Hosking Partners®

ESG and Active Ownership Report

Q4 2023

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Foreword

Our lead article this quarter focuses on the offshore wind industry. Hosking Partners' capital cycle approach teaches us to be cautious about high returns, as they act as a magnet which draws in new capital, with the likelihood that those high returns are competed down. Similarly, when the (environment first) wish is father to the (commercial) thought, and capital is mispriced, capital is drawn into projects with uneconomically low returns, and the result is destruction of capital. As our report outlines, soaring valuations in wind equities over recent years reflected an unrealistically low cost of capital, which was the only way to justify the underlying economics of the projects to which it was directed. When plentiful capital flooded the industry – catalysed by well-intentioned regulation, wishful thinking and near-zero interest rates – the red flags were plain to see. In such situations, focusing on the availability of capital helps us see through the noise.

The report also contains the usual selection of voting and engagement examples. This quarter we include an engagement example from Japan – Cosmo Energy – which demonstrates how outcomes do not always materialise in the way we expect. This emphasises the importance of having several 'ways to win', which provides a margin of safety and protects against the unpredictable.

Please reach out if you would like to discuss any of the topics raised in this report.

Roman Cassini
Head of ESG

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VOTING SUMMARY	Q4	2023
Meetings Voted	32	437
Proposals Voted	315	5,999

ENGAGEMENT SUMMARY	Q4	2023
ESG	29	206
Total Direct (1-on-1)	108	455
Total Indirect (Group)	36	145
Conference	14	56

Blowin' in the Wind: The boom and bust in offshore wind

- The offshore wind sector has gone through a remarkable period of value-destruction.
- Low capital costs and deceptively volatile project economics combined to cause a perfect storm for equities.
- The capital cycle approach helps identify such situations in advance and avoid the fallout. Could opportunities now be emerging from the rubble?

"Let it work,
For 'tis the sport to have the enginer
Hoist with his own petard."

Prince Hamlet, in Hamlet, Act 3, Scene 1

Two blue-chip wind companies, Ørsted and Siemens Energy, are now 75% below the all-time high prices they achieved in 2021. This fall from grace is a stark reminder of why eagerness to support 'the next big thing', especially when intensified by political momentum and financial opportunism, must be carefully weighed against fundamental economic principles before considering investment. A core tenet of our approach is that by focusing on supply rather than demand, we reduce the distortive effect that powerful narratives can have on valuation. This article uses this lens to explore the recent boom and bust in the offshore wind sector, explain how our approach helps to avoid such situations, and ask where emerging opportunities might be found.

The bubble

The International Energy Agency (IEA) predicts that wind energy will surge to over 30% of global power generation by 2050. This represents a significant jump from its current 6-7%. To achieve this, capacity needs a dramatic expansion, with a 400% increase in the annual addition rate to 350 gigawatts (GW) per year by 2030. This translates to installing approximately 35,000 modern offshore turbines annually, requiring offshore wind capital spending to match that of gas and coal combined. The numbers seem compelling. If the remarkable cost deflation that the IEA predicts materialises – suggesting wind energy could compete on a levelised basis with Chinese coal and US natural gas by 2050 – then the opportunity seems too good to be true. This trajectory, fueled by market interest and historically cheap capital, led to soaring valuations in the sector, exemplified by Ørsted's P/E peaking at almost 100x in early 2021.

Figure 1: Ørsted EV/Sales

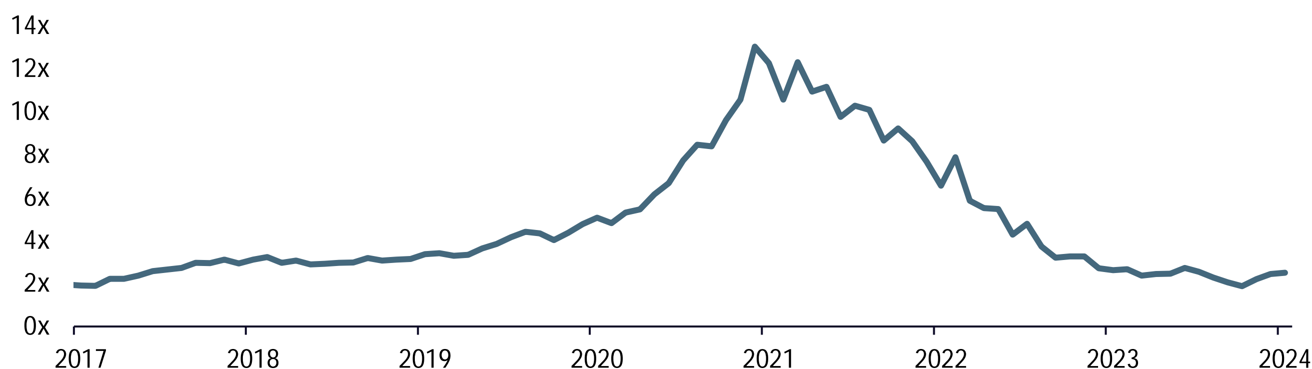
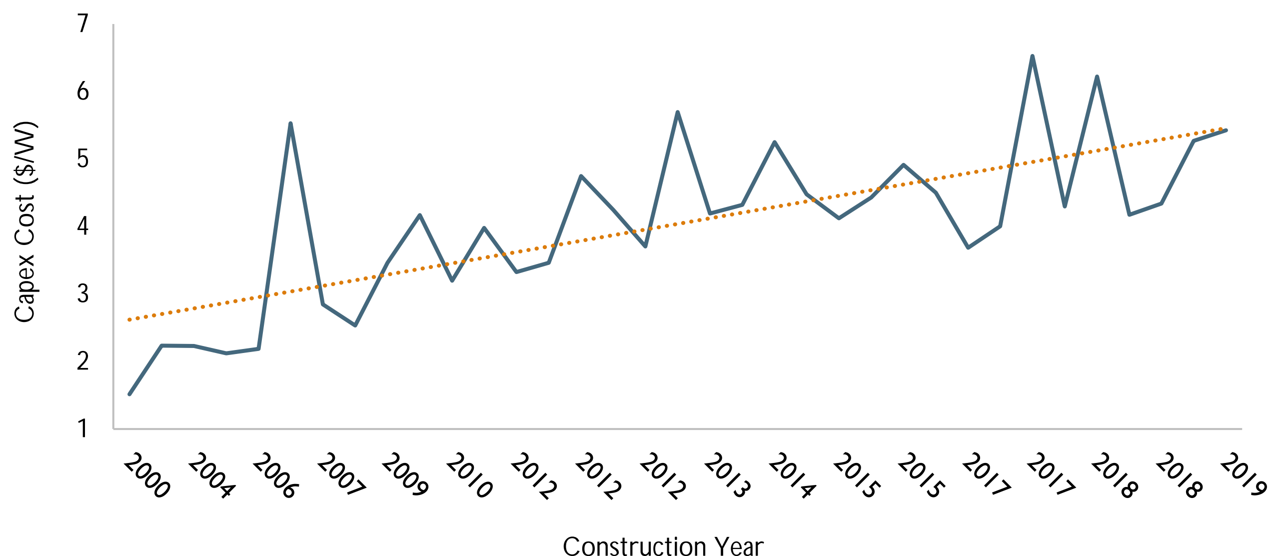


Figure 2: UK offshore wind capex costs over time



Source: Thunder Said Energy

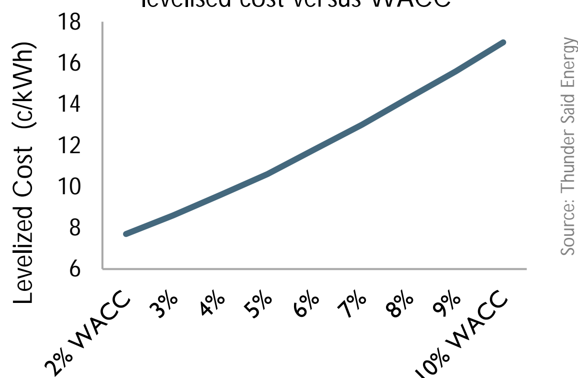
How did the market reach such valuations? In essence, the problem was a simple one –future cashflows were mis-valued. The internal rate of return (IRR) of a typical offshore wind project was modelled at around 6-8%. This is lower than a typical oil and gas project IRR of 15-20%, but was long-dated, and perceived as having both low operational and financing risk. After all, unlike oil and gas, as a form of renewable energy offshore wind is perceived as a growth industry with regulatory tailwinds including substantial tax incentives. Furthermore, capital costs were exceptionally low, and the perception was that rates would remain near-zero. Ørsted targeted a spread of 150-300bps over the weighted average cost of capital (WACC), which they claimed was future-proofed against rising rates thanks to selling purchasing agreements indexed to inflation. They claimed that absolute revenues would rise above cost, thus preserving their margin. When analysts plugged these numbers into their discounted cashflow models, the low-risk, long-dated IRR with a positive spread over WACC yielded a stream of positive free cashflows disappearing far into the future. The excitement was compounded by near-zero discount rates which hiked up the present value of this future income. Combined with the IEA's well-publicised predictions of drastically falling costs, the outlook looked rosy and equity valuations soared. Predictably in such circumstances, capital flooded into the industry and wind producers started taking on large amounts of debt to finance further growth, as present-day revenues – and margins – remained low. Ørsted's EV/Sales drifted north of 12x in early 2021 (see Figure 1, previous).

The bust

What was wrong with these cashflow valuations and the models that drove them? There are three principle interconnected problems. (1) The projected cost deflation associated with technological advancement was misunderstood and overestimated; (2) both headline and operating cost inflation was underestimated, and; (3) the possibility of sharply rising capital costs was overlooked. We will address each in turn.

Throughout history more efficient forms of energy generation have superseded established technologies. The question is whether wind can become more efficient than what it seeks to replace. Wind energy has a net energy return on energy invested (EROEI) of about 20x, which means over time an average wind asset outputs twenty times more energy than it took to build it, factoring in efficiency. This is reasonable – it is about four times better than most oil products – but still lower than gas, coal, hydro, nuclear, and the overall global energy system's average of 30x. More problematic is that wind's energy return is not only lower, but also slower than many alternatives. The capital, material, and energy intensity of constructing a wind asset takes years to pay back, and the overall return does not reach 20x until you measure the asset over a 30-year lifespan. This contrasts unfavourably to fuels like coal, where the energy output of combustion pays back the energy cost of extraction many times over in mere months.

Figure 3: Offshore wind levelised cost versus WACC



The lofty valuations achieved by many wind companies assumed cost deflation was being driven by technological innovations that drove up efficiency. In turn, this would increase net EROEI, and resultantly drive down levelised costs. This assumption is the root of our first problem. It is an understandable assumption. This is the playbook for solar, which is a semiconductor technology and therefore subject to Moore's Law-type efficiency gains. Photovoltaic cells, like transistors, benefit from increasing semiconductor miniaturisation. This has allowed them to capture more and more energy from across the spectrum of incoming light, boosting efficiency and promoting positive feedback loops. Investors can reasonably expect such progress to continue; at the very least, there is a scientific justification for such an expectation. But despite the media's insistence on lumping 'wind and solar' together, they are very different technologies. The basic physical and technological principles behind wind power have not changed in 700 years. The focus for achieving efficiency gains has been increasing blade and turbine size, but this is a two-sided coin. In short, while wind's power generation rises as a linear function of swept area, the force required to overcome air resistance rises as a cube function of velocity. So, while bigger is better up to a point, the marginal gains of greater size eventually shrink exponentially.

Not only do ever-larger turbines present engineering problems, they also raise costs. This brings us to our second problem: cost underestimation. Headline costs for UK wind projects have been inflating at a 2.5% compound annual growth rate since 2000, on a dollars per watt of capacity basis (see figure 2, previous). Meanwhile, in the models that underpin the 6-8% project IRRs, degradation rates and operating costs were estimated as low and not expected to inflate. In fact, many thought these metrics would only fall further as technology improved. Instead, industry data revealed the reverse. Larger turbines increase mechanical stress, while rough seas caused unexpectedly severe weathering. Research suggests annual degradation rates reach 2-4%, versus the 0-1% modelled when calculating expected returns. This not only raises maintenance outlays but also feeds back into headline capex costs, as higher degradation rates lead to shorter asset lives.

Compounding both issues was the overlooked impact of rising rates on the cost of capital. This is our third problem, and it was the most severe. Capital costs are particularly relevant for energy assets that take a long time to generate a positive return, because they are long duration. Small changes in discount rates can dramatically affect the present value of their cashflows. Offshore wind is especially highly exposed to this type of risk because it is so capex intensive, at about $4000 per kilowatt-hour (kWh). At this level, each 1% rise in long-term capital costs adds about 1.3c/kWh to the levelised cost of the energy generated (see figure 3, left). As rates rose precipitously from zero to 5%, the basic cost of wind energy re-inflated dramatically (by about 30%).

These three factors combined to spell a death knell for wind projects around the world. Relatively minor changes in modelled assumptions torpedoed project IRRs (see figure 4, below). While some purchasing agreements between utilities companies and wind producers had been indexed to inflation, nominal revenues would not rise enough to offset the dramatic increase in forecast costs. Many PPAs were cancelled outright, as producers failed to renegotiate at offtake prices 50-60% higher than initially quoted. In the UK, one major offshore wind auction failed to receive a single bid. Future cashflows flipped negative. High leverage increased the pace and severity of value destruction as these changes fed through into equity valuations.

Figure 4: Impact of minor changes to modelled assumptions on IRR

	Developer model	Slightly cautious model	Cautious model
Electricity price (c/kWh)	13	12.5	12
Grid Charges (c/kWh)	0.5	0.6	0.7
Capex ($/kW)	4000	4500	5000
Capacity (MW)	500	500	500
Utilization (%)	43%	40%	37%
Decline Rate (%)	1%	2%	4%
Operating costs ($/kW/yr)	45	55	65
Tax rate (%)	25%	25%	25%
Project level IRR	**7%**	**3.6%**	**-0.7%**

Greener pastures?

Now that the cycle is turning, could opportunities be peeking from the rubble? Perhaps. On the one hand, we remain concerned about even the longer-term prospects for offshore wind. The interaction between capital cost inflation and a lack of technological momentum suggest that the IEA's forecasts of 2c/kWh wind energy seem worryingly optimistic, unless the financing capital is practically free. On the other hand, the general direction of travel towards greater renewables deployment seems clear. The bust in valuations will apply a brake to the pace with which new capacity and the capital that funds it can be brought to bear, while simultaneously catalysing rationalisation. The supply picture is still far from tight, but certain companies may now be positioning to capitalise on the overall market opportunity at lower risk premia than the pure-plays.

One such company that has recently entered the Hosking Partners portfolio is Altius Renewables Royalties (ARR). The brainchild of a bankruptcy-lawyer-come-renewable-energy expert Frank Getman, ARR half-owns Great Bay Renewables (GBR) alongside private equity firm Apollo. GBR provides project financing to renewables projects in return for a new class of renewable royalty. This offers exposure to the theme, but without the sorts of risk which have decimated the returns of offshore wind investors over the past twelve months. By taking a clip off the topline of the most promising renewables projects, ARR's income is not exposed to cost volatility, and as time goes by its revenues should increasingly concentrate in the most economically robust renewables ventures (by definition, the ones that survive). To create this class of royalty, Mr. Getman had to gain legal recognition for a perpetual contractual interest which is not a land interest, and acquire royalties over unbuilt development projects. These rights are then converted into royalties as each project reaches completion, until a return target (8-12% pre-tax unlevered IRR) has been achieved.

The second of these innovations was critical for launching the company. 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, GBR 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 us exposure to the renewable energy theme, while providing protection against the short-term, unpredictable swings driven by the macro environment.

Conclusion

Hosking Partners' capital cycle approach is focused on the flow of capital and the likely trajectory of returns as a result. Our long-term and generalist mindset helps us take an outside view, whenever possible. In Charlie Munger's words, "to invert". When offshore wind companies began taking on debt despite poor returns while their equity traded at extraordinarily high multiples, the red flags were waving. Instead of participating, we saw more attractive opportunities in legacy 'old energy' industries which were starved of capital and trading on low valuations. That approach bore fruit in recent years, as the renewable bubble burst and the cold realities of supply bit back against unsustainable narratives around demand and macro conditions. In 2024 we will continue to search for opportunities amidst the wreckage, as we apply our capital cycle lens in the new energy revolution.

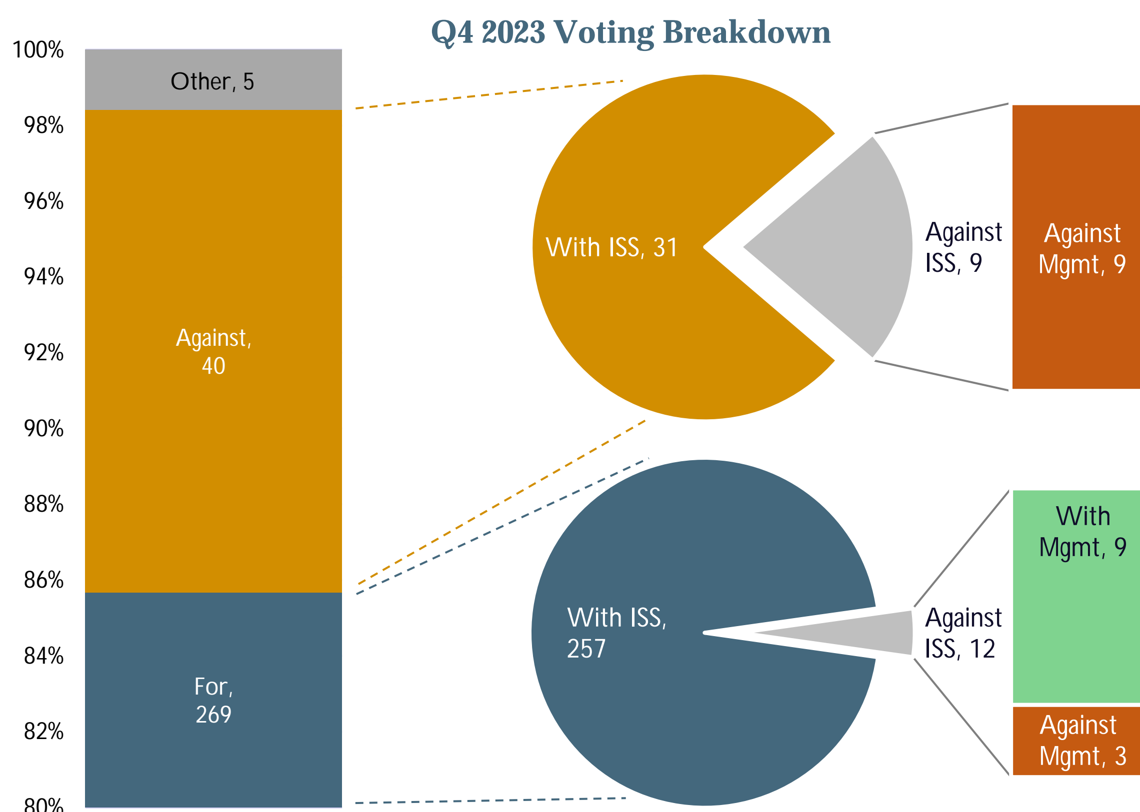
References

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

Source: UnSplash

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.



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%**

Not displayed in the graph above is 1 non-votable proposal.

Voting Discussion

Company	Country	Meeting Date	Meeting Type	% of Voting Shares
Texas Pacific Land Corporation	USA	9th Nov 2023	Annual	0.01% (as at the end of Q4)

Proposal(s)	Management Recommendation	ISS Recommendation	Our Vote
Various Shareholder	AGAINST	MIXED	FOR

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 the previous page, 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 this quarter 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.

Source: Google Images

Company	Country	Meeting Date	Meeting Type	% of Voting Shares
Microsoft	USA	7th Dec 2023	Annual	<0.01% (as at the end of Q4)

Proposal(s)	Management Recommendation	ISS Recommendation	Our Vote
Various Shareholder	AGAINST	FOR	FOR

Several shareholder proposals were also submitted for the **Microsoft** Annual General Meeting. 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 centers 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 centers (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.

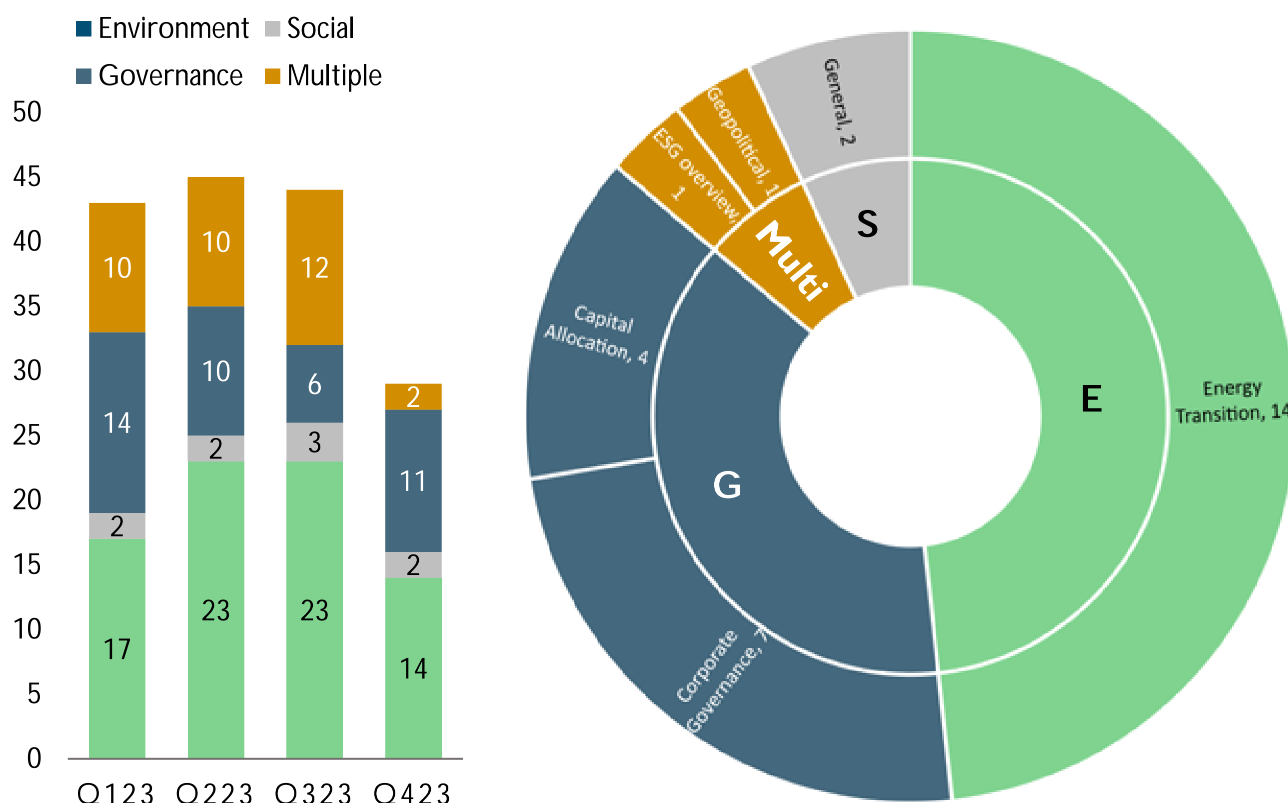
Although we recognise the need to keep up with growing customer demands, we also share the concern that any heightened risk to human rights should be thoroughly and proactively assessed. As Microsoft embarks on a substantial build-out of data center operations, additional transparency is crucial for 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.

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.

Q4 2023 Engagement Breakdown



Hosking Partners' Q4 2023 Postcards

Roman interviews Dr Tom Gosling of London Business School for our Capital Cyclists podcast (available on our website).

James takes on the role of conductor during the firm's annual Christmas steam train trip.

Engagement Discussion

Company	Country	Engagement Type	% of Voting Shares
	Japan	Mixed	0.19% (as at the end of Q4 2023)

Source: Cosmo

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.

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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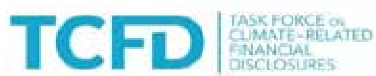

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