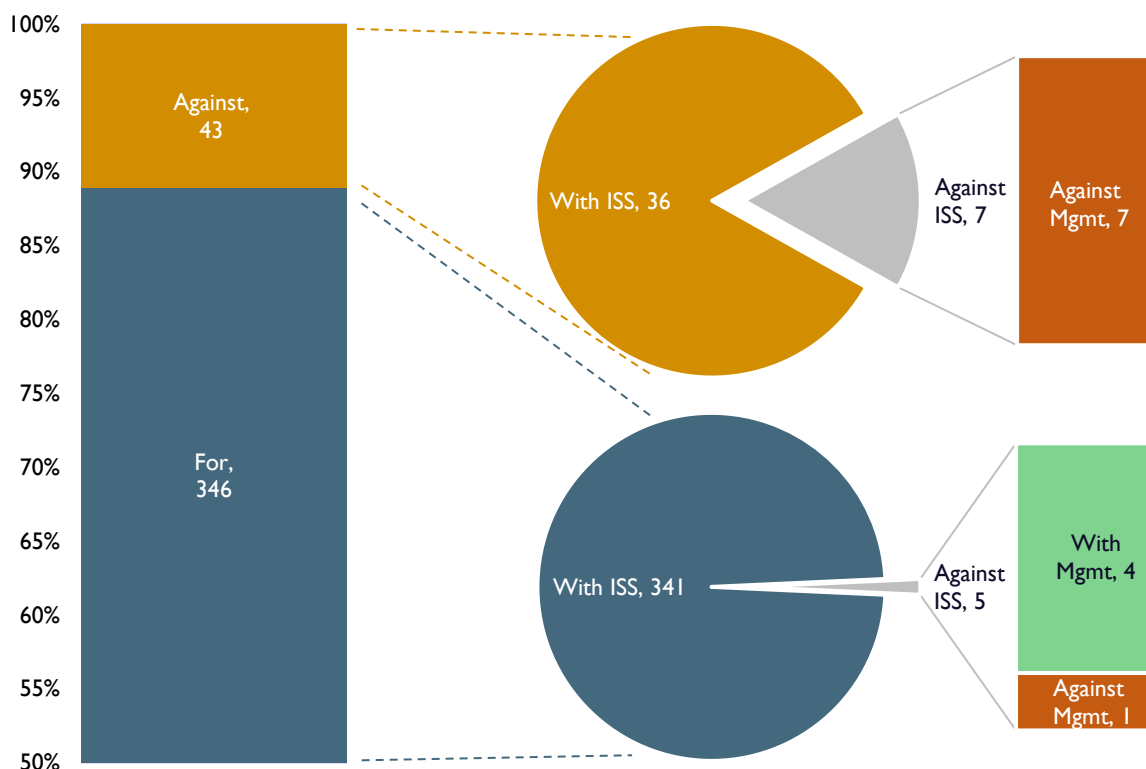
References

References for any data or quotations included in this article and articles elsewhere in this report are available on request and on our website.

Voting Summary

Proxy voting is a fundamental part of active ownership, and our procedures are designed to ensure we instruct the voting of proxies in line with our long-term investment perspective and client investment objectives. We use the proxy voting research coverage of Institutional Shareholder Services Inc (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 which they believe is in the best interests of our clients.

Q1 2025 Voting Breakdown



2025 YEAR TO DATE THEMATIC BREAKDOWN	FOR		AGAINST		ABSTAIN		AGAINST ISS	
	Total	% share-holder	Total	% share-holder	Total	% share-holder	Total	% share-holder
Director related, elections etc	197	0%	29	3%	-	-	9	0%
Routine/Business	69	3%	4	50%	-	-	1	100%
Capitalisation incl. share issuances	27	0%	-	0%	-	-	-	0%
Remuneration & Non-Salary Comp	27	7%	2	0%	-	-	1	0%
Takeover Related	7	0%	-	0%	-	-	1	0%
Environmental, Social, and Corporate Governance	6	17%	8	100%	-	-	-	0%
Other	13	31%	-	0%	-	-	-	0%
Total	346	3%	43	26%	-	-	12	8%

Voting Discussion

Company	Country	Meeting Date	Meeting Type	% of Voting Shares
	Japan	25 th March 2025	Annual	0.13% (at end Q1)
Proposal(s)	Management Recommendation	ISS Recommendation	Our Vote	
Approve Acquisition	FOR	MIXED	AGAINST	

At the annual general meeting of multinational food processing company **Ezaki Glico Co., Ltd**, Hosking Partners chose not to support the re-election of company President Etsuro Ezaki, Chairman Katsuhisa Ezaki, and four other directors.

Institutional Shareholder Services (ISS) similarly recommended voting against the re-election of the President and Chairman, citing concerns over the company's poor return on equity (ROE) and misallocation of capital. ISS's assessment was driven by the rationale that the company delivered an average ROE of 4.6% over the past five years, falling short of their 5% threshold. This underperformance, in ISS's view, warranted holding top management accountable and voting against their re-election.

However, ISS supported the re-election of the remaining four directors. For three of them, this support was based solely on meeting ISS's independence criteria, with no additional concerns noted. In the case of the fourth director – although not considered independent - ISS concluded that opposing their re-election could risk further consolidating management power on the board. Importantly, ISS did not view these individuals as part of the leadership team and therefore did not hold them responsible for the company's ROE performance.

At Hosking Partners, we consider a range of factors when evaluating board re-elections. Following a meeting with the company in Q4 last year, we developed concerns over both the tenure of the board and the lack of ambition around future ROE targets. Senior management appeared closed in discussing concrete strategies to improve ROE, and their mid-term targets mirrored historical averages – a signal, in our view, of insufficient drive for improvement. All six directors in question have served on the board for at least five years. In our assessment, this level of tenure justifies holding them collectively accountable for the company's ongoing underperformance. Accordingly, we voted against the re-election of all six individuals to send a clear and unified message that leadership must take greater responsibility for the company's strategic direction and shareholder returns. We believe top management needs to demonstrate stronger ownership of the company's past, present, and future outcomes.

Conversely, we supported the election of two new directors – Hiroko Takiguchi and Hanako Muto – aligning with ISS. Both are considered independent outsiders, with Hiroko affiliated with Kitahama Partners and Hanako with Sumitomo Mitsui Financial Group, another holding within our portfolio. Their appointments represent an opportunity for renewed oversight and a fresh strategic perspective, which we believe could benefit the company and its shareholders.

Ultimately, despite our opposition, all proposed members of the board – including the President and Chairman – were re-elected. Hosking Partners will continue to actively engage with the company and advocate for improved governance, accountability, and long-term performance.



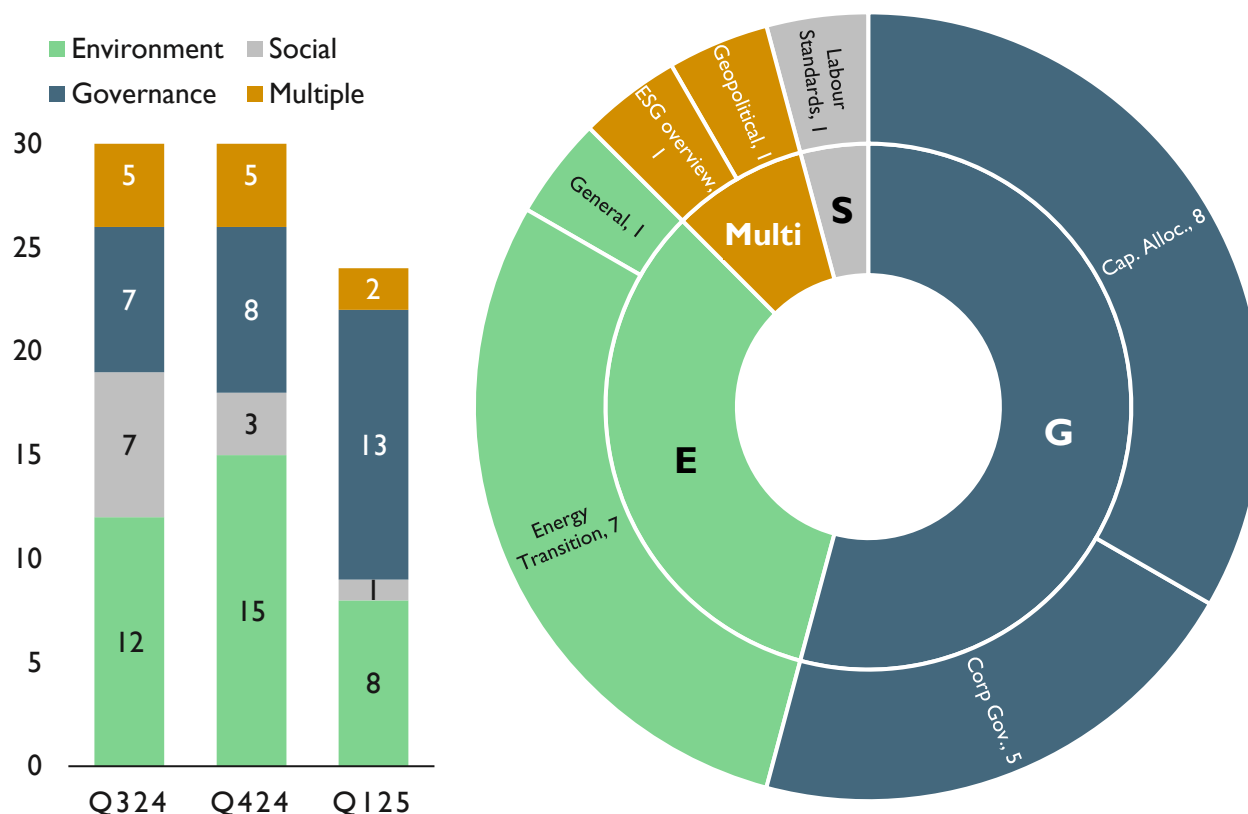
Source: Google Images



Engagement Summary

Corporate engagement is a core component of Hosking Partners' process. As well as engaging in specific situations, we focus on company management, and careful consideration is undertaken by the portfolio managers to assess whether the management teams' time horizons and incentive frameworks are aligned with the long-term interests of our clients. We also look 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.

Q1 2025 Engagement Breakdown



Hosking Partners' Q1 2025 Postcards



Django presents the supply side rationale for PGMs at the London Value Investor Conference.



Gwin and Omar join Warren and Charlie in Omaha for the historic annual Berkshire conference.



Engagement Discussion

Company	Country	Engagement Type	% of Voting Shares
	South Africa	I-on-I calls, on-site meeting	0.16% (at end of Q1)

Following our trip down one of their mines last September, in Q1 we progressed a long-running engagement with **Sibanye Stillwater** focused on evaluating their management of social ('S') factors, specifically safety performance and community engagement – areas essential for the mining industry's sustained licence to operate.

With regards to safety, Sibanye has reported a meaningful improvement, with their Lost Time Injury Frequency Rate (LTIFR) for South African Platinum Group Metals (PGMs) operations reducing by 23%, from 4.37 in 2023 to an estimated 3.35 for 2024. This continues a multi-year downwards (i.e., improving) trend and places them in a competitive position relative to their peers, especially given their more complex risk profile due to managing deeper, labour-intensive gold mines alongside their PGM operations. While acknowledging this positive trend, it is important to contextualise the historical data comparison cautiously due to Sibanye's shift from predominantly gold operations to a broader portfolio including PGMs and battery metals. The extensive safety interventions cited by Sibanye throughout our engagement – such as digitised safety reporting and proactive risk management – are commendable, though sustained improvement and benchmarking against industry best practices remain critical to confirming long-term safety culture transformation.

Regarding community engagement, Sibanye has undertaken significant efforts to address legacy challenges at the Marikana operations, acquired from Lonmin in 2019. These operations carried a problematic history of strained stakeholder relations and considerable social development shortfalls following the tragic events of 2012, when 34 mineworkers' lives were lost in the 'Marikana Massacre', when the South African Police Service responded violently to wildcat strikes. The company's "Journey of Renewal" programme has initiated a meaningful process of rebuilding trust, promoting socio-economic redress, and accelerating the delivery of long-delayed social and labour plans. While these efforts represent positive progress, continuous transparency and measurable outcomes are crucial to ensure community expectations are consistently met and that stakeholder trust is genuinely restored and maintained.

The stability in labour relations observed since Sibanye's acquisition of Marikana – evidenced by the absence of major industrial actions and successful wage negotiations – is a noteworthy achievement. Nevertheless, given the industry's history and potential for volatility, ongoing vigilance and proactive stakeholder management will be necessary to maintain this stability over the long term. Our conversations with Sibanye – and in particular our in-person experience of their operations on the ground – give us confidence in their commitment to maintaining this critical relationship.

In summary, Sibanye Stillwater has demonstrated considerable progress in managing safety and community relations, aligning well with our expectations as active owners of the stock. Ongoing diligence, regular benchmarking, and transparent reporting remain essential to ensure that improvements continue and are deeply embedded within the operational culture, ultimately securing their long-term licence to operate. We look forward to seeing further progress in the future.





Appendix I

VOTING PROCESS

Hosking Partners 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 funds' and segregated clients' behalf in accordance with ISS recommendations. Hosking Partners retains the right to override the vote if it disagrees with the ISS recommendation. In practice, ISS notifies Hosking Partners of upcoming proxy voting and makes available the research material produced by ISS in relation to the proxies. Hosking Partners then decides whether or not to override any of ISS's recommendations. A range of factors are routinely considered in relation to voting, including but not limited to:

- **Board of Directors and Corporate Governance.** E.g. the directors' track records, the issuer's performance, qualifications of directors and the strategic plans of the candidates.
- **Appointment / re-appointment of auditors.** E.g. 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.** E.g. whether compensation is equity-based and/or aligned to the long-term interests of the issuer's shareholders and levels of disclosure regarding remuneration policies and practices.
- **Takeovers, mergers, corporate restructuring and related issues.** These will be considered on a case by case basis.

In certain circumstances, 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, or the relevant custodian or ISS do not process a proxy or provide insufficient notice of a vote. 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.

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 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 the 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.

ENGAGEMENT PROCESS

Hosking Partners recognises that ESG considerations are important factors which affect the long-term performance of client portfolios. ESG issues are treated as an integral part of the investment process, alongside other relevant factors, such as strategy, financial risk, capital structure, competitive intensity and capital allocation. 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. Whilst Hosking Partners may consult third-party ESG research, ratings or screens, Hosking Partners does not exclude any geographies, sectors or stocks from its analysis based on ESG profile alone. The multi-counsellor approach, which is deliberately structured so as to give each autonomous portfolio manager the widest possible opportunity set and minimal constraints to making investment decisions, means that ESG issues and other issues relevant to the investment process are evaluated by each portfolio manager separately, with the support of the Head of ESG.

Interaction with management and ongoing monitoring of investee companies is an important element of Hosking Partners' investment process. Hosking Partners does however recognise that its broad portfolio of global companies means that the levels of interaction are necessarily constrained and interaction will generally be directed to those investee companies where Hosking Partners expects such involvement to add the most value. Monitoring includes meeting with senior management of the investee companies, analysing annual reports and financial statements, using independent third party and broker research and attending company meetings and road shows.

Hosking Partners looks 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. It 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. Hosking Partners may conduct these additional engagements in connection with specific issues or as part of the general, regular contact with companies.

Some engagements highlighted in this publication are part of an ongoing two-way dialogue, and as such Hosking Partners may not always publish the specific details of engaged firms. Where this is the case, further information about the engagements is available to clients upon request.



Appendix II

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