Hosking Partners®

ESG and Active Ownership Report

Q4 2024

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Foreword

To round out a fascinating 2024, this quarter's lead article looks at one of the more overlooked topics in responsible investment – the social category. This is a broad area, often underweighted by the quantitative ratings agencies due to its hard-to-measure nature.

Our article focuses on two areas that we believe will move increasingly into the spotlight this year.

Firstly, the social flipside of the energy transition, where resilience, adaptation, and local politics are replacing multinational decarbonisation targets as the main issues shaping broader discussion and policy.

Secondly, we highlight the emergence of artificial intelligence and its associated implications for safety, regulation, and the prospects for 'Big Tech' incumbents. This latter topic has been thrown into sharp relief in recent weeks thanks to the claims made by China's DeepSeek AI model. Both are areas to which we look forward to returning in more depth in the future.

As usual, the report also contains data and discussion regarding our engagement and voting activity this quarter.

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

Roman Cassini
Portfolio Specialist & Head of ESG

CONTENTS

VOTING SUMMARY	Q4	2024
Meetings Voted	32	381
Proposals Voted	366	4782

ENGAGEMENT SUMMARY	Q4	2024
ESG	31	143
Total Direct (1-on-1)	69	401
Total Indirect (Group)	21	101
Conference	9	38

A part of the main: How analysing social issues helps drive returns

- Understanding overlooked social factors, from local community relations to AI risks, is relevant to long-term investment outcomes.
- Simple, metrics-driven ESG frameworks often miss deeper social drivers that ultimately shape company performance.
- The interplay between community buy-in, regulatory shifts, and geopolitical realities reveals hidden risks and undervalued opportunities.

"No man is an island entire of itself; every man is a piece of the continent, a part of the main."

John Donne

It has now been almost three years since we refreshed and expanded our Active Ownership Report to include regular qualitative discussion of some key issues affecting both our portfolio and wider industry debate. The eleven quarterly reports we have produced since then have covered topics ranging from the geopolitics of the energy transition, the war in Ukraine, analyses of industries including wind, solar and shipping, country risk in China, and several articles on the evolving responsible investing ('RI') paradigm. Within the report, we have also discussed governance issues such as incentivisation.

We have focused on these issues primarily because we feel that they have the most material relevance to our portfolio. In our view, for non-impact managers, responsible investment (RI) is the process of incorporating the consideration of long-term, often non-directly financial factors into our analyses and engagements. This is designed to support the generation of sustainable, long-term returns for our clients. However, as a public-facing document, it is also the case that the issues we focus on in this report are those about which we receive the most questions, and which are most prominent in broader industry conversations.

As such, environmental and governance-related issues have dominated. This is not terribly surprising, as the 'E' and 'G' in 'ESG' have been at the centre of responsible investment analysis and reporting over the past several years. Media-friendly, (until recently) generally uncontroversial, and importantly easy-to-quantify, these themes have dominated RI discussions. Meanwhile, social ('S') issues, which are often considered hard to measure and define, have hovered on the sidelines, overlooked and unloved.

'ESG' has always been a group of awkward bedfellows: some things which should be there are missing (geopolitics), others which are there arguably don't belong (governance), and in the middle of it all is a separate category for 'social', even though we would submit this describes the entire entity. After all, it is the *social impacts* of things like governance and environmental policy which ultimately impact value creation. This piece will briefly examine why 'S' has lagged in responsible investing frameworks before highlighting several emerging social issues, including 'licence-to-operate' community relations and artificial intelligence (AI) safety, which we believe will move increasingly to the forefront of the debate in coming months and years.

'S' metrics: Path of least resistance?

Unlike measuring a carbon footprint or scrutinising executive pay structures, social issues are often inherently multifaceted. They span a vast array of stakeholders – employees, communities, consumers, and supply chains – making them notoriously difficult to define and quantify. The absence of standardised reporting and readily available benchmarks has meant 'the S factor' has lacked a clear link to corporate performance. This is especially the case when a range of individual issues are aggregated into a single 'score.'

The incentive to simplify and quantify all elements of ESG has had a direct effect on the types of social issue that have become the centre of attention. Diversity, equity, and inclusion (DEI) statistics, for example, now routinely appear in annual reports. Proxy agencies have been quick to apply board and management social diversity quotas, to which their powerful voting recommendations defer. Elsewhere, statistics covering CEO-to-worker pay ratios, workplace injury rates, and community-related philanthropy (often literally provided as a dollar value) have become mainstays in corporate sustainability reports. These measures emerged in response to real problems. Often, they address an entrenched inequality and have almost certainly helped to catalyse at least directional reform (see Figure 1). Many boards are more diverse now than they were a decade ago, and, in select cases, pay disparities have narrowed.

At Hosking Partners we recognise the benefits of enhancing diversity and properly aligning management incentives, but in practical terms, rigid, one-size-fits-all approaches – whether by imposing strict board diversity quotas or reflexively voting down executive remuneration schemes – can lead to perverse outcomes. For instance, rejecting a well-conceived pay plan that incentivises strategic risk-taking at precisely the moment a company may need it most could harm returns. We recently wrote in more detail about the importance of long-term incentive metrics that encourage management to act like owners. Equally, moving to deselect an outstanding board member because of insufficient diversity metrics, without considering that director's unique contribution, may deprive the firm of vital expertise.

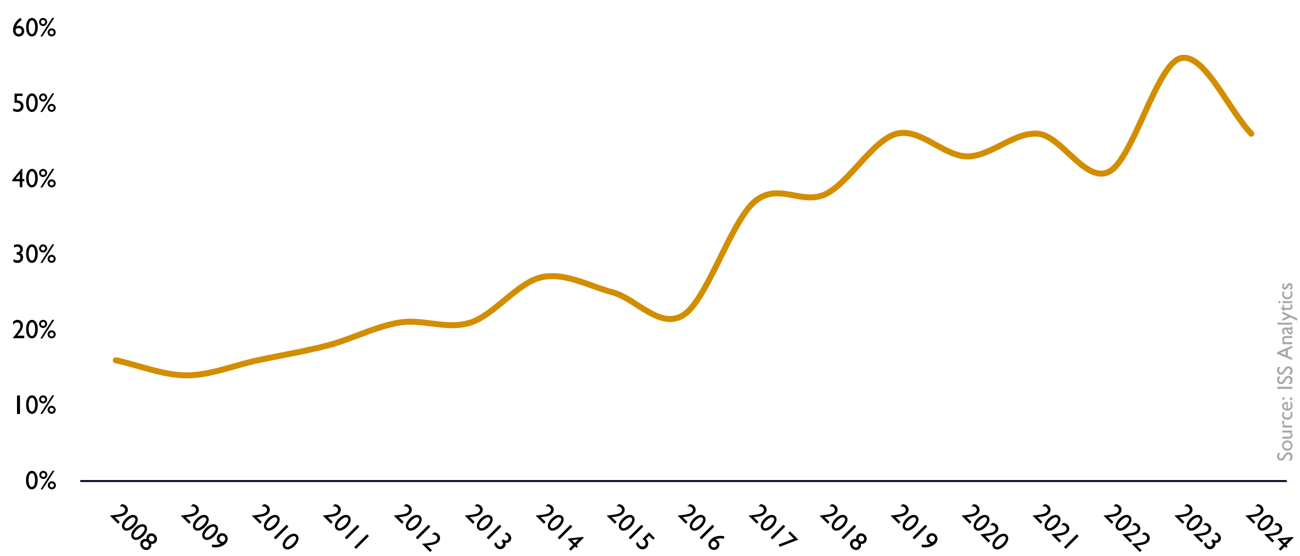
As ever, the devil is in the detail, and any responsible manager has a duty to their clients to understand and respond to that complexity. We therefore approach these issues on a case-by-case basis. While our position often aligns with proxy agencies on questions like board diversity or excessive pay, we reserve the right to deviate if the nuance of a specific situation suggests otherwise. This allows us to balance the financial interests of the company against longer-term, intangible factors. The recent backlash against some elements of 'ESG 1.0' is at least in part a result of the way these issues have been oversimplified and applied in a standardised way that is divorced from case-by-case due diligence.

Meanwhile, amidst the focus on a narrow set of easily quantified issues, other social themes have remained comparatively neglected. Against this backdrop, the next few sections will explore how emerging challenges are set to reshape how we approach the 'S' in ESG. In particular, we will highlight the social flipside of decarbonisation, and examine how Big Tech's sustainable credentials, often magnified by careful curation of simplistic and quantifiable metrics, are moving ever faster into the spotlight.

Energy transition: A social affair?

Writ-large, decarbonisation is a global journey. We have previously noted that the molecular contents of Earth's atmosphere pay little attention to international borders or individual government policies. But while the overall challenge is global and top-down, the distribution of its effects is disparate, uneven, and bottom up. For this reason, the energy transition remains a local, and therefore intensely *social*, affair.

Figure 1: A positive trend
Percentage of new S&P 500 directorships filled by women



Nowhere is this more evident than in mining and natural resource extraction. These are sectors whose 'licence to operate' hinges on maintaining goodwill within nearby communities. Whereas broader responsible investing conversations often pivot around global policy goals or macro-level emissions statistics, these do not always capture the on-the-ground realities: indigenous land rights, environmental justice protests, and local anxieties about job security can derail even the most well-funded ventures. If a community feels overlooked or exploited, its resistance can be the difference between a project's success or a costly stalemate (the ongoing Cobra Panama mine debacle is an example of such a dynamic).

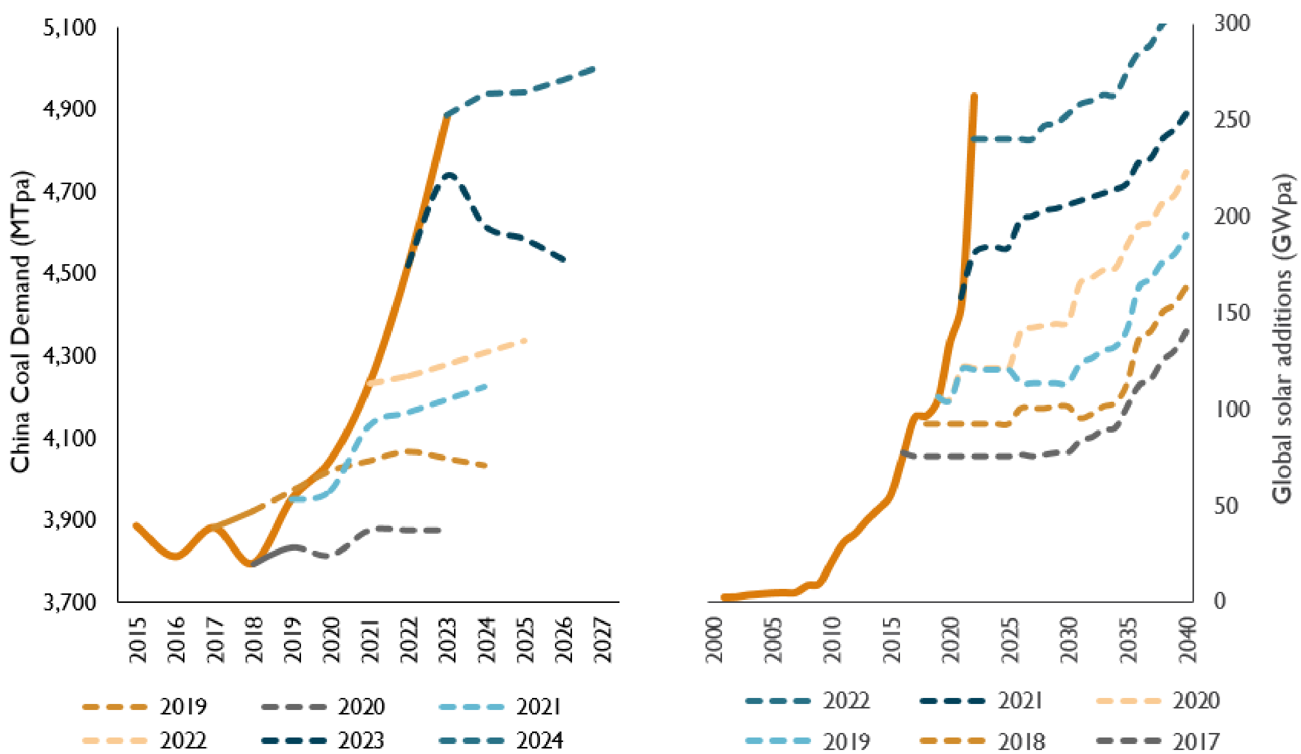
Reassessing decarbonisation ambitions through this local lens helps illuminate the trade-offs inherent in the clean-energy transition. Solar panels, batteries, and EVs are crucial to weaning economies gradually off hydrocarbons, yet these require critical minerals – copper, nickel, lithium, cobalt, PGMs – whose extraction is not only energy-intensive but fraught with social tensions. The push to secure these resources often sees multinational mining firms operating in regions far from their shareholder bases, leading to a mismatch between local and global priorities. Striking the right balance between shareholder returns and community well-being is no small feat, particularly in jurisdictions with weaker governance frameworks or complex socio-political histories.

This tension between local interests and global decarbonisation targets only looks set to intensify. Conventional energy sources are still needed as we move towards a cleaner future: many renewable technologies remain contingent on consistent baseload power, not to mention the heavy equipment and logistics essential for building out energy infrastructure. These 'bottom-up' realities are shaping the form the top-down energy transition is taking. Five years ago, experts on both sides of the debate would have balked at the idea that both coal and solar would surprise to the upside out to 2030, but this is what we are seeing unfold (see Figure 2). Such results seem shocking compared to 'the narrative', but inevitable once you consider the real-world interaction of economics, technology, geopolitics, and socio-political dynamics.

This latter factor is both particularly important and considerably under-analysed. Without popular support well-intentioned reforms can quickly become politically untenable, especially in lower-income communities. In the context of energy, this has led to a backlash against renewables as an oversimplistic narrative

Figure 2: One of these things is a lot like the other

Chinese coal demand (left) and global solar additions (right), actual (solid lines) vs predicted (dashed lines)



Source: Thunder Said Energy (left), IEA (right) about clean energy being intrinsically cheap (even "free") buckled under the real-world cost pressures of an accelerated transition and poor implementation. The growing popularity of transition-sceptic governments across the West is partly a result of this simple economic impulse.

The effects of this sort of divergence between what people are told to expect and what they actually experience are magnified by social media. The algorithms which underpin this mode of communication are incentivised by engagement – which drives advertising revenue – and countless studies show that engagement rises with emotions like disgust and outrage. Polarisation seems, at least in the short term, good for Big Tech. Unfortunately, it is terrible for achieving the sort of cross-society consensus required to execute long-term transformations like an energy transition.

All this points to a shift in how businesses manage the energy transition, with a greater emphasis placed on adaptation and resilience. Given the possibility that global emissions targets will be missed or delayed, there is growing recognition that supply chains need to harden critical infrastructure against climate volatility. Importantly, this adaptation imperative applies not only to physical capital (factories, power infrastructure, etc) but also to the human capital upon which companies rely. Energy transition is a primarily technological feat – substituting one power source for another without sacrificing efficiency – but climate adaptation is first and foremost a social endeavour. It requires buy-in from local stakeholders, robust consultation, and equitable distribution of benefits. This will become a key responsible investment theme in coming years.

In our own portfolio, we see these trends play out across multiple industries. In mining, for instance, operators such as Sibanye-Stillwater in South Africa have discovered that the right to develop local mineral resources is contingent on forging strong relationships with local communities—a dynamic that will likely intensify as demand for critical minerals grows. This is something that we experienced first-hand during a research trip late last year and Django Davidson wrote about in a recent Hosking Post examining the capital cycle in PGMs. The same logic applies to energy, metals, and shipping: social licence is not a peripheral concern but a core driver of operational stability and, by extension, long-term shareholder returns. This is an area of focus for our ongoing engagements, and one to which we will return in more depth in coming quarters.

Big Tech: Golden age or regime change?

Many of today's tech giants boast surprisingly high marks on standard 'ESG ratings', in part because their carbon footprints appear relatively modest compared to heavy industry, and their governance structures seem robust. Yet this picture belies a host of social controversies which ratings agencies struggle to measure and weigh. These include labour disputes in gig economies, concerns over data privacy and misinformation, alleged monopolistic practices, rapidly growing evidence concerning the negative effects of social media algorithms which profit from polarisation, and growing unease over the ethical and safe deployment of ever-more-sophisticated artificial intelligence (AI) systems.

AI safety, in particular, is fast emerging as a critical priority. Advanced machine-learning models increasingly shape everything from online advertising to public discourse, healthcare diagnostics, judicial decisions, military targeting, insurance premiums, policy recommendations, and more. However, while these algorithms promise greater efficiency, clarity, and speed, they also introduce risk. Even discounting Hollywood-esque (but nonetheless real) concerns over bioweaponry, autonomous robotics, and cyberwarfare, AI tools will also have far more subtle effects which could embed biases, undermine individual autonomy, amplify


Source: Google Images

disinformation, disrupt the job market, and even prompt fundamental changes in how the human brain works. It has been shown that relying on GPS for navigation reduces naturally occurring spatial memory in the hippocampus, while heavy use of social media affects everything from our capacity for language development to the reward pathways which govern addictive tendencies. It seems likely, therefore, that increasingly outsourcing a vast range of cognitive tasks to AI will prompt further alterations (for better or worse). This is a rapidly developing field, and one which conventional responsible investing frameworks have thus far failed to integrate into their often simplistic, metrics-driven models.

Why should investors care? There are two angles to this, one which is primarily financial, and the other regulatory. We illustrate both below.

During the lead-up to the second Trump presidency we have witnessed a remarkable 'rush to Washington' by the pre-eminent US tech CEOs. Millions of dollars in donations, conciliatory policy about-faces on issues like content moderation, and – perhaps most interestingly – an uptick in personal physical presence. From Mar-a-Lago to Washington's St John's Chapel, where the inauguration church service took place, it has become commonplace to spot the faces of not only Elon Musk, but Bezos, Zuckerberg, Sundar Pichai (et al) lurking in the background, eager to signal their (often apparently newfound) allegiance to the incoming administration.

What exactly is going on here? Media commentators have been quick to point to a new "golden age" of technological oligopoly, heralded by the arrival of AI and Trump's supposed willingness to deregulate. But something about this narrative seems off. Firstly, if both observations are true, and the incumbent tech CEOs foresee another decade of market dominance, easy cashflow, supernormal margins, and hand-off regulation, then why rush to Washington at all? What's the point, if everything is coming up smelling of roses anyway? Secondly, has Trump really demonstrated a hands-off approach to Big Tech? The jury is out. As ever, it is difficult to separate his rhetoric from actions, but Trump's first term certainly prompted some of the most significant crackdowns on Big Tech power of the past two decades. In addition to frequent, public criticism of every company from Amazon (tax avoidance) to Google and Meta (search and content bias), Trump 1.0 also oversaw the most significant Department of Justice probe into Big Tech's monopolistic practices since the 1990s, as well as an executive order questioning certain liability protections granted to tech companies by Section 230 of the Communications Decency Act. Notably, Trump has indicated he would like to readdress and expand both matters in his second term.

Furthermore, the rapid iteration of AI is already catalysing an additional layer of regulatory attention. A large part of the way Big Tech has maintained market dominance has been by selling targeted ads or facilitating their sale. Remarkably, since 2008, Big Tech's share of total US advertising revenue has doubled to over 65%. As such, it benefits these companies to give access to many of their services for free (or close to), to increase the size of the engagement audience. This makes sense because often the basic services being offered (e.g. search, photo sharing) are only incrementally useful in and of themselves, and there are many competitors. Their elasticity of demand is high. If you introduce an access cost, you can only raise it so high before customers switch service. As such, most people tolerate ads in return for near-free access to the service itself. AI-driven search and interaction – voice assistants, generative AI, recommendation algorithms – may change this ad ecosystem entirely. This could take several different shapes. On the one hand, we could see a shift from 'search results with ads' to 'answer engines' that have fewer or differently placed monetisation options. This is because of the sheer utility of AI tools, where elasticity of demand is lower (demonstrably, OpenAI is reportedly considering a $2,000/month access fee for its newest GPT model, although it remains to be seen whether such ideas survive contact with open-source models like DeepSeek, discussed more below). Such 'walled garden' approaches will inevitably invite scrutiny regarding the socio-economic stratification of access to AI. On the other hand, even where less powerful, ad-assisted, free-to-use products continue to be sold, we are likely to see a wave of regulation aimed at limiting how Big Tech uses AI to increase the depth and reach of its advertising. Such shifts cannot be fully understood solely by tweaking inputs to financial models. The social impacts of these changes also need to be carefully and qualitatively evaluated.

A second emerging issue in AI is rooted in the logic of the capital cycle. This has been thrown into sharp relief recently by the release of China's DeepSeek model. The AI revolution is prompting an innovation upcycle of enormous proportions, with capital flooding into the sector. This is leading to an influx of competitors, and in turn forcing the incumbents to ramp up their own capital expenditure to attempt to maintain market share (see Figure 3). All else equal, the capital cycle approach tells us that this should lead to downward pressure on the average returns this capital generates. Demonstrably, in 2024, we estimate the Big Tech firms have around $600bn of AI-related invested capital chasing an LLM market currently worth less than $5bn. Even assuming highly aggressive revenue and margin CAGRs, the return on that capital may not reach 10% until the 2030s. While it is true that strong margins and balance sheets lend these companies resilience, their remarkable market concentration – just five firms account for 25% of all US equity value – increases their sensitivity to small shifts in the assumptions underlying those valuations. When a company is priced to perfection, the marginal effects of underperforming expectations can prove non-linear, as witnessed when $600bn – about equal to the GDP of Sweden – was wiped off NVIDIA's market cap in a single session following media speculation on the implications of DeepSeek's claims about how its model was trained.

There is much more to be said about DeepSeek, but for the purposes of this article it serves the simple purpose of demonstrating how fundamentally socio-political issues – such as the implications of open-sourcing, or US-China geopolitics – can amplify financial considerations to spread ripples through markets. This is especially the case when they relate to themes that loom large in both the public consciousness and purse. In the retrospective context of DeepSeek's announcement, and its implications for the vast sums of capex already committed by Big Tech, perhaps the CEOs' 'rush to Washington' can be seen in a different light. Could it be that this behaviour is not bravado, but rather rearguard defensive action? The disturbance caused by this AI-driven capital cycle is already prompting the emergence of a new generation of competitors, and history tells us that generational disruption in a concentrated market tends to prompt a period of market broadening. In such a market, Hosking Partners' contrarian, diversified and differentiated global strategy seems well-positioned versus historically concentrated indexes.

Conclusion

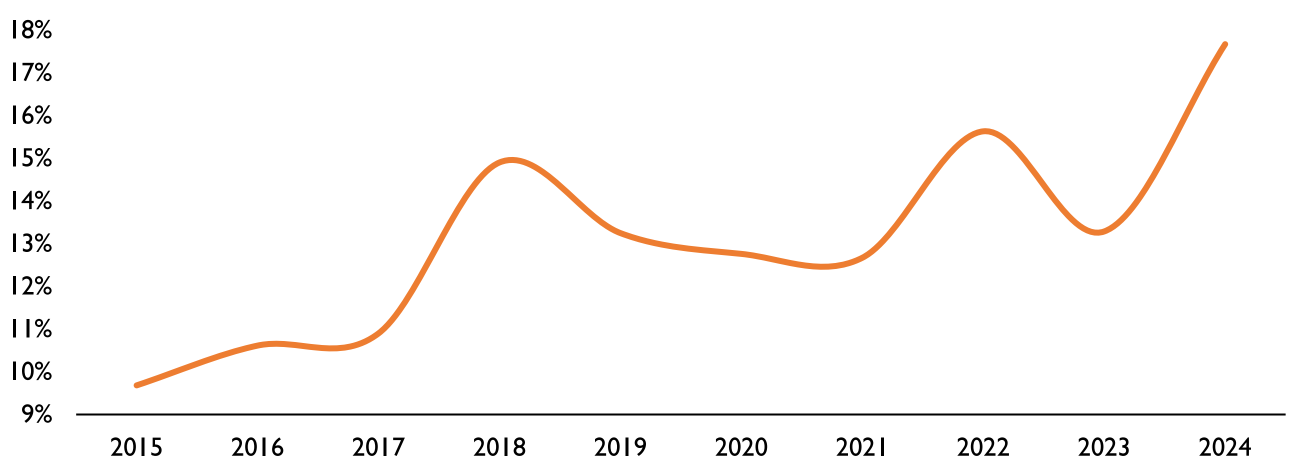
Our focus on the 'forgotten S' within responsible investing goes hand in hand with our capital cycle approach. By looking at social issues through the same contrarian lens that we apply to industries and companies, we aim to identify where sentiment and regulation may be poised to shift, and where undervalued opportunities or unrecognised risks lie. This methodology insists on embracing complexity: rather than relying solely on simplistic metrics, we consider local contexts, supply chain complexities, and the longer-term societal impacts of corporate activity.

Such an approach helps us see the wood for the trees. Where many observers get caught up in short-term headlines or uniform scoring frameworks, we dig deeper to spot the patterns that truly drive long-term value creation. By blending capital cycle principles with a thorough consideration of social factors, we believe we can more accurately gauge both the potential upside and the real-world viability of a business. In this context, we believe issues such as those raised in this article will be of growing importance to investors in coming years, and we look forward to returning to discuss them in more depth in future reports.

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.

Figure 3: Big Tech's capex spend has rocketed
Big Tech Capex-to-Revenue ratio 2015-2024*

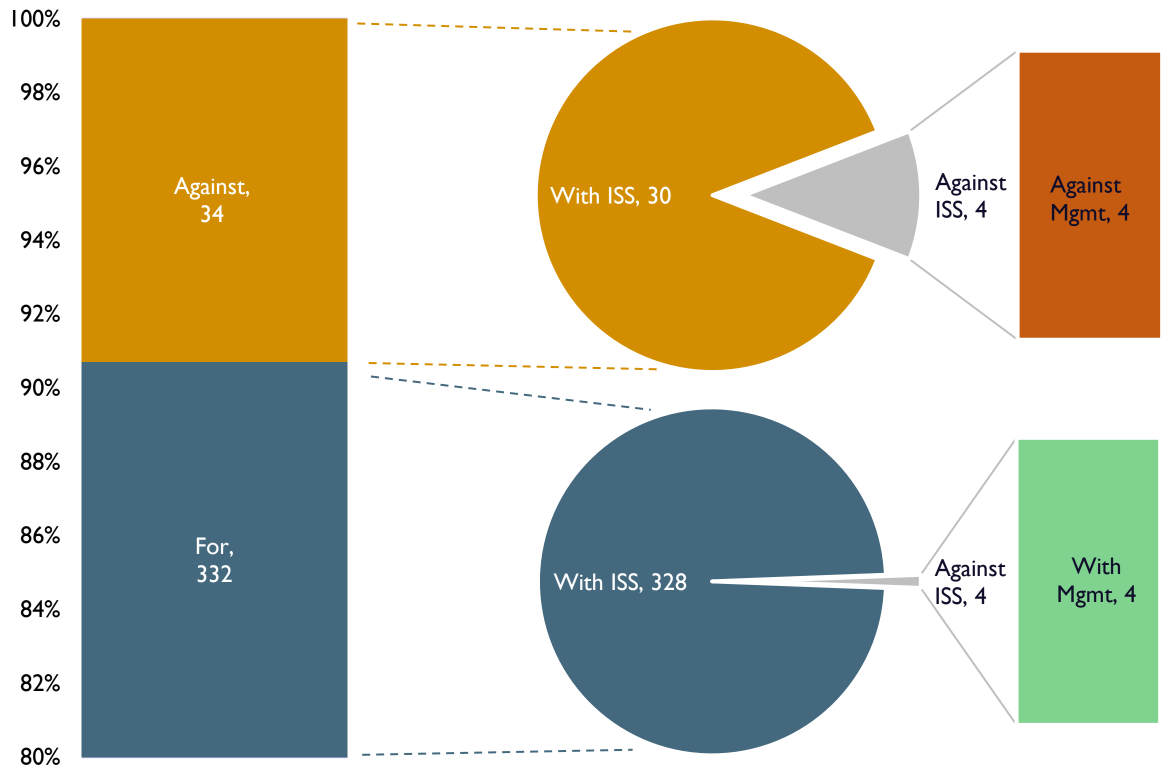


Source: Bloomberg, Hosking Partners. * Big Tech = Amazon, Google, Meta and Microsoft

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.

Q4 2024 Voting Breakdown



2024 YEAR TO DATE THEMATIC BREAKDOWN	FOR		AGAINST		ABSTAIN		AGAINST ISS	
	Total	% share-holder	Total	% share-holder	Total	% share-holder	Total	% share-holder
Director related, elections etc	2,527	1%	173	6%	10	-	53	19%
Routine/Business	750	1%	25	16%	-	-	6	-
Capitalisation incl. share issuances	352	-	32	-	-	-	13	-
Remuneration & Non-Salary Comp	438	1%	86	10%	-	-	21	10%
Takeover Related	52	-	4	-	-	-	-	-
Environmental, Social, and Corporate Governance	74	45%	76	91%	-	-	11	73%
Other	65	6%	9	33%	-	-	1	-
Total	**4,258**	2%	**405**	24%	**10**	-	**105**	19%

The table does not depict 104 non-votable proposals, 83 'Do Not Vote' instructions, and 26 'Other' (e.g. 'One Year') instructions.

Voting Discussion

Company	Country	Meeting Date	Meeting Type	% of Voting Shares
Altius RENEWABLE ROYALTIES	Canada	19th November 2024	Special	0.53% (at date of vote)

Proposal(s)	Management Recommendation	ISS Recommendation	Our Vote
Approve Acquisition	FOR	FOR	AGAINST

This quarter, **Altius Renewable Royalties Corp.** (ARR) called a special meeting to seek shareholder approval for its acquisition by an affiliate of Northampton Capital Partners, LLC. ARR was originally structured to provide long-term, royalty-based capital to renewable power developers and operators. Notably, it was 58% owned by Altius Minerals Corp. (a separate long-term holding in our portfolio), which focuses on acquiring, exploring, and developing mineral properties in Eastern Canada.

The proposal before shareholders was to allow Royal Aggregator LP (an affiliate of Northampton Capital Partners) to acquire the remaining 41.74% of ARR's outstanding shares for CAD $12.00 per share in cash, leading to a delisting from the Toronto Stock Exchange. Management's rationale for recommending this deal centred on persistent declines in renewable energy valuations and a high implied cost of raising public equity capital. Against this backdrop, they argued the company would struggle to secure the funding it needed to pursue its growth pipeline in a way that would benefit shareholders.

The Premium and Independent Valuation

Proxy adviser ISS supported the transaction, noting that the offer represented a 9.1% premium above ARR's share price at the time of announcement. Their endorsement also referenced an independent valuation that set a range of CAD $10.50 to CAD $12.50 per share – close to the highest trading levels ARR had reached since early 2022.

Our Perspective

We began investing in ARR relatively recently (January 2024), seeing strong fundamentals and a promising pipeline of new royalty deals. With existing cash flow poised to fund further growth, we believed the company had the potential to benefit from a rerating once multiple development projects reached operational status. We were aware that Altius Minerals Corp. and other investors holding 81% of ARR's common shares had already signed voting support agreements. This made it highly unlikely that minority shareholders could block the acquisition. Nonetheless, we believe firmly that a minority shareholder's vote can still convey a meaningful message to management and other stakeholders – even when it goes against the majority decision.

In our view, the CAD $12.00 offer did not fully reflect ARR's intrinsic value or its imminent revenue uptick. Accordingly, we voted against management and against ISS's recommendation. Although we recognised this would not alter the final outcome, we wanted to register our dissatisfaction with the proposed valuation and the deal process. We also felt it was important to communicate to the Alberta court (where ARR is incorporated) that minority interests deserve fair consideration in any corporate transaction.

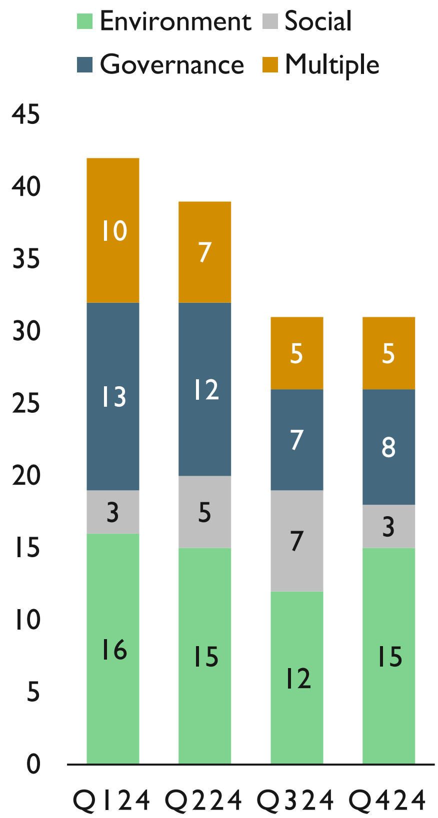
Outcome and Next Steps

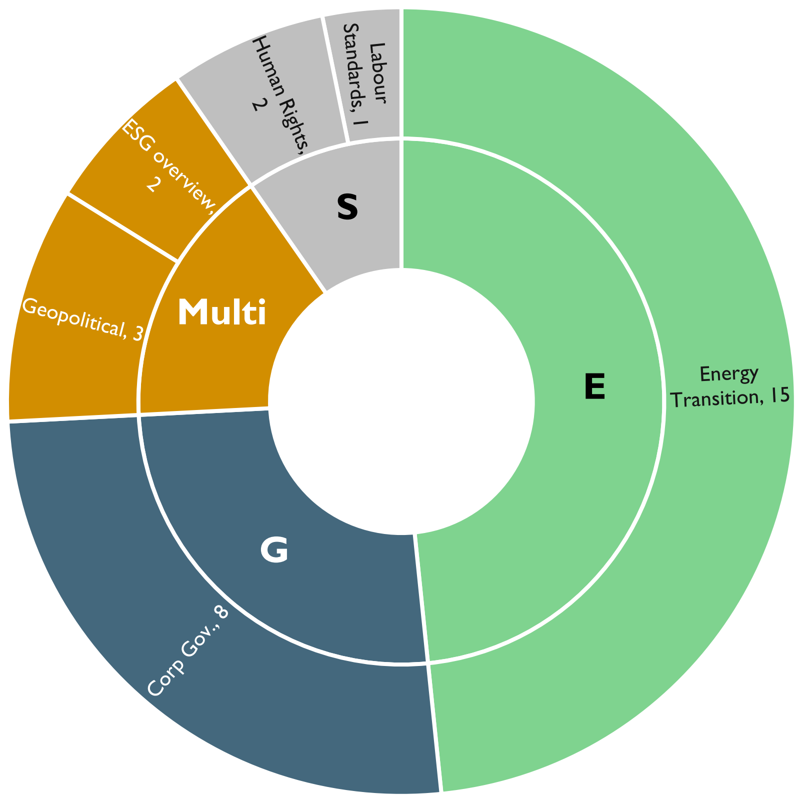
The resolution passed with 94.26% of votes cast in favour of the merger. Despite this, we stand by our decision. We believe we sent a clear signal about the importance of minority shareholder rights, the need for fair valuation in corporate deals, and the value of dissenting voices – even in instances where the ownership structure makes a foregone conclusion likely. We have also communicated our position to Altius Minerals Corp., whose shares we continue to hold in our portfolio.

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 2024 Engagement Breakdown





Hosking Partners' Q4 2024 Postcards

Jeremy and James travel in style on the Melbourne Tramway during a recent trip to Australia.

Early December saw the team at Hosking Partners embark on our traditional Christmas train trip… full steam ahead!

Engagement Discussion

Company	Country	Engagement Type	% of Voting Shares
PetraDiamonds	UK	1-on-1 calls	0.13% (at end of Q4)

In Q4 2024 we conducted an in-depth engagement with **Petra Diamonds**, ahead of a potential investment, to investigate whether historic allegations of human rights abuses at the firm's Williamson Mine in Tanzania were material to the forward-looking investment case. In such cases, we look at issues like management incentives and culture, the company's self-assessment of the chain-of-events that led to the abuses, and the quality of remediation activity subsequently undertaken. This analysis provides an insight into the likelihood of reoccurrence, as well as read-across into how other areas of the business are managed, both of which may be material to the investment case.

To support the engagement, we conducted open-source research and engaged in discussions with Petra Diamonds' senior leadership. We concluded that despite ongoing challenges, particularly around maintaining constructive community relations, reforms implemented since the allegations came to light have already had a considerable positive impact, and as such we initiated a small position in the company. We urged Petra to maintain independent, third-party oversight to reinforce accountability and risk management, and we will continue tracking this issue. The engagement is outlined in more detail below.

Background

Williamson is one of the world's oldest continuously operating diamond mines, having begun operations in 1940. Petra acquired a 75% stake in 2009, with the Tanzanian government retaining the remaining interest.

In 2020, anonymous complainants represented by the law firm Leigh Day raised allegations implicating a local security contractor (Zenith Security) in multiple human rights violations. The allegations concerned illegal artisanal miners experiencing unlawful detention, physical abuse, and even fatalities at the hands of contracted security personnel. The alleged abuses spanned more than a decade, partially overlapping with Petra's ownership. In 2021, Petra reached a settlement with 96 claimants, paying approximately £4m without admitting liability.

Figure 1: The open pit mine at Williamson

Although many of the claims lacked consistent details, Petra's board responded by commissioning Control Risks to investigate and cross-reference each alleged incident with company records. The findings were shared locally for transparency. Petra acknowledged security lapses and a lack of effective oversight, replaced Zenith Security, and engaged NGOs such as RAID and IPIS to help develop and embed best-practice safeguards.

Recent Policy Improvements and Human Rights Safeguards

To further address the shortcomings, Petra has enhanced its human rights policies, notably introducing an Independent Grievance Mechanism (IGM). This provides a structured channel for community members to lodge complaints and seek redress, including potential legal recourse. The first internal report on the IGM's performance, published in 2023, is publicly available.

Petra also initiated community-focused programmes, including restorative justice projects targeting gender-based violence and alternative livelihood initiatives to discourage illegal mining. Worker welfare has improved through on-site psychotherapy and physiotherapy services. These measures demonstrate a marked shift toward prioritising the social aspects of Petra's license-to-operate at Williamson.

Compliance Verification and Third-Party Audits

At Williamson, GardaWorld has replaced the former security contractor, while Petra continues to manage security at lower-risk South African mines in-house. Enhanced security infrastructure includes high-resolution cameras, fencing around open-pit areas, and body cameras for security personnel. While Petra has not contracted an ongoing independent monitor, Control Risks carried out a follow-up audit in 2023, concluding that the new measures were largely effective. IPIS similarly reported a significant decrease in abuse allegations since 2022 and noted the IGM's positive reception, despite early implementation challenges.

Independent monitoring of the IGM now occurs biannually, backed by stronger record-keeping and more frequent risk reviews. Petra's risk management system is updated on both biweekly and quarterly cycles to bolster oversight. Although human rights risks at its South African sites are inherently lower, Williamson remains the focus for sustained monitoring, given the historical and ongoing pressures related to illegal artisanal mining.

Conclusion and Follow-On

On 22nd January 2025, Petra announced the sale of its stake in Williamson to Pink Diamonds Investments Ltd for a headline consideration of USD $16m, a decision deemed in the interests of Petra, the Williamson mine, and the wider community. Pink Diamonds is a wholly Tanzanian-owned company, and its Chairman, Rostam Azizi, grew up in the area surrounding Williamson.

In our engagement, we advocated for periodic, independent third-party audits to complement Petra's internal processes, ensuring continued accountability. As shareholders in Petra, we will continue this dialogue to ensure management of their other assets is robust, transparent, and in line with best-practice human rights standards, particularly as community relations evolve and operational needs change.

Source: Petra Diamonds

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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