

A red Toyota Yaris is shown driving on a muddy, unpaved road in a forest. The car is splashing mud, and the background is filled with trees and foliage. The overall tone is adventurous and rugged.

Hosking Partners[®]

ESG & Active Ownership Report

Q2 2025

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Foreword



We have had a busy second quarter, filled with company engagements, updated regulatory reporting, and welcoming two new team members that help to further integrate ESG considerations within our bottom-up investment process and client engagement and reporting.

This report focuses on our ongoing, active ownership decisions and engagement across the portfolio. We begin in Japan with an overview of our continuing discussions regarding the bid by Toyota Motor Corp and Toyota Motor's Chairman, Akio Toyoda, to privatise Toyota Industries Corp (TICO) at a price that materially undervalues the business and disadvantages minority shareholders. We believe this is an important test case for the broader reform in Japan and remain actively engaged with both companies on behalf of our clients' best interests.

Next, we turn closer to home with proxy voting at UK-based aerospace manufacturer Melrose, where we voted in support of the company's 2024 remuneration report, against the ISS recommendation. Finally, we discuss Barrick Gold, a Canadian-listed company we do not currently own, where our preemptive engagement gave us confidence in the company's governance and risk management, but where we ultimately determined that we required a higher margin of safety in the face of perceived ESG risks, among other factors.

The examples highlight a myriad of different ways we act on behalf of our clients as long-term, active owners, and remind us of the importance of assessing every investment individually and exercising judgment on what is material in each case, rather than relying upon third party ratings or recommendations as a passive guide.

Gwin Myerberg

Director, Client Service, Business Development & ESG

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VOTING SUMMARY

	Q2	2025
Meetings Voted	260	299
Proposals Voted	3,557	3,946

ENGAGEMENT SUMMARY

	Q2	2025
ESG	19	37
Total Direct (1-on-1)	63	134
Total Indirect (Group)	15	26
Conference	1	7



Introducing new team members

*We are excited to welcome **Sigrid Smith** (Associate Director, Client Service, Business Development & ESG) and **Alexander Nelson** (Analyst) to Hosking Partners*

Sigrid joins us from Newton Investment Management, where she worked primarily with UK institutional and consultant clients and sat on the climate solutions working group. Before that she spent ten years at JP Morgan in Edinburgh and London. Sigrid holds her CFA Institute Certificate in ESG Investing and brings great experience and insight into client reporting and engagement.

“

Since joining a few months ago, I've seen first-hand the firm's commitment to responsible investment and active ownership. With such a global, diverse portfolio, it would be easy to take an arm's-length view, but that's not how things are done here. Our approach is all about embedding good practice into every decision, engagement and governance process. I have enjoyed working with the team on all things stewardship and responsibility, sharing my perspective and learning from theirs, and I look forward to continuing.

Sigrid Smith,
Associate Director - Client Service,
Business Development & ESG



Hosking Partners

Alexander joins us from Lund University School of Economics and Management. After an impressive internship last year – showing maturity and contrarian thinking – he returns as an Investment Analyst. He will expand ESG integration in our bottom-up process and track key responsible-investment topics for engagement across holdings. Alexander is a candidate for the CFA Institute Certificate in ESG Investing.

“

Hosking Partners is an anomaly in the investment world: its 'go anywhere' investment strategy gives it the ability to be contrarian while others are forced into crowding in particular themes. I believe that investment decisions should be based on the fundamental assessment of a company's intrinsic value, not on the thematic fashion of the day or short-term share price momentum. I can't imagine a firm that applies that principle more rigorously than Hosking Partners.

Alexander Nelson,
Investment Analyst



Update on Reporting and Partnerships



At Hosking Partners, we consider stewardship, active ownership and engagement with investee companies to be fundamental components of our investment process.

In the quarter, we were approved for the fourth year as accredited signatories of the Financial Reporting Council's **UK Stewardship Code**. We are proud to comply with the UK Stewardship Code, which provides an invaluable handrail for asset managers and owners alike. Our full statement of compliance is available [here](#).

Additionally, we published for the second year our report under the recommendations of the **Taskforce for Climate-Related Financial Disclosures** (TCFD), aligning the Firm with requirements from the UK's Financial Conduct Authority. Our full entity level report for 2024/25 is available [here](#). Finally, we remain signatories to the **Principles for Responsible Investment** (PRI) and submitted updated reporting in the second quarter.



Meeting the Challenges of a Changing World: Active engagement with Toyota Industries

“Directors are often captive to the management teams they are meant to supervise.”

Warren Buffett

In recent years, we at Hosking Partners have been increasingly drawn to opportunities on offer in Japan due to a compelling combination of low valuations and corporate governance reforms. As of 30 June 2025, the Hosking Global Equity Fund had a 14.7% exposure to Japanese equities, making it the largest basket exposure in the portfolio.

We have discussed the investment opportunity in Japan extensively, most recently in [this video](#) with Portfolio Manager Omar Malik and [this Hosking Post](#) written by Founder and Portfolio Manager Jeremy Hosking. Summarizing the thesis, nearly half of the c.3,600 companies listed on the Tokyo Stock Exchange (TSE) have a price-to-book (P/B) ratio below 1.0x. This is partly a reflection of the sub-par returns on equity (ROE) generated by Japanese firms relative to global averages, weighed down by their bloated balance sheets from large cash piles and substantial cross-shareholdings. Corporate Japan is responding to pressure from government policy, the TSE, and activists and that, whilst the road is certainly expected to be long and winding, the reforms will ultimately help improve the capital efficiency. As this

occurs, valuations in Japan – currently amongst the lowest in the developed world – are expected to rise.

In the journey of Japanese companies unlocking value, we will inevitably encounter companies where management or controlling families exploit the undervaluation to capture more value for themselves at the expense of minority shareholders. The recently proposed privatisation of Toyota Industries Corp (TICO) by the **Toyota Motor Corp** and related parties including Toyota Motor's chairman, Akio Toyoda, strikes us as a particularly egregious case of controlling management acting solely in their own best interests. To recap, TICO is the original Toyota company, founded in 1926, from which various business lines were subsequently spun out, the largest of which became Toyota Motor. Today, TICO is primarily a holding company, owning stakes in several Toyota entities – its stake in Toyota Motor is worth ¥3.2tn – and is also the global number one producer of forklift trucks and of automotive compressors, which together generate over ¥200bn in annual operating profit.

On 3 June 2025, Toyota Motor announced its plan to form a vehicle to take TICO private via a tender offer, which would assist in unwinding the Toyota Group's web of cross-shareholdings as well as increase the transparency and alignment of the Group's entities. If successful, the deal would be the second largest takeover in Japan and has the potential to serve as a showcase for Japanese governance reform. However, a closer look reveals a bid that materially undervalues TICO and demonstrates a major failure of good corporate governance, having been designed to enrich insiders at the expense of minority shareholders.



To start, the tender offer price of ¥16,300 per share, equal to a 1.0x P/B ratio, was an 11% discount to the prior day's closing price and looks to dramatically undervalue TICO's assets. Frustratingly, however, the lack of transparency makes it difficult for outside shareholders to confirm this. Toyota Motor's valuation methodology is opaque on several layers: the group has not disclosed the valuation methodology or financial projections of TICO's existing business, and it appears to exclude the market value of TICO's vast real estate, strategic shareholdings and vendor finance business.

Significant in its absence, TICO's board has not provided an independent fairness opinion of the deal. While fairness opinions are not legally required in Japan, they are highly recommended by the TSE's Code of Corporate Conduct. Related to this, we find the timing of the offer (June 2025) to be more than coincidental: a few months before Toyota Motor's move to tender for TICO, the TSE announced that it was in the process of enhancing its disclosure rules for management buyouts and subsidiary conversion transactions to protect minority shareholders. In our view, such transactions have inherent conflicts of interest, making the need for independent third-party assessments and detailed disclosures all the greater. Specifically, the TSE's revisions were set to increase the demands on fairness disclosures, necessitating the acquirer to provide the specific assumptions used in financial forecasts and the valuation methodology used for non-business assets such as real estate and cross-shareholdings. These changes were set to be put into effect in July 2025, just a month after the tender offer for TICO that, conveniently, does not disclose the value of such non-business assets nor provide an insight into the financial forecasts used to value TICO's operating business.

We also find it noteworthy that the Special Committee appointed by TICO's board to review the offer on behalf of minority shareholders ended up giving a "neutral" recommendation rather than the typical "for" or "against". A rare occurrence! One has to believe that if the Special Committee had deemed the offer to be fair, they would have granted their approval of the deal. Speculating about the Special Committee's atypical behaviour, they may acknowledge TICO's undervaluation based on the tender offer price but are resistant to voting against the deal due to their conflicts of interest with the acquirer, Toyota Motor and its related parties. A neutral recommendation potentially absolves the Special Committee from being held personally liable for a breach of fiduciary duty. We would expect to see the committee actively push for a better deal and are making our opinion known.

The governance concerns do not stop there. Other acute issues include the fact that the entity with voting control of the vehicle that acquires TICO, Toyota Fudosan, is partly owned by TICO itself, which creates a large conflict of interest and further obfuscates the valuation of TICO's shares. How is the Toyota Fudosan stake valued on TICO's balance sheet? Is the transaction factoring in the look-through ownership that TICO has in Toyota Fudosan in the offer price or not? Shareholders are left with many questions and few answers.

Perhaps the most egregious governance failing is the manipulation of the "majority of minority safeguard". Toyota Motor argues that all it needs is 42% support from minority shareholders to finalize the takeover bid. This is based on the company's view that other TICO shareholders – Denso, Aisin and Toyota Tsusho (all Toyota Group entities) – are counted as independent minority shareholders. This raises serious questions about the legitimacy of the majority of minority rule and its interpretation.

In theory, this mechanism is meant to protect genuine minority shareholders by requiring that a majority of them approve the resolution. In practice, the definition of "minority" has been stretched to include Toyota affiliates – entities with clear conflicts of interest and a vested stake in the outcome. As a result, the threshold for approval by true outside shareholders is perilously low, diluting the very protections the rule was designed to provide. As long-term shareholders in both Toyota Motor and TICO, we are engaging with the company on behalf of our clients' best interests. We are disappointed in the actions taken by the Toyota Group and would like to see a more transparent assessment of the assumption underpinning the valuation methodology, as well as an appropriate increase in the tender offer price to more accurately reflect the fair value of TICO's shares.

The TICO buyout by Toyota Motor would be among the largest takeover deals in Japan, yet it retains all the hallmarks of the poor governance practices of Japan's past. If Japan's governance reforms are to be taken seriously, the country's largest companies need to be torchbearers of the movement and lead by best practices. We believe this is an important test case for the broader reform in Japan and should not set the standard practice for future corporate takeover proposals. We will have more to say on TICO in the future – stay tuned.

References

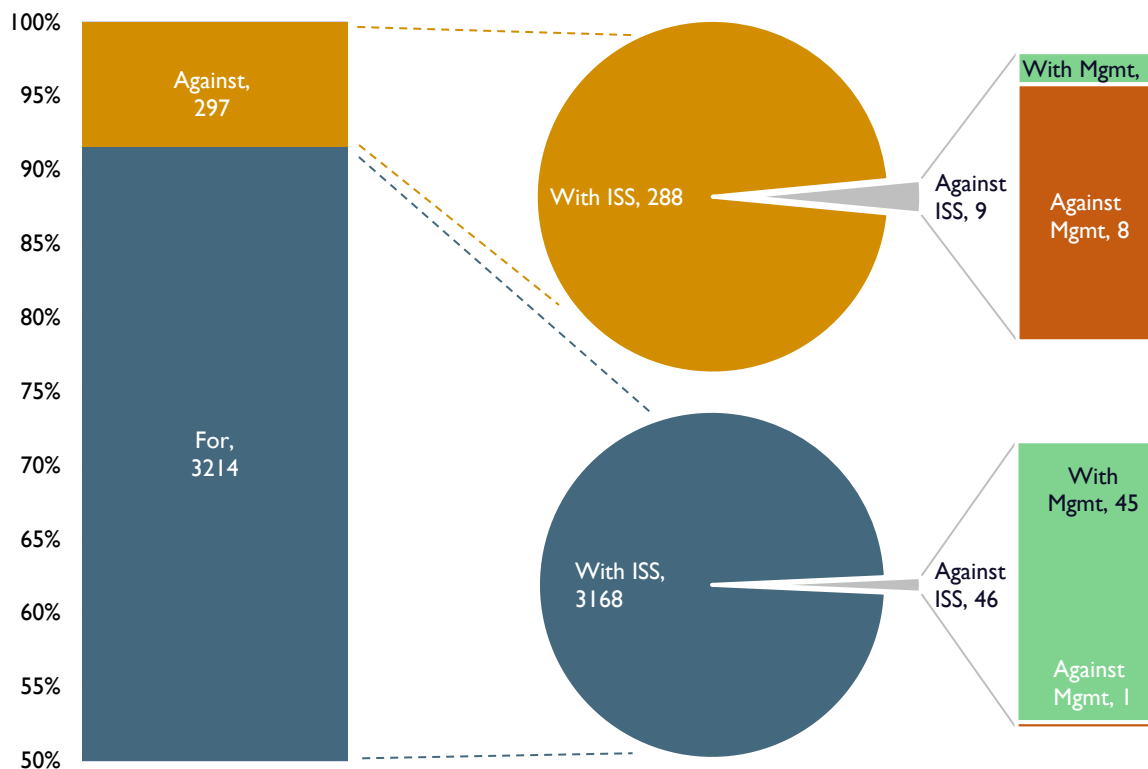
References for any data or quotations included in this article and articles elsewhere in this report are available on request.



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.

Q2 2025 Voting Breakdown



2025 YEAR TO DATE THEMATIC BREAKDOWN	FOR		AGAINST		ABSTAIN		AGAINST ISS	
	Total	% share-holder	Total	% share-holder	Total	% share-holder	Total	% share-holder
Director related, elections etc	2,092	-	157	15%	18	100%	44	14%
Routine/Business	666	1%	22	32%	-	-	2	50%
Capitalisation incl. share issuances	318	-	18	-	-	-	10	-
Remuneration & Non-Salary Comp	337	2%	75	1%	-	-	12	-
Takeover Related	45	-	4	-	-	-	1	-
Environmental, Social, and Corporate Governance	42	17%	57	95%	-	-	2	-
Other	60	10%	7	71%	-	-	1	100%
Total	3,560	1%	340	26%	18	100%	72	11%

Not displayed in the chart are 20 votes for 'Withhold', 18 for 'Abstain', and 8 for 'One Year'.



Voting Discussion

Company	Country	Meeting Date	Meeting Type	% of Voting Shares
Melrose 	UK	30 th April 2025	Annual	0.06% (at end Q2)
Proposal(s)	Management Recommendation	ISS Recommendation	Our Vote	
Approve Remuneration Report	FOR	AGAINST	FOR	

At the **Melrose Industries Plc** annual general meeting in April, Hosking Partners supported approval of the company's 2024 remuneration report.

Melrose is a UK-based aerospace manufacturer. Since divesting its automotive and metallurgy businesses into Dowlais Group Plc in 2023, Melrose has refocused exclusively on aerospace and delivered strong financial performance. As at 31 December 2024, this included a 42% increase in operating profit, reaching £540 million, and a 45% rise in adjusted diluted earnings per share (EPS) to 26.4p. The demerger also triggered a rise in Melrose's share price, reflecting robust investor confidence in the company's streamlined operations and strategic direction. Institutional Shareholder Services (ISS) recommended voting against the remuneration report, citing concerns over the substantial payouts from the crystallisation of the 2020 Management Equity Share Plan (MESP), as well as the FY2024 bonuses for the former CEO and CFO, which were linked to the incoming CEO's performance rather than their own, and were not pro-rated to reflect their limited tenure.

When assessing remuneration, Hosking Partners considers multiple factors, including transparency, clear linkage to performance, alignment with long-term shareholder interests, and good governance. Despite ISS's concerns, the 2020 MESP had previously received strong shareholder approval, with 82.64% voting in favour in 2021 and 99.69% in 2023, and aligns with Melrose's 'Buy, Improve, Sell' strategy, having delivered £5 billion of shareholder value during its performance period. The plan balances comparatively low fixed pay for executives with meaningful performance-based rewards. On this basis, we supported the crystallisation of the MESP. ISS' second concern related to the FY2024 bonuses awarded to former CEO Simon Peckham and former CFO Geoffrey Martin. While bonuses for their replacements were pro-rated based on time served, the former executives received full-year bonuses capped at 100% of base salary despite stepping down early in March 2024. These payouts were tied to the new CEO's bonus outcomes rather than their individual performance – a structure ISS argued weakened accountability and deviated from good market practice. Hosking Partners, however, considered the structure appropriate. Under the former executives' leadership, the company secured long-term platform positions and multi-year supply agreements, driving strong results in the last fiscal year. Linking their capped bonuses to the new CEO's outcome incentivised them to prioritise long-term success during this transition. The remuneration also aligned with private-equity-style incentives designed to benefit shareholders and ensure a smooth leadership handover. Given the new CEO's strong performance, resulting in a bonus exceeding 100% of salary, the former executives' bonuses were consistent with shareholder interests. While the absence of pro-ration for the former executives is notable, the overall approach and outcomes were reasonable under the circumstances.

For these reasons, we believed that voting in favour of the remuneration report was justified and the right choice to reward strong executive performance. In April, it was announced that 65.6% of shareholders voted against the remuneration report, with particular concern over the 2020 MESP payouts. Melrose Chairman Chris Grigg acknowledged these concerns and committed to engaging more closely with investors to ensure future remuneration policies align with the company's renewed aerospace focus – an opportunity we see for constructive dialogue. Additionally, the recent appointment of Alison Goligher as Non-Executive Director and Chair of the Remuneration Committee signals a proactive effort to strengthen governance and improve shareholder alignment.

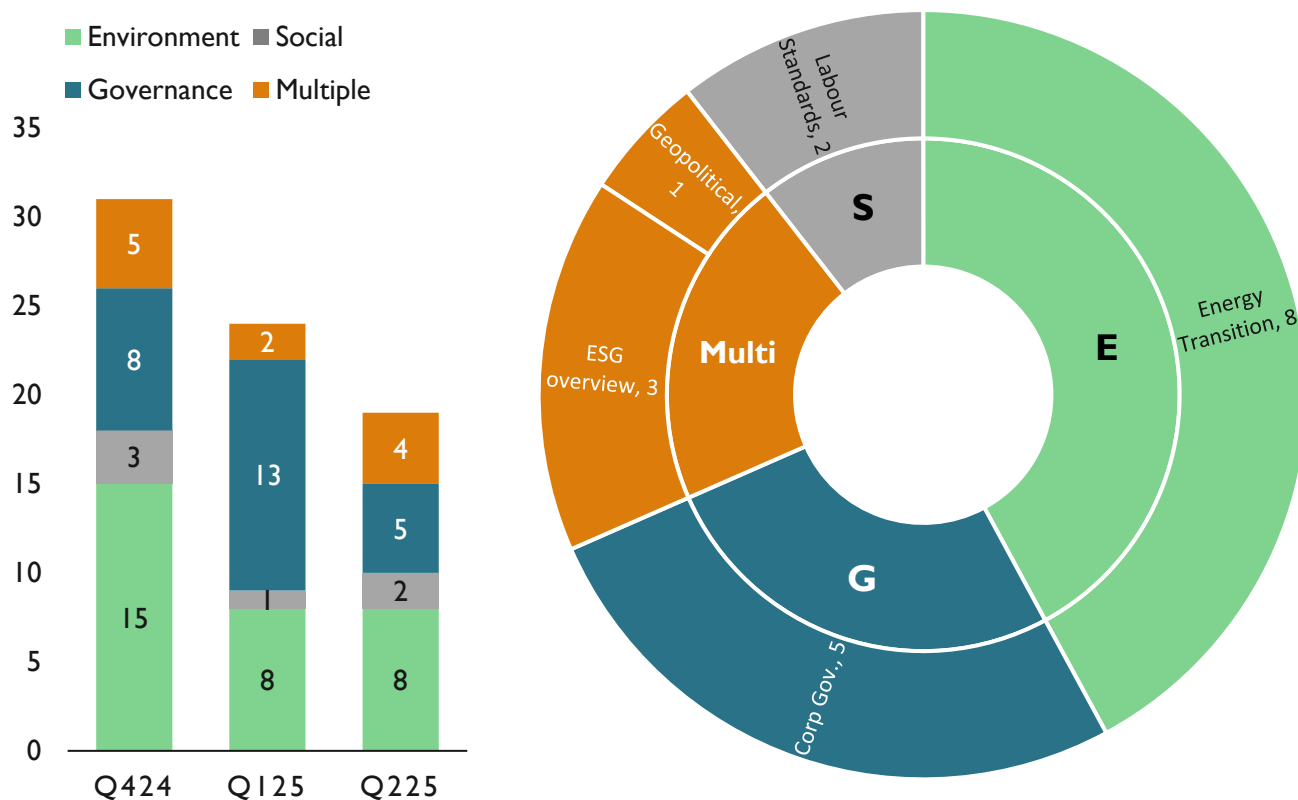
By backing the remuneration report, we affirm our support for rewarding executive leadership that drives enhanced shareholder value and for continued dialogue to refine remuneration in line with evolving business priorities.



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.

Q2 2025 Engagement Breakdown



Hosking Partners' Q2 2025 Postcards



Luke entertains guests at our Spring Drinks at the Mall Galleries (L), which featured a talk by author and historian Tim Bouverie (R).



Engagement Discussion

Company	Country	Engagement Type	% of Voting Shares
BARRICK	Canada	I-on-I calls	Not Owned (at end of Q2)

As part of our ongoing assurance and risk management process, we actively engage with prospective portfolio companies operating in complex jurisdictions prior to making an investment decision.

Our investment approach is intentionally unconstrained – we will ‘go anywhere’ where we see potential for value creation – but we recognise that this can mean investing in companies whose operations are exposed to heightened political, social, and environmental risks. In such cases, we seek confidence that management teams have robust, independently verified processes in place to minimise harm, uphold human rights, and work constructively with local communities.

Our recent engagement with prospective investment **Barrick Gold** focused on the two jurisdictions where the company faces its most acute ESG challenges.

Mali: Loulo-Gounkoto Complex

Operations at the Loulo-Gounkoto gold complex have been idled since January, following the Malian state’s impoundment of three tonnes of gold (approximately 96 koz, c. US \$340 m) and the detention of four senior employees. An arrest warrant remains outstanding for CEO Mark Bristow. Barrick has placed the plant on “hot” stand-by – maintaining tailings, water systems and a skeleton crew – while pursuing both local litigation and international arbitration.





Management has stated that while the company has invested through periods of political instability, including coups and armed insurgency, it will not accept what it views as an arbitrary tax claim. The geopolitical context in Mali has shifted in recent years, with Russian and Chinese influence increasingly displacing traditional Western involvement, creating a more complex operating environment. Barrick acknowledges that if the current impasse continues, an exit may become necessary.

Tanzania: North Mara and Bulyanhulu Mines

The North Mara and Bulyanhulu operations illustrate why disengagement can exacerbate ESG risks. Both sites have faced persistent incursions by illegal miners, with FY2023/24 recording 28 incidents and at least six fatalities. The company's private security personnel are unarmed – a deliberate change from the approach of the previous operator – and the police are called in only when there is an immediate threat to life. However, when deployed, police actions have on occasion resulted in fatalities and subsequent litigation.

Barrick has implemented a series of measures to address these challenges. These include quarterly community town-hall meetings chaired by the CEO, a transparent grievance mechanism (with complaints increasingly focused on employment rather than security issues), and an economic contribution of US \$888 m to Tanzania in the last financial year.

From a governance and assurance perspective, the company reports zero lost-time injuries in 2024 and subjects its operations to regular third-party scrutiny. This includes biennial human rights audits by Avanzar, external assurance of its sustainability report by Apex, LBMA assessments rating the sites as “high-risk but well mitigated”, and an ICoCA review of private security arrangements. Barrick recognises that illegal mining activity is unlikely to be eliminated entirely, but maintains that these layers of independent oversight represent a robust approach to risk management in frontier mining contexts.

Conclusion

We recognise that operating in these types of environments carries inherent legal and reputational risk. Our engagement gave us confidence that Barrick's governance structures, site-level management practices, and commitment to independent verification represent a serious and systematic approach to their management.

However, when fishing in these sorts of waters, we always seek a ‘margin of safety’ to underwrite an investment. In this case, the existential risk to the Mali operation, combined with uncertainties regarding the continued strength of long-term gold prices, meant Barrick Gold fell short of the margin we deemed prerequisite in this case, given the price of the stock. We will continue to watch Barrick closely – with confidence in the management team's risk assurance processes – and may initiate a position should risks abate and the perceived margin of safety expand.



Source: Barrick Gold



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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