Hosking Partners®

TCFD 2024
Product-Level Report

June 2024

Product: Hosking Partners Portfolio

Reporting Period: 1 April 2023 – 31 March 2024
Calculation Date: 1 April 2024

This TCFD Product Report refers to the Hosking Global Fund portfolio and is consistent with Chapter 2.3 of the FCA's Environmental, Social and Governance Sourcebook (the "ESG Sourcebook").

CARBON METRICS

Metric	Scope	2023
Financed Emissions (tCO2e)	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

NOTES ON THE DATA

Underlying data is sourced from the Firm's engaged data providers.[1] 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.[2]

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.[3]

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

[1] For the purposes of the 2023 report, these providers are FactSet for financial data and MSCI for emissions data.
[2] Due to minor variations between the Hosking Partners representative portfolio and some segregated client accounts (e.g. due to mandate-specific exclusions), and because cash balances are not included, the analysis above covers 98% of total Firm-wide AUM as of 1 April 24.
[3] **Scope 1** emissions are direct emissions from owned or controlled sources by an organisation, including on-site fuel combustion, manufacturing processes, and company vehicles. **Scope 2** emissions are indirect emissions from the generation of purchased electricity, steam, heating, and cooling consumed by the reporting organisation. **Scope 3** emissions are all other indirect emissions that occur in a company's value chain, including both upstream and downstream emissions, such as those from purchased goods and services, business travel, etc.

transparent emissions reporting, and we expect this coverage figure to improve over time. We will monitor this trend over time in subsequent reports.

CLIMATE VALUE AT RISK / CARBON LIABILITY

Hosking Partners does not model the impact of imposing a single carbon price across the entire portfolio, as is utilised in Climate Value-at-Risk (CVaR) 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). Instead, we consider the possible impacts of a carbon price on a case-by-case basis as part of our investment decision making process. As such, we have opted not to provide a CVaR figure for the portfolio at this time.

TEMPERATURE ALIGNMENT

We do not believe modelling that 'aligns' a portfolio with some implied temperature rise contains any useful information about either portfolio performance or climate impact, and so have opted not to include such metrics in this report.

SCENARIO ANALYSIS

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:

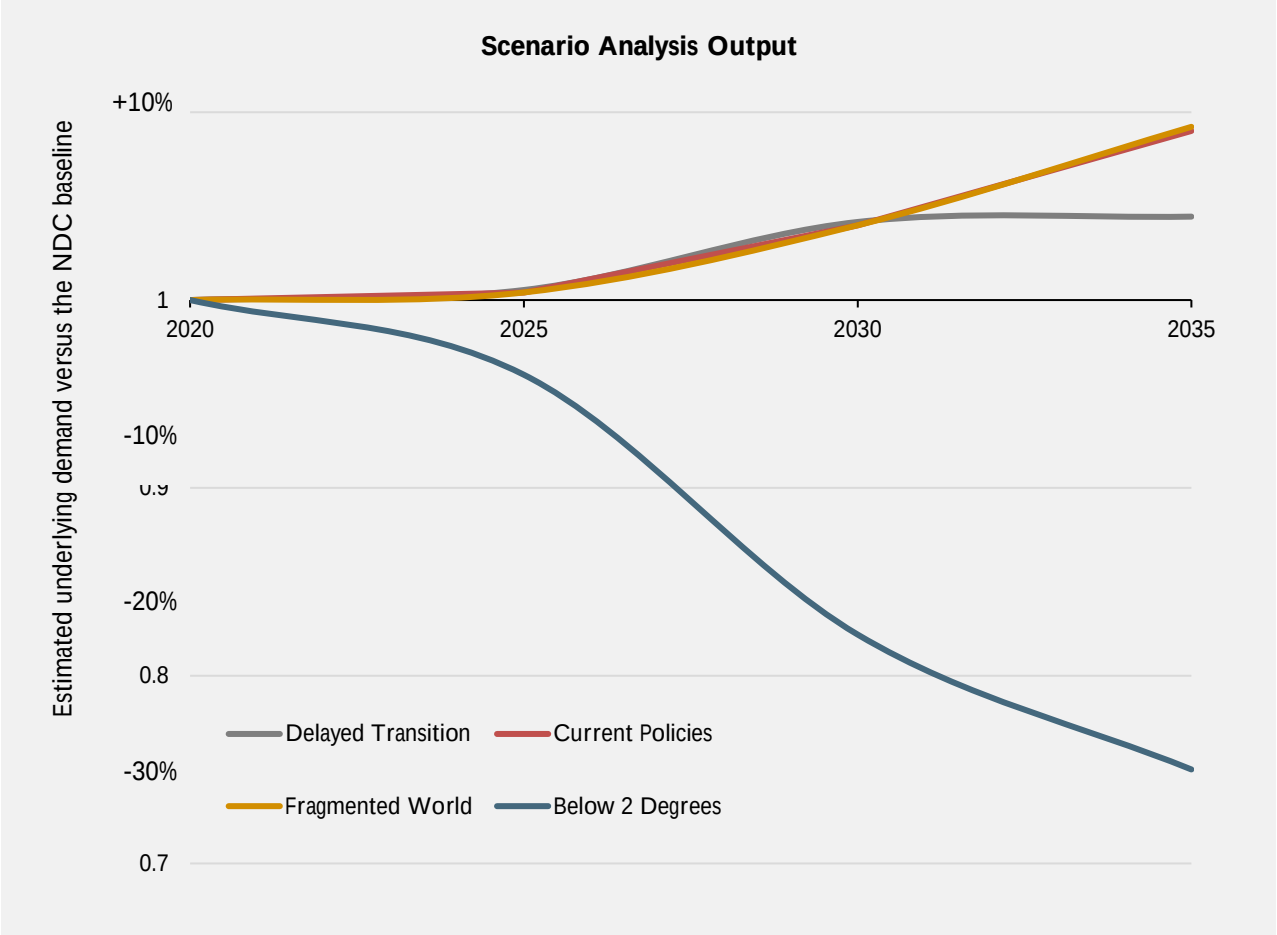
Variable	Unit	Scenario	2020	2025	2030	2035
Production | Cement	Demand (Mt/year)	NDC (baseline)	1.00	1.00	1.00	1.00
		Below 2°C	1.00	-4%	-18%	-25%
		Delayed Transition	1.00	+0%	+2%	+3%
		Fragmented World	1.00	+0%	+0%	+3%
		Current Policies	1.00	+2%	+3%	+3%

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 heavy 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.[4] 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.

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

Compliance Statement

This product-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. This report is meant to be read in conjunction with our entity-level report, which can be found here. Hosking Partners LLP offers one product and as such the disclosures in this report are the same in all material aspects regarding Governance, Risk Management, and Strategy as those in the entity-level report.

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 2.3 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

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Signatory of:

PRI Principles for Responsible Investment

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TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

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