Hosking Partners®

TCFD 2024
Entity-Level Report

June 2024

Foreword

I am pleased to introduce Hosking Partners' inaugural Taskforce for Climate-Related Financial Disclosures (TCFD) entity-level report.

Addressing and managing the risks and opportunities associated with climate change and the energy transition is an important issue for the investment industry, and something we spend a lot of time considering and discussing – both amongst ourselves and with our clients and peers.

Within these pages, you will find a comprehensive analysis of our practices, disclosures, and the forward-looking initiatives that guide our commitment to climate-related analysis, stewardship, and active ownership.

We invite you to engage with us as we navigate these critical topics. If you have any questions, please do not hesitate to be in touch.

James Batting

Senior Partner

June 2024

Part 1: Governance

This section describes the firm's overarching approach to governance, and discusses how climate-related risks and opportunities are incorporated into that structure.

OVERVIEW

Hosking Partners' governing body is the Management Committee, which is responsible for the strategic direction and running of the business, including 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 routine assessment and oversight of the Firm's management of ESG integration and climate-related issues).

The Management Committee meets at least once every calendar month. Climate-related issues are not a standing agenda item, given their long-term nature. However, the Management Committee will consider such issues on an as-needed basis, often considering and deciding on recommendations from the Head of ESG, in accordance with their urgency on a case-by-case basis. Such issues include but are not limited to:

- Reviewing the Firm's stance on portfolio emissions targets (at present, the Firm has not set portfolio-level emissions targets, but this matter is kept under annual review);
- Reviewing the Firm's approach to regulatory developments, such as the FCA's SDR labelling rules, the Anti-Greenwashing Rules, and TCFD-reporting;
- Reviewing and approving reporting, including the Firm's submissions to the UNPRI, UK Stewardship Code, and FCA's TCFD reporting;
- Reviewing the Firm's Scope 1 & 2 carbon offsetting arrangement; and
- Reviewing and approving the Firm's external-facing ESG/climate-related content, most notably the quarterly ESG & Active Ownership Report.

In some cases, the above issues will be reviewed 'out of committee' by the Senior Partner and other members of the Management Committee, particularly if timing is sensitive. If necessary, the Management Committee can refer any issue to the Supervisory Board for additional advisement.

In the process of reviewing the Firm's guiding strategy, major plans of action, budgets, performance objectives and capital allocation decisions, the Management Committee will consider a wide range of potential risks and issues. This may or may not include climate-related risk, depending on the nature of the issue at hand.

Responsibility for managing climate-related issues sits between the Management Committee, Portfolio Managers, and Head of ESG.

THE MANAGEMENT COMMITTEE

The Management Committee has responsibility for the day-to-day management of the business. It defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management. The Management Committee maintains responsibility and oversight of our three core functions, namely (i) Investment; (ii) Business Development and Client Service; and (iii) Operations (including Finance, Risk, Trading and Compliance). It considers climate-related issues to the extent that they are relevant to these core functions.

The Management Committee is responsible for ensuring that the Firm's risk and compliance arrangements are maintained on a permanent and effective basis and operate independently.

As Hosking Partners is an FCA-regulated entity, the Management Committee is required to implement robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility. In addition, we have implemented effective processes to identify, manage, monitor and report the risks to which we may be exposed.

THE INVESTMENT TEAM

The Firm's four autonomous Portfolio Managers are ultimately responsible for the integration and consideration of climate and transition-related risks and issues into the Firm's investment decisions.

Hosking Partners believe that the generalist remit of the Investment Team and long-term investment horizon (c. 5-10 years) allows it the perspective to focus on more nuanced risks, such as exposure to future regulatory changes, financial liabilities carried off balance sheet, legislative risks, reputational issues, and capital misallocation.

Climate and transition related risks may materialise in any industry, but the weighting assigned to their consideration will vary on a case-by-case basis according to the judgement of the relevant Portfolio Manager.

THE HEAD OF ESG

The Head of ESG is a Portfolio Specialist who provides an advisory function to the Investment Team, focusing on analysing ESG-related risks and issues which may affect portfolio or prospective investments, including climate and transition-related risks.

The Head of ESG coordinates the Firm's engagement and voting activity, in collaboration with the Investment and Operations teams respectively. In 2023, 48% of the Firm's total engagements involved a discussion of climate or transition-related issues (77/161). The Head of ESG is also responsible for leading the Firm's regulatory commitments relating to climate and transition issues, in coordination with the Chief Compliance Officer. Finally, they work with the Client Service and Business Development Team to explain the Firm's approach to climate-related issues to clients and prospects and lead the publication of the Firm's quarterly Active Ownership Report, which is a public document that includes qualitative and quantitative information regarding the Firm's approach to ESG topics. These reports are available on our website.

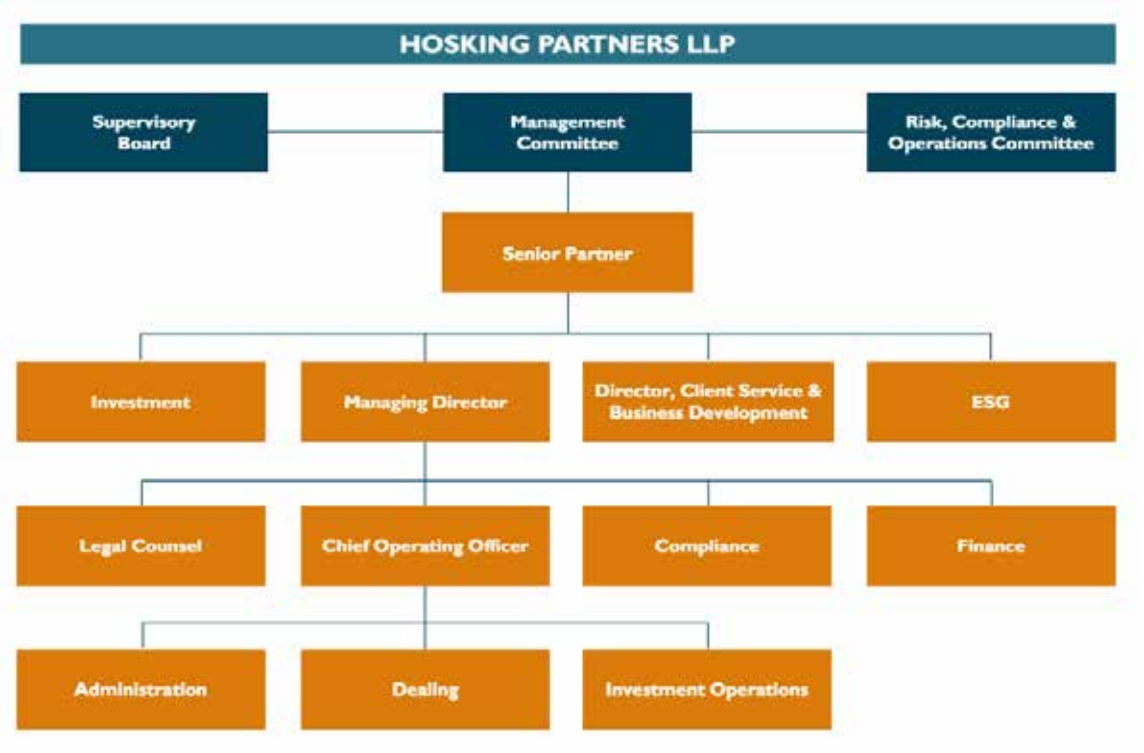
PROCESS

The Head of ESG undertakes regular meetings with each of the portfolio managers, as well as attending the bi-weekly Investment Team Meeting. This ensures shared awareness of ongoing and potential ESG issues. When required, the Head of ESG can flag these issues to the Management Committee, particularly if a formal decision on an issue is required.

The Management Committee meets at least once in each calendar month at the offices of the Firm, or such other location as may be agreed by the Management Committee. The Senior Partner has the right to convene a meeting of the Management Committee at any time. Climate-related issues are flagged to the Management Committee by the Head of ESG, or any other member of staff, when they are material to the Firm or its clients.

ORGANISATIONAL STRUCTURE

The governance structure of the organisation is depicted below:



Part 2a: Strategy

This section discusses how the actual and potential impacts of climate-related risks and opportunities may affect the form's operations, strategy, financial planning, and investment decision-making.

OVERVIEW

Hosking Partners recognises the potential impact of climate change and climate risk on portfolio companies. As such, the energy transition is a major topic of focus for our ESG thinking and engagements. Hosking Partners adopts a nuanced, qualitative approach that recognises the significant complexities of the energy transition.

When considering climate-related (and other investment) risks, the Firm uses the following definitions:

- **Short**: Less than 3 years
- **Medium**: 4-7 years
- **Long**: 8+ years

Hosking Partners considers itself to have a medium to long investment horizon, of between 5-10 years. The Investment Team may consider issues further out in time (10+ years) as part of their investment analysis, including climate-related issues. However, we believe that in general forecasting at such timescales is often inaccurate, and valuations based on such forecasting tend to be highly speculative.

INTEGRATION OF CLIMATE-RELATED ISSUES INTO THE INVESTMENT PROCESS

Considering the possible ways in which global themes such as the energy transition and climate change could unfold is major topic of analytical focus and thinking at Hosking Partners. The Firm primarily focuses on the supply side, which is measurable, rather than modelling demand. However, evaluating where consensus expectations (on demand or otherwise) may under-represent the possibility of alternative scenarios can be a useful exercise. It may help suggest where supply dislocations will prove the most acute, and therefore the opportunity most compelling, if valuations are mispricing that risk.

While we do not maintain a strict 'house view', in general in the short to medium term it seems that markets may be overestimating (and so mispricing) the speed of the transition away from many 'hard to decarbonise' sectors. This may also prove the case in the longer term, although we would hesitate to draw material conclusions at timescales significantly beyond our investment horizon.

As such, at this early stage in the energy transition, many companies operating in these areas of the market are being underinvested due to either uncertainty, or overconfidence that demand for their underlying products and services will decrease faster than seems likely based on our analysis. This uncertainty is amplified by speculative modelling of very long-term (15+ years) demand, which sometimes reflects political targets rather than probabilistic real-world outcomes. The Hosking Partners portfolio currently offers exposure to some of these critical areas.

For in-depth content covering our thinking on this and many other transition-related issues, please see our website.

PROCESS

The Head of ESG maintains a regular dialogue with each of the Portfolio Managers. A culture of constructive challenge ensures the Investment Team is encouraged to consider climate-related and other ESG matters

alongside other factors as part of the bottom-up investment process, without interfering with their independence and primacy in making the final investment decision.

In keeping with our 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, are frequently excluded or overlooked 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. Therefore, climate-related risks and opportunities that could have a material financial impact on the firm are identified and discussed through the forum of these regular ESG-focused meetings, as well as the bi-weekly Investment Team Meetings.

The Investment Team does not apply 'top-down' screens segregated by sector or geography, as we feel this could cause undue restrictions to our bottom-up investment decision-making process. However, we recognise the potential impact of climate change and climate risk (both physical and transition risk) on portfolio companies across all sectors and geographies, noting that the exposure of different market areas to climate and transition-related risk fluctuates over time. As such, our analysis focuses on those areas where risks may be deemed higher by the market (e.g. industrials, energy, materials), as we often find these areas also hide some of the most exciting opportunities for a differentiated manager.

HOW CLIMATE-RELATED ISSUES IMPACT BUSINESS OPERATIONS

Climate-related risks and opportunities are considered holistically alongside other categories as part of the Management Committee's remit to manage the Firm's overarching strategy and finances.

In recent years, consideration of such risks and opportunities has led the Management Committee to act in several cases. For example:

- Following a thorough review of our existing policies and resources, in mid-2021 the decision was made to create a new role focusing specifically on ESG-related issues. This resulted in the hiring of the Head of ESG in December 2021.

- In early 2022, the Firm committed to offset its operational (Scope 1 & 2) carbon emissions via a high-quality offsetting agreement with C-Level.

- In early 2022, the Firm refreshed its ESG-related communications with an expanded quarterly ESG & Active Ownership Report. This document, which is available to read on our website, provides both quantitative information regarding our voting and engagement activity, as well as qualitative discussion articulating our thinking on a range of ESG-related topics. Climate and transition risks and opportunities are a frequent topic of focus in these reports.

- A key element of our approach is working closely with our clients to help align our ESG integration, reporting, and thinking with their own. Over the last several years we have collaborated with several clients to help develop and refine ESG and climate risk-related policies to best align clients' sustainability goals with returns. The Management Committee has guided this process and provided recommendations to clients as appropriate.

PRIORITISATION

As a long-term investor, Hosking Partners considers a diverse array of financial and non-financial factors when making investments. We believe that the generalist remit of our investment team allows us the perspective to think broadly about the interaction of investee companies and both the market-wide and systemic environment in which they operate. Macro disruptions are directly relevant to the valuations we apply to these companies, and indeed our 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, we consistently seek 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.

Our approach 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 to challenge assumptions. We use a wide range of carefully selected third-party research providers to assist in this effort. We also routinely participate in wider industry initiatives and forums, including UNPRI, AIMA, and IIMI.

INCENTIVISATION

Our fees are linked to how well we do for our clients, and our portfolio is designed to deliver outstanding long-term returns. The output of our investment philosophy is a portfolio that offers exposure to parts of the market where we believe directional returns on capital are being mispriced. Climate-related issues will affect all companies to some degree, although the materiality of those issues will vary on a case-by-case basis.

Our Investment Team (and all employees) are incentivised in alignment with the long-term performance of our portfolio and the companies it contains. When the portfolio does well, the Firm's revenues rise. As such, our ability to accurately price climate-related (and other) risks affects the Firm's financial performance because it is an input into the investment decision-making process.

SERVICE PROVIDERS

Hosking Partners engages a range of research and service providers, from big banks to small independent boutiques. Because ESG issues, including climate-related ones, are integrated into the investment process from the bottom-up, each of these providers helps inform our approach. 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 Firm also engages a specialist research analysis firm focusing entirely on the energy transition.

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 Head of ESG has the responsibility for ensuring that the service providers chosen align with our Firm-wide approach to climate-related issues.

Part 2b: Scenario Analysis

Scenario analysis is the process of estimating the possible impact to a portfolio after a given change in the values of certain related input factors.

Hosking Partners does not use quantitative climate scenario analysis to guide investment decision making. We include scenario analysis below in accordance with TCFD reporting guidelines, but we believe it offers limited actionable analytical insight as long-term capital cycle investors, primarily because it does not consider the impact of these forecasts on future profits and returns on the capital of companies in our portfolio. Hosking Partners prefers to incorporate climate-related risks and opportunities as part of our qualitative, bottom-up investment process, rather than relying on quantitative modelling or scenario analysis, which is presented here for reporting and transparency purposes only. The analysis below should not be used as a guide to future portfolio performance.

OVERVIEW

The following analysis shows how demand for the products and services offered by companies in our portfolio may change under a range of future energy transition-related scenarios. These scenarios, and the underlying modelling, use data provided by the Network for Greening the Financial System (NGFS), to ensure standardisation and comparability.

The NGFS was established in 2017 and is a group of international central banks and supervisory authorities, established with the aim of promoting the integration of environmental and climate considerations into financial decision-making. The NGFS scenarios are designed to model different possible futures, considering the impact of climate-related factors on the financial system through the analysis of a wide degree of variables. NGFS describes the scenarios we have selected to model as follows:

- **Nationally Determined Contributions** (NDC): The NDC scenario makes projections based both currently implemented and pledged policies. While emissions decline earlier than in the 'Current Policies' scenario, it assumes that global temperatures rise by around 2.6°C. We use this as our baseline scenario.

- **Below 2°C**: This models an ambitious scenario that limits warming to below 2°C through the implementation of climate policies and large-scale innovation, reaching net zero CO_2 emissions around 2050. This scenario assumes significant cuts in fossil fuel production as well as reductions in overall global energy demand.

- **Disorderly / Delayed Transition**: This assumes that global annual emissions do not decrease until 2030, after which strong policies are needed to limit warming to below 2°C. These policies differ across countries and regions and emissions initially exceed the carbon budget. However, the scenario projects a rapid decline in emissions from the mid-2030s onwards, so that temperature rises are still limited to 2°C by 2050.

- **Fragmented World**: This scenario assumes delayed and divergent climate policy ambition globally, leading to elevated transition risks in some countries and high physical risks everywhere due to the overall ineffectiveness of the transition. It implies a 2.3°C temperature rise.

- **Current Policies**: This scenario assumes that only currently implemented policies are preserved. It assumes that emissions grow until 2080, leading to global temperature rise of around 3°C.

It is worth noting that there are innumerable other scenarios which could play out, which are not captured by the NGFS framework described above. This is a primary limitation of scenario analysis – it can only capture a narrow range of possibilities (further limitations are discussed below).

METHODOLOGY

To perform the analysis, we first set a baseline against which other scenarios can be compared. Our baseline is the NDC scenario, which depicts the current regulatory forecast and so offers a reasonable approximation of a scenario priced-in by global markets.

Using NACE class data (the EU standard for industry classification), we map each portfolio holding to an NGFS integrated assessment model (IAM) variable. We use a variable that represents the demand prospects for the underlying product or service described by that NACE class, measured in an appropriate annual unit. For example, for the 'Production – Cement' NACE class, the model simulates expected demand in million tons per year.

The model then simulates percentage changes to that variable over time against each NGFS scenario, compared against the baseline NDC scenario, and then sums the overall impact to our portfolio, weighted by our exposure to that NACE class.

For example:

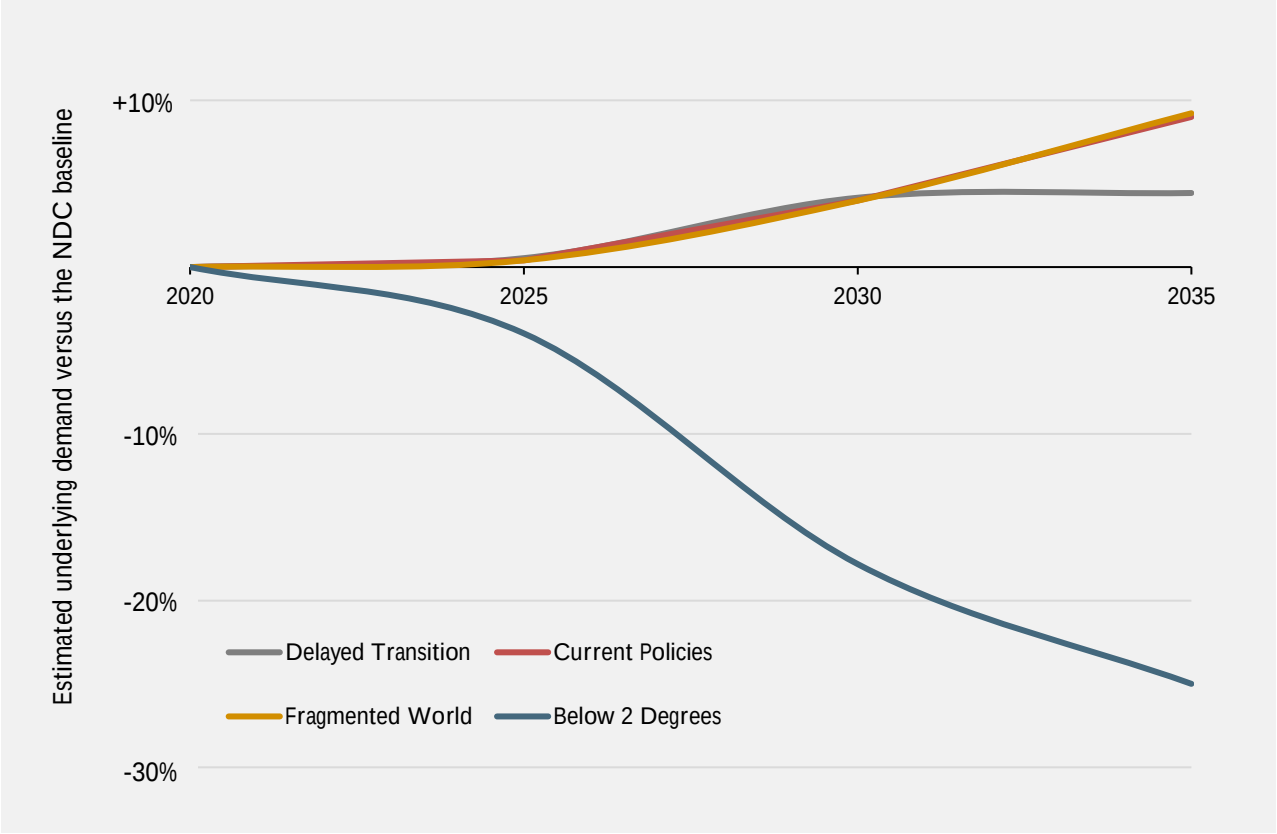
Variable	Unit	Scenario	2020	2025	2030	2035
Production | Cement	Demand (Mt/year)	NDC (baseline)	1.00	1.00	1.00	1.00
		Below 2°C	1.00	-4%	-18%	-25%
		Delayed Transition	1.00	+0%	+2%	+3%
		Fragmented World	1.00	+0%	+0%	+3%
		Current Policies	1.00	+2%	+3%	+3%

Here, the table displays the expected percentage variation in cement demand against each respective NGFS scenario. For example, under the 'Current Policies' scenario the NGFS models a 2% increase in demand by 2025, 3% in 2030, and so on, versus the baseline NDC scenario. Under the 'Below 2°C' scenario, demand is projected to fall by -4% by 2025, -18% by 2030 and -25% by 2035.

The above example table displays a single variable, cement production. The overall model sums the weighted impact to the 24x IAM variables considered by NGFS to represent industries or business activities that may be "highly affected" (in isolation) by climate change and/or the energy transition. As of June 2024, 41.38% of total portfolio holdings are classified by NGFS as operating in one such area. The primary drivers are industry (14% exposure), oil (7%), steel (4%), and shipping (4%).

OUTPUT

The scenario analysis output models the overall impact to underlying demand for affected products and services, weighted by portfolio exposure, against each alternate NGFS scenario out to 2035. This is depicted in the graph below:



The analysis implies that portfolio companies may experience an uplift in underlying demand out to 2035 under the 'Delayed Transition', 'Fragmented World', and 'Current Policies' scenarios, but a drawdown under the 'Below 2°C' scenario, versus the NDC baseline. This may suggest that the portion of the portfolio covered by this analysis is more closely 'aligned' to the occurrence of those former scenarios than the latter, but only to the extent that such a conclusion can be drawn independently of valuation.

LIMITATIONS OF SCENARIO ANALYSIS

In addition to the limitations described at the start of this section, there are several other issues with applying scenario analysis at the portfolio level.

A key issue is that because scenario analysis requires a 'baseline' scenario from which to measure divergence, it does not capture the probability of that baseline scenario itself occurring or not occurring. In this case, while the NDC scenario may provide a reasonable approximation of a 'priced-in' scenario due to its incorporation of regulatory pledges, it does not capture the possibility that such pledges may themselves be altered over time.

Relatedly, different scenarios do not necessarily have an equal chance of occurrence. As a diversified, long-only equity manager, 'aligning' a portfolio to a single or narrow selection of future scenarios may be

incompatible with our fiduciary duty to act in our clients' best interests.[1] To do so, we must responsibly take on risk in order to generate a return. At Hosking Partners we use qualitative, bottom-up analysis to construct a portfolio of companies which we believe has multiple 'ways to win' over the long-term. This allows us to take on risk across a range of outcomes, the exact nature of which is unknowable, particularly in the context of something as complex and multifaceted as the energy transition.

Finally, the above scenario analysis only considers the impact to the 41.38% of portfolio holdings deemed by the NGFS to be involved in industries which may be significantly affected by climate or transition-related issues. This means any potential impact to the remaining c.60% of the portfolio is not modelled.

For these reasons among others, Hosking Partners prefer to incorporate climate-related risks and opportunities as part of our qualitative, bottom-up investment process, rather than relying on quantitative modelling or scenario analysis, which is presented here for reporting and transparency purposes only.

[1] This issue is discussed in this paper by Tom Gosling and Ian MacNeil, Nov 2022.

Part 3: Risk Management

This section describes the processes used by the firm to identify, assess, and manage climate-related risks, as well as how consideration of these risks is integrated into the investment decision making process.

OVERVIEW

Consideration of ESG issues – including climate-related risks – forms a part of the portfolio managers' investment analysis, in an integrated approach alongside multiple other risk factors. Climate-related risks are identified and assessed through a qualitative decision-making process guided by our portfolio managers, with input and coordination from the Head of ESG.

The Firm determines the relative significance of different risks on a case-by-case basis, by qualitatively assessing the issues that affect a particular company. Those risks will be weighed by the respective portfolio manager, and that weighting will inform the valuation ascribed in each case.

REGULATORY RISKS

A key focus is placed on identifying and analysing existing and emerging regulatory risks and requirements. As a global manager, we stay abreast of regulatory changes and developments across the geographies in which our holdings operate and respond to material changes in circumstance accordingly. This process is supported by our compliance department, who conduct scans daily via the Worldcheck platform.

Regulations in relation to climate and the energy transition are evolving rapidly. Our recognition of the importance of these issues contributed to our decision to hire a Head of ESG in 2021. This provided the Firm with a dedicated resource to evaluate the materiality of such changes as they occur, in collaboration with the portfolio managers and compliance team.

PHYSICAL AND TRANSITION RISKS

Hosking Partners recognises that physical and transition-related risks[2] are important factors which may affect the long-term performance of our clients' assets. Such 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 climate-related risks will vary from one investee company to another.

Hosking Partners does not exclude any geographies, sectors or stocks from its analysis based on ESG or climate-related risk profile alone. The multi-counsellor approach, which is deliberately structured 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.

Our processes for identifying, assessing, and managing climate-related risks vary depending on the company in question. Primary responsibility rests with the autonomous Portfolio Managers, with support from the Head of ESG. Risks are considered on a case-by-case basis for each prospective and existing portfolio holding, with re-assessment occurring on a routine basis. Given the size of the portfolio, companies which are deemed more highly exposed to climate-related risks are prioritised for analysis and engagement. This process is coordinated by the Head of ESG.

[2] **Physical Risks** are defined as risks related to the physical impacts of climate change, including risks like extreme weather events (hurricanes, floods, wildfires) and chronic risks like sea-level rise, temperature increases, and changes in precipitation patterns that can affect assets, infrastructure, and operations. **Transition Risks** are defined as risks associated with the transition to a low-carbon economy, including policy and legal risks, technological changes, market shifts, and reputational risks that can impact businesses as economies shift away from fossil fuels towards sustainable and renewable energy sources.

As discussed above, any issue can be elevated to the Management Committee for further discussions should it be deemed appropriate.

ENGAGEMENT

Engagement is an important part of our process and our willingness to take on large stakes in companies allows us more effectively to lever the potential value of our engagement. As well as engaging in specific situations, we 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 managements' understanding of capital allocation and believe part of getting capital allocation right is to consider climate and transition-related risks, along with other factors that might affect a company's long-term valuation. This is particularly the case where a company operates in sectors exposed to the transition, such as energy, materials, and industrials.

Frequent topics of our climate-related engagements concern issues such as capital allocation, reporting and transparency, and governance. Two examples of such engagement are provided below, and further examples can be found in the Firm's quarterly Active Ownership Reports.

ENGAGEMENT EXAMPLE 1

Over 2022/23, the Firm conducted several engagements with a UK-listed Exploration & Production company that operates in Africa and South America. We were particularly interested in understanding the firm's approach to ESG issues, in line with the belief that ESG analysis has the most to offer in the parts of the market that are most exposed to potential ESG-related risks. As a supporter of TCFD we consistently encourage both prospective and existing hydrocarbon investments to maintain excellent standards of transparency and disclosure. The 'consent and evade' tactics that many companies practiced in the past are outdated, and the best way to avoid potential regulatory risk is to practice upfront, accurate, and compliant climate reporting. The engagement focused on examining how the company leverages its position in the local community to achieve positive outcomes, mainly across the 'E' and 'S' pillars. The company stressed its commitment to maintaining its 'license to operate', which hinges on a consistent, reliable contribution to the local economy, and provision of a safe working environment for local people (who make up 80% of the workforce). Over the last five years, the company has paid $1.2bn in direct spend and contributed another $1.7bn indirectly to host countries. The company also has a solid commitment to biodiversity and the environment, implemented via a high-quality offsetting agreement that prioritises local projects. The company has set a carbon neutrality target by 2030, and is exploring an option to re-purpose flared gas emissions as fixed-contract natural gas supply for the host nation. We encouraged the company to continue executing this well-thought-through strategy,

The company is rated BBB by MSCI, with governance and community relations highlighted as areas of ESG outperformance. Negative areas of the assessment (safety, environment) either reflect structural sector-related risks, or lag the company's current practices. For example, MSCI finds "no evidence of environmental targets" despite clearly stated decarbonisation targets, and "no evidence of initiatives to restore sensitive lands", despite recent investments in mangrove restoration and biodiverse forestry. Similarly, 65% year-on-year improvements in health and safety have not yet been incorporated. This leads Hosking Partners to categorise the company as an 'ESG improver', and suspects that an ESG rating upgrade is overdue. Cross-checking primary research and engagement with rating agency reports is a useful way to identify opportunities to exploit 'ESG arbitrage', whereby ratings lag reality. From a capital cycle perspective, inaccurate ESG ratings can exacerbate capital underinvestment by disqualifying firms from ESG-labelled fund ownership. Although it is difficult to precisely quantify the value impact of such discrepancies, in general the Firm believes that such situations strengthen an investment case when combined with an attractive fundamental valuation.

ENGAGEMENT EXAMPLE 2

The Firm undertook a wide-ranging engagement with a South African precious metals miner. Safety failures and country risk remain near-term headwinds, while longer-term the company seems better placed, with a potentially longer-than-expected Internal Combustion Engine (ICE) runway and growing hybrid electric vehicle (HEV) market serving as potential drivers of outperformance in platinum group metals ('PGMs').

The company has a high carbon intensity on a kilo-for-kilo basis, which is mainly driven by their gold operations. Gold production is structurally high carbon intensity on a per unit basis due to the complex production chain, which results in compounded efficiency losses and low overall output mass. This is exacerbated by their majority reliance on an 80% coal-fired South African grid.

Despite this structural headwind, the company has set Science-Based Targets initiative (SBTi)-backed targets to reach carbon neutrality by 2040, although they expect to do so well ahead of this deadline. The company expect to drop below their SBTi glidepath in 2023-24, something Hosking Partners will closely monitor. Their primary decarbonisation levers are efficiency gains, a switch to electric mobility from diesel, and a solar project which comes online in 2025-26. This is expected to generate power at a 20-30% discount to Eskom (grid) tariffs, even without factoring in the additional benefits that would accrue from carbon pricing and reduced reliance on coal-fired grid power. They will concurrently benefit from the South African government's efforts to reduce wider grid carbon intensity.

Regarding the energy transition more broadly, PGM have been associated with a somewhat bearish outlook compared to base and rare earth metals due to their deep connection to ICEs. Therefore, there is a structural demand decline priced into many manufacturers' share prices, aligned against the extremely aggressive EV targets pushed by the International Energy Agency and increasingly adopted by EU and other countries. However, there are counterpoints to this thesis. Firstly, hybrid EVs have an even higher PGM loading than ICEs, due to frequent stop-starts lowering the operating temperature, and therefore the performance efficiency, of the coating. The fix is to apply extra coating. Secondly, transitional regulations such as China's "China 6 standard", which are designed to reduce ICE emissions by adding a PGM-coated gasoline particulate filter, represent another near-to-medium term growth opportunity. It seems more likely that many economies in both the developed and developing world will adopt transitional policies like this before they start switching to expensive EVs outright. More broadly, there is reason to question the aggressive EV targets being bandied by Western governments as battery metal supply is unlikely to meet demand as quickly as forecast. All this adds up to a longer ICE runway, combined with increasing transitional ICE regulation such as the China 6 standard, both of which are positive for PGM in contrast to wider market consensus.

Part 4: Metrics & Targets

This section describes the metrics and targets used by the firm to assess and manage climate-related risks and opportunities, as well as providing information on the firm's emissions profile.

METRICS

We do not believe that climate risks can be easily quantified by blanket metrics summarising multiple companies or industries. Such metrics may oversimplify or even misrepresent the reality, especially if considered in isolation or out of context. This is discussed in more detail here. As such, we will look at a range of datapoints, tailored according to their materiality to the company in question, when considering an investment. We also rely on specialist third-party research to help provide targeted expertise when required. Given that Hosking Partners are a generalist manager without a specified sustainability mandate, investment team remuneration is not linked directly to ESG or climate-related outcomes. However, the successful integration of ESG and climate-related risks and opportunities remains integral to employee remuneration to the extent that it contributes to overall Firm success in terms of both client retention and long-term investment performance.

CARBON PRICE

A carbon price can be an important input variable to consider as part of investment analysis. We may consider the impact of a carbon price on a case-by-case basis if we believe it to be a relevant input into a prospective or existing investment thesis. That said, we do not model the impact of imposing a single carbon price across the entire portfolio, as is utilised in Climate Value-at-Risk calculations. This is because we do not believe this sort of top-down analysis accurately reflects the impacts carbon prices may have in reality, because it does not consider valuation, geographic or sectoral variation, or the responses company managements, regulators and investors would take in response to a changing carbon price (which would have a reflexive effect).

PORTFOLIO EMISSIONS STATISTICS

The Firm manages a single product, so at portfolio level our entity and product emissions disclosures are the same.[3] Nevertheless, a separate product report is available on our website.

Metric	Scope	2023
Financed Emissions (tCO2e)[4]	Scope 1	724,151
	Scope 2	174,723
	Scope 3	7,463,499
Carbon Footprint (tCO2e / $M invested)	Scope 1 + 2	162
	Scope 3	1,349
Weighted Average Carbon Intensity (tCO2e / $M revenue)	Scope 1 + 2	235
	Scope 3	1,399

[3] The figures here cover the emissions associated with the Hosking Partners representative portfolio. The Firm also measures and offsets its own Scope 1 and 2 emissions (i.e. those associated with the daily running of the business itself). These were measured as 234 tons (Scope 1+2) in 2023. The Firm then offsets an additional +30%, for a 2023 total of 304 tons.
[4] All calculation methodologies are from TCFD, available here.

TARGETS

As a UK- based firm, we acknowledge the commitment in the Climate Change Act 2008 (2050 Target Amendment) Order 2019 to reach net zero by 2050 and encourage our investee companies – both in the UK and elsewhere – to prepare for this transition accordingly.

We have not yet set a formal net zero emissions target or transition plan with respect to our portfolio. At present, for certain sectors the only route to net zero accepted by bodies such as the Science-Based Targets Initiative is to shut down operations completely. Although in the long-term this may be desirable for some specific industries, we believe this is an unlikely outcome in the near to medium term. Over our investment horizon, many of these 'hard to decarbonise' sectors will remain critical parts of the global economy.

As such, while we are supportive of the overarching goal of decarbonisation and, if possible, net zero by 2050, we have not yet set a target at portfolio level. In practice, over time, such a target may passively constrain our investable universe away from the sectors that climate regulation currently ignores or unfairly discriminates against, but which are nevertheless essential for the transition, as discussed above. This could also have a negative impact on our mandate to deliver the best returns for our clients, whose capital we invest on their behalf.

We frequently engage with the companies we own to better understand their approaches to net zero, as well as interrogate the targets they have set and means by which they propose to achieve them. We consistently advocate for capital allocation strategies and management incentive plans that are aligned with realistic and value-generative (for both shareholders and broader stakeholders) net zero policies.

Whether or not to implement a portfolio-level net zero target is a policy that we keep under constant review, and we consistently engage with our clients on this topic to ensure we take on board their needs and guidance.

NOTES ON THE DATA

Underlying data is sourced from the Firm's engaged data providers.[5]

As this is our first year of reporting, we only include data for 2023. Future reports will include time-series data and trendlines from the 2023 baseline reported below.

This analysis is based on the holdings in the Hosking Partners Representative Portfolio at of 1 April 2024. Market values, AUM, and derived figures such as financed emissions are based on total assets owned across all pooled and client accounts, less cash, and are measured in USD.

Scope 1 and 2 emissions are provided as reported, while Scope 3 data is based on an estimate calculated by the Firm's emissions data provider.

Emissions data for this report was available for 77.8% of the portfolio by holdings and 93.4% of the portfolio by market value (marked as of 1 April 2024). A priority for the Firm's ESG-related engagement is encouraging transparent emissions reporting, and we expect this coverage figure to improve over time. We will monitor this trend over time in subsequent reports.

[5] For the purposes of the 2023 report, these providers are FactSet for financial data and MSCI for emissions data.

Compliance Statement

This entity-level report is written in accordance with the TCFD framework and from the perspective of Hosking Partners LLP. It is the business's first stand-alone TCFD report and will be published on our website. The intention of this report is to share our approach to Governance, Strategy, Risk Management and Metrics and Targets related to climate change.

The disclosures and calculations in the report cover all our in-scope assets managed or administered by the firm and are based on a financial year schedule (12 months) ending 1 April 2024, using the most up-to-date information.

In accordance with the FCA's ESG Sourcebook, Hosking Partners has made these disclosures consistent with the TCFD Recommendations and Recommended Disclosures, including Sections C and D of the TCFD 2021 Annex. The disclosures in this report, including any third-party or Group disclosures cross-referenced in it, comply with the requirements under Chapter 2.2 in the FCA's ESG Sourcebook.

Roman Cassini
Head of ESG

June 2024

About Hosking Partners

Hosking Partners LLP ("Hosking Partners", "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.

Our 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 our opinion, have equity characteristics (such as income trusts). We provide 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.

Contact

Please direct any questions regarding this report to one of the following:

- Roman Cassini, Head of ESG (rcassini@hoskingpartners.com)
- Gwin Myerberg, Director Client Services & Business Development (gmyerberg@hoskingpartners.com)

Appendix

TCFD Recommendation	Reference
Governance: Disclose the organization's governance around climate-related risks and opportunities	
Describe management's role in assessing and managing climate-related risks and opportunities.	3 – 4
Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning where such information is material	
Describe the climate-related risks and opportunities the organization has identified over the short-, medium- and long-term.	5
Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.	5 - 7
Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	8 – 11
Describe how risks and opportunities are factored into relevant products or investment strategies and describe related transition impact.	6
Risk management: Disclose how the organization identifies, assesses and manages climate-related risks	
Describe the organization's processes for identifying and assessing climate-related risk.	12
Describe the organization's processes for managing climate-related risks.	12
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organization's overall risk management.	13
Describe how material climate-related risks are identified, assessed and managed for each product or investment strategy.	12 – 13
Describe engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks in order to improve data availability and asset managers' ability to assess climate-related risks.	13
Metrics and targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	
Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	15
Describe metrics used to assess climate-related risks and opportunities in each product or investment strategy.	15
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risk.	15
Asset managers should disclose GHG emissions for their AUM and WACI for each product or investment strategy, where data and methodologies allow. Asset managers should consider providing other carbon foot printing metrics they believe are useful for decision-making.	15
Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	16

Signatory of:

PRI Principles for Responsible Investment

Supporter of:

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

LEVEL | CARBON BALANCED