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Hosking Partners[®]

Quarterly Commentary Q4 2025

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“It doesn’t matter what colour a cat is, as long as it catches mice.”

Deng Xiaoping

In the fourth quarter the strategy gained 7.2% net compared with a 3.3% increase for the MSCI All Country World Index. For the full year the strategy returned 33.5% net versus 22.3% for the index, an outperformance of some 1114 bps. This places 2025 right up there with the better years of the Capital Cycle investment approach and speaks to the advantages of a diversified yet contrarian investment philosophy. The Hosking Partners strategy is highly differentiated from the established preference for a more concentrated portfolio of quality growth stocks run by “star stock pickers”. Our diversified, unconstrained approach allows us to access truly contrarian opportunities that other cannot. While the last decade has been challenging for any manager that dared to look different to the ever-more-concentrated index, outperformance of the magnitude we saw in 2025 is not unusual historically. Especially when the investment environment is regarded uniformly through a lens of American exceptionalism, growth stocks and the latest new “new thing”.

Thus, throughout the quarter and the year, the strategy remained underweight the US, and the technology sector in particular, whilst maintaining an overweight in heretofore unfashionable destinations such as emerging markets, Japan and the United Kingdom. In a year in which pundits were able to talk of little other than Artificial Intelligence (AI), it is notable that the strategy had a weight of just 8% to the IT sector overall, compared with benchmark exposure of 27%. Overall stock picking added materially to the value-add, and turnover was low throughout the year, reflecting the individual managers’ confidence in the strategies overall long-term positioning.

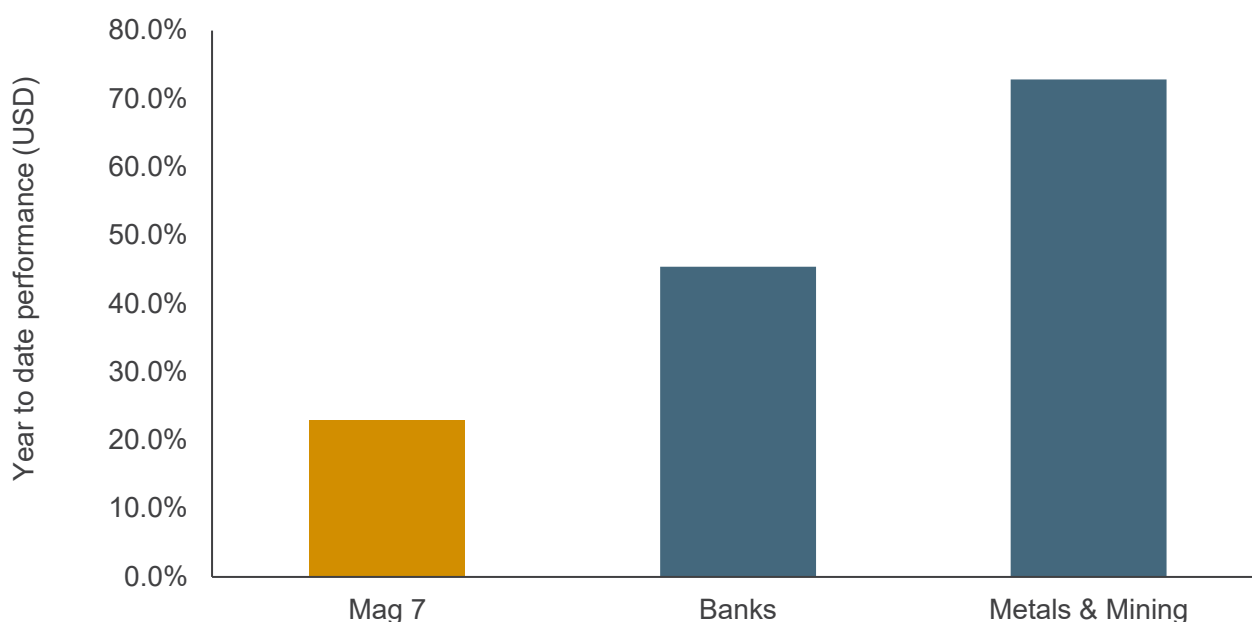
Q4 Performance Review

In the fourth quarter stock markets continued to rally from the year’s lows, which were caused by the Trump “Liberation Day” tariffs sell off earlier in the year. With those initiatives facing the fog of pending political and legal scrutiny, stock markets were able to focus on interest rates. A broad consensus is that the direction is down (except in Japan), which buoyed markets, and pressured the US dollar (USD). A weaker USD helps the strategies underweight exposure to the US market where our stock picks were also favourable. Our US exposure added 9% versus 2% for the index, propelled



by shares as varied as **Micron** (+71%), **Freeport-McMoRan** (+30%), **Warrior Met Coal** (39%), and **Alcoa** (+62%). The present IT boom has favourable consequences for businesses in the supply chain perceived as more mundane, such as **Seagate** and **SK hynix**, which are long standing holdings. Thus, the pronounced underweight to the IT sector proved to be a positive contributor in the quarter, as industry leaders suffered a small bout of AI nervousness.

As Django Davidson wrote in his recent Hosking Post on the **AI capital paradox**, Mag-7 stocks underperformed “old economy” sectors where returns inflected upwards, such as banks and metals and mining, both areas where our portfolio is materially overweight the index.



The metals and mining sectors were a major positive in the quarter, with a weighting of 12% in the portfolio versus a 2% exposure in the index. The strategies platinum exposures in particular performed well, including **Sibanye Stillwater** (+28%) and **Impala Platinum** (24%), as did base metals with gold and copper prices continuing to “run” higher. The Fund’s financials overweight – though well below prior peaks after we took gains in several long-held US banks, reducing our exposure by c.1% in the last 12 months – remains significant (26% vs 18%). The strategy benefitted from both the overweight to the sector and from strong performance by individual stock picks such as **Saga** (+43%), **Citigroup** (+16%), **Aichi Financial Group** (+39%), **Synchrony** (+18%) and **Barclays** (+25%), to name a few.



Emerging markets were another bright spot and, should the consensus weakness in the USD play out, we believe this area could continue to be a long-term winner. This putative asset class (Asian tech stocks excepted) has been a 15-year asset allocation disappointment for active managers. Accordingly, there is scope for corporate profits and valuations to rise in coming years. Our Japan exposure, triple-weighted at 14% versus 5% for the index, detracted modestly from relative returns in the quarter, though it was a positive driver for the full year. The short-term underperformance was due to yen weakness. Encouragingly underlying corporate restructuring continues to accelerate, propelled by the industrious efforts of activist investors. The strategy has bet heavily on underperforming Japanese companies (in terms of depressed Return on Asset (ROA) ratios) that are capable of dramatic improvement. The list is long: more than 50 strategy holdings. This diversification captures a spectrum of businesses from those where change is well established to those still exhibiting “value-trap” characteristics. Activist co-investors however are a point of commonality, meaning the profitability pressure on firms is increasing.

2025 Performance Review

As noted above the year as a whole has played out very much in favour of the strategies diversified exposures. The US underweight paid off most of the year, reinforced by USD weakness. With the US still comprising a 64% weight in the ACWI index (vs. the strategies weight of 35%), there remains clear scope for further declines. Stock picks in the US – ranging from **Micron** (+240%) to **Citigroup** (+70%) to **Seagate** (+225%) to **Millicom International** (+121%) to **Warrior Met Coal** (+63%) – added close to 1000 bps of country outperformance, suggesting that there has been a material broadening in returns in the US market from the narrow Mag-7-dominated environment to which investors have become accustomed. Emerging markets was the largest geographic contributor (+69% for the year vs 34% for the index), with both the allocation overweight to the region and successful stock picks adding to the positive result. Several underlying exposures contributed to the strong emerging markets contribution with the majority of the relative outperformance driven by South African PGMs – **Impala Platinum** (+243%), **Sibanye Stillwater** (+360%), and **Northam Platinum** (+298%) – and idiosyncratic stock picks in Korea such as **SK hynix** (+287%), **Samsung** (111%), and **Shinhan Financial Group** (+71%), along with strong results in India, Mexico and Sri Lanka.

In contrast with the quarterly results reported above, the Japanese overweight has been positive for the year, with strong performance at several underlying holdings such as **Toyo Seikan Group** (+65%), **Fuji Media Holdings** (+117%), **Aichi Financial Group** (90%) and **Tosei Corporation**



(+41%), but partially offset by yen weakness. It seems likely there will be further interest rate increases in Japan in 2026, which should be a tailwind for Japanese investments via yen strengthening. Notwithstanding the portfolio's IT sector underweight, the strategies IT stocks surged 83% versus an index average return of 26%. Our significant underweight to healthcare helped the strategy as the sector had a poor year by its standards. Overweights to financials and metals and mining helped and were further boosted by strong individual stock performance, as noted above. Favoured sectors hosted many individual shares up more than 100%, and for the first time in several years the strategies significant underweight exposure to Mag-7 shares helped, as investments like Microsoft and Apple took a "breather".

Outlook

Of course, after a strong performance year, the critical question concerns the outlook, and as we all know prediction is notoriously difficult, especially about the future! After a decade in which "growth" has been the dominant style, an inevitable consequence is that valuation spreads have become very extended. The extent to which this has occurred is greatly hidden by generally accepted accounting principles (which capitalise capex), as well as the elevated present "spread" of operating margins. As a rule of thumb, the range of valuations when expressed in the more reliable form of enterprise values to sales is approximately 100-fold, almost certainly a record in the history of capitalism. Amongst firms that might be pejoratively labelled as "value traps", a reliable valuation floor is approximately one-third of annual sales. In the favoured growth stratosphere, the same ratio can produce an equivalent figure of no less than 30 times annual sales, or more. Of course, value spreads have been high for some time but have not as yet meaningfully converged. Should this occur it is likely to be a multi-year process.

A more fundamental argument for a major growth versus value inflection point is provided by the growing capital intensity of the IT sector leaders as they engage in the AI arms race. McKinsey estimates that that USD 5.2 trillion is to be invested in physical assets by these hitherto asset-light firms. Accordingly, the RoA of these firms is overwhelmingly likely to come down, providing a multi-year justification of valuation compression. Thus, outperformers are likely to become underperformers and vice-versa. Hosking Partners are increasingly confident about a bet on mean reversion despite its singular lack of success in the past decade. As Keynes memorably remarked, "when the facts change, I change my mind".



It seems to us that the present time is likely to be one of those inflection points which bodes well both for a diversified strategy, and for one constructed on the precepts of the Capital Cycle. Over the 45 years the team has been practising capital cycle investing, periods of success (i.e., outperformance) extend materially beyond one year. It's possible that the 2025 relative returns are the first of many.

Note: Chart: FactSet, Mag 7 index cap weighted. MSCI AC World/Banks Index, MSCI AC World/Metals & Mining Index, 31 Dec 2025. Weights as at 31 Dec 2025. Figures rounded up to whole numbers. Stock returns in US dollar terms.