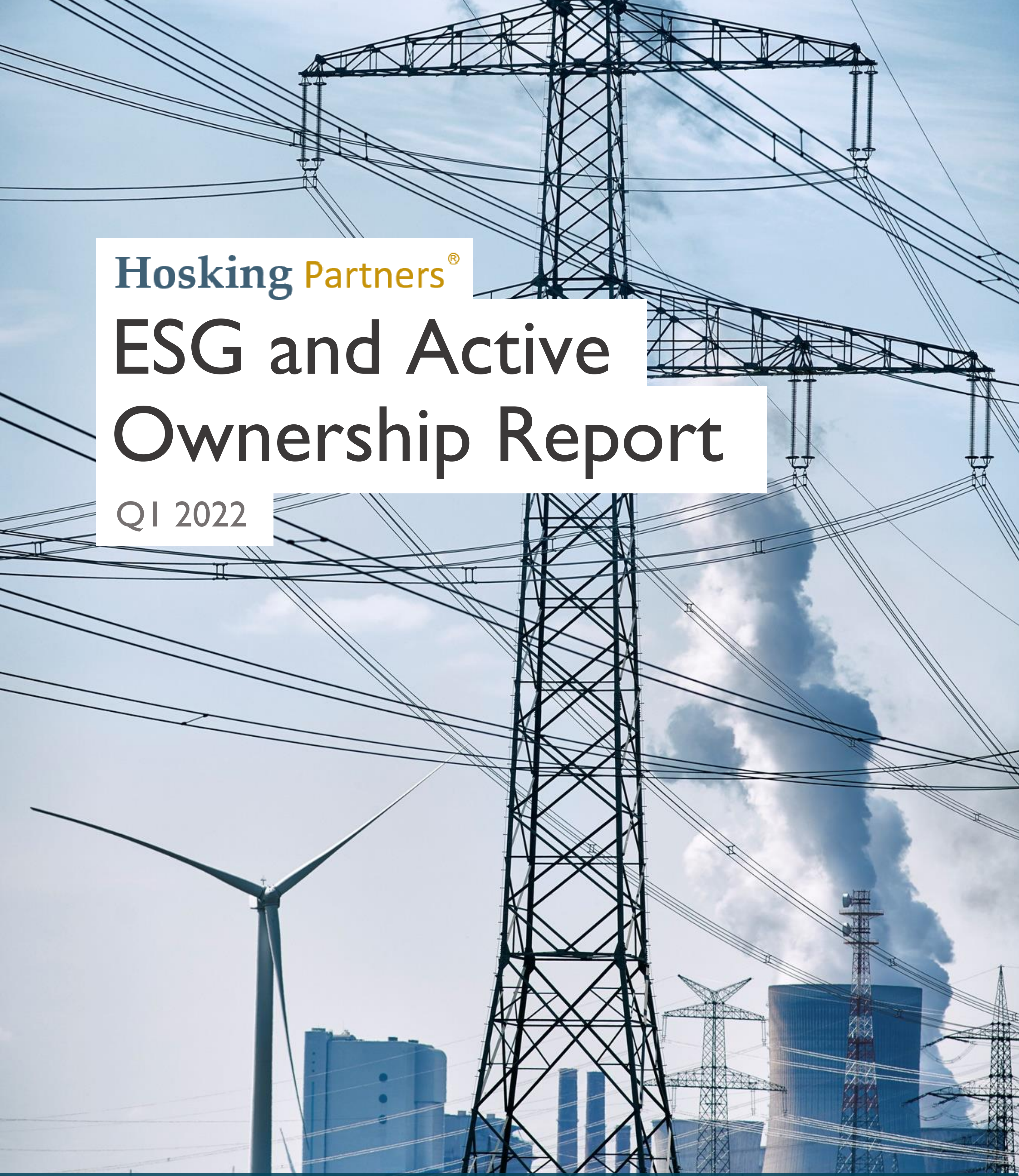

Hosking Partners®

ESG and Active Ownership Report

Q1 2022

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Foreword

ESG is a vast subject covering many issues and as a concept means everything and nothing at the same time. It has become associated with certain investment styles and has even come to favour entire sectors over others. But at its heart, ESG analysis and work is not new. It is another tool in an investor's kit to examine and identify value. It goes hand in hand with active ownership, through which we lever our position as investors to exert a degree of influence over the companies we own. And it all comes back to the fundamental question of whether companies are positioning themselves to make a long-term positive impact to society, remembering that an enterprise exists to deliver things that people need, find new ways to solve old problems, whilst generating jobs and returns for the savers whose capital they employ in the process. As with all modes of investment thinking, this kind of analysis needs to be washed down with a large dose of intellectual humility, curiosity and willingness to adapt.

With this in mind, I am delighted to introduce our updated ESG and Active Ownership Report. In addition to the usual collection of data and examples, future reports will include a series of written pieces covering topical areas from across the ESG spectrum and offer insight into our approach to these issues. The overall aim is to offer additional insight not only into the underlying data of our ESG and wider engagement activity, but also into our broader thinking. We hope that you enjoy reading it and look forward to the discussions it provokes.

James Batting

James Batting
Senior Partner

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CLIENT NOTICE

This version of the ESG and Active Ownership Report has been edited for public release. If you are a client of Hosking Partners and have not received the full version of this report, please contact us directly.

Introducing Roman Cassini

The production of our ESG and Active Ownership Report has been led by Roman Cassini, who joined us in December to coordinate our ESG policies, processes, and wider thinking. Roman has a somewhat unconventional background, having spent most of the last decade serving in the British military, as an infantry officer in the Royal Gurkha Rifles and subsequently at the strategic level advising British Ministers and senior officials on counter-terrorism strategy. In 2020, he was awarded the Vice Chief of the Defence Staff's Commendation for his contribution to the UK's crisis response procedures.

Roman left the military in mid-2021 to pursue a life-long interest in energy and specifically the energy transition, which he considers one of the most fascinating and complex problems facing the world over the coming decades. Roman is particularly interested in some of the structural issues that face the ever-expanding sustainable investment movement. He is focused on helping Hosking Partners understand and navigate the multifaceted inter-relations between fiduciary and ethical duty, stewardship, and active engagement across all three subsections of E, S, and G.

Roman is a graduate of the University of Oxford, where he gained a Master's degree in English Language and Literature. He has passed Level I of the Chartered Financial Analyst (CFA) program, and is currently working towards the CFAI's Certificate in ESG Investing.

Roman is looking forward to working closely with our clients, and is particularly keen to ensure our ESG communications, including this report, are tailored to their interests. If you have any comments or questions on the contents, please get in touch at the below address.

Email: rcassini@hoskingpartners.com

"I am thrilled to join Hosking Partners. This is a firm that prides itself on its unconventional, contrarian approach. It is an approach that encourages us to challenge received wisdom and stand out from the crowd.

There is a turning of the tide underway in the ESG movement. For several years, ESG analysis has been governed too much by a desire for oversimplification and an emphasis on moral presenteeism. Pressure to conform has constrained many investors and scared capital away from the parts of the market that need it most, particularly with regards to the energy transition.

We find ourselves at the dawn of a new era. The years of cheap capital, abundant energy, and low inflation appear to be at an end. As the tide turns, we believe that ESG investment will not be about turning our backs on entire sectors, or punishing firms for controversies long past. ESG analysis – indeed, all investment analysis – is about what happens tomorrow, not what happened yesterday. It is about identifying, engaging with, and investing in the companies whose global outlook, strategy, capital allocation, and risk management offer a competitive advantage over their peers.

Today, this includes identifying those companies that are most intelligently navigating an increasingly transparent world where reputational and ethical risks abound. This is not only about finding companies with sustainable business models that don't rely on forced labour or regressive governance structures. It is also about finding the companies that are best placed to benefit from macro-trends like the energy transition and return of Great Power Competition and regional spheres of influence. ESG analysis is a part of the investment process, not a barrier around it. It offers another perspective into the investable universe, a perspective which helps detect nuance that may otherwise go unseen. ESG analysis is about seeing the wood for the trees, and at Hosking Partners, we will use it to enable rather than constrain our portfolio managers.

We look forward to producing more ESG and active ownership-focused content, and ensuring our clients understand the thinking and decision-making that guides us. We do hope you enjoy this report and look forward to hearing any thoughts you have on it."

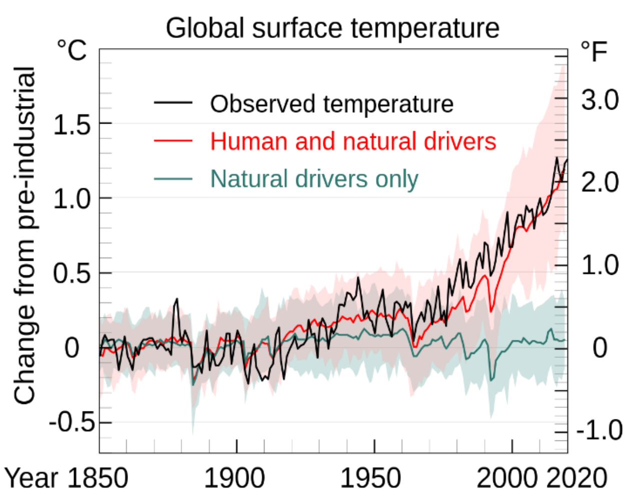
The Maze to Net Zero

Over the last several years, the concept of a pathway to net zero has become so pervasive in the dialogue around the energy transition that the phrase has begun to fall into the black hole that exists between frequent usage and understandability. With this in mind, the introduction to this quarter's ESG and Active Ownership Report will explore the following questions:

1. *What exactly is net zero?*
2. *What does it mean to have a pathway to reach it?*
3. *What assumptions are being used, and how do they differ?*
4. *And, what does this all mean for investors today?*

The conclusions are not 'binary'. For us at Hosking Partners, the world is technicolor and not black or white. We root our investment approach, decision making, and engagement within the lens of the capital cycle, which forces us to take a step back, and consider the longer-term, bigger picture. The team here always seeks to challenge assumptions, and the aim of this piece is to provide a digestible summary of a complicated issue that all of our clients are grappling with, whilst also shedding some light on the discussions we are having internally.

What exactly is net zero?

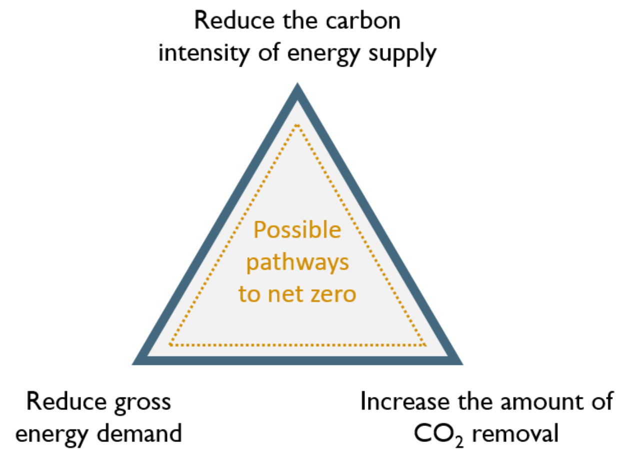


Source: IPCC (August, 2021)

Net zero is a state of equilibrium where the amount of greenhouse gases (GHGs) being added to the atmosphere by human activity is the same as the amount being removed. Increases in the atmospheric concentration of GHGs contribute to an effect called 'positive radiative forcing', which means that more energy is building up in the atmosphere than is being lost into space. GHGs cause this effect because they absorb and re-emit the Sun's infrared radiation as it passes through the atmosphere. The effect of positive radiative forcing is that over time the Earth's temperature rises. Radiative forcing is not only influenced by GHGs, but is the collective result of an array of interconnected phenomena, including changes in the Sun's irradiance, the Earth's albedo (how reflective the planet is), volcanic eruptions, and much more. An observed rise in the world's average global surface temperature over the past 150 years has been linked to an increase in the emission of greenhouse gases fueled by human activity (figure 1). This is called anthropogenic climate change.

What does it mean to have a pathway to reach net zero?

A pathway to net zero is a series of steps that must be taken to reach an outcome for the planet in which the concentration of GHGs in the atmosphere stops rising. While this seems like a relatively straightforward concept, there are a number of different ways to achieve it. In the simplest terms, we reach net zero by reducing the amount of emissions that are being added to the atmosphere, increasing the amount being removed (called Carbon Dioxide Removal or CDR), or a mixture of both. Because emissions are primarily tied to energy generation, the total amount of subtracting that needs to be done is driven by gross energy demand. Dialing this latter figure up or down transforms the overall size of the challenge. The various proposed pathways to net zero differ in the relative weight they apply to these three fundamental levers.



Source: Hosking Partners

Different pathways not only pull different levers to reach net zero, but also prioritise different end-states and work with different tolerances and underlying assumptions. For the Intergovernmental Panel on Climate Change (IPCC), limiting the global temperature increase is the imperative, and everything else is secondary. Understanding how the IPCC's pathways work is important, because the IPCC is the world's leading reporting body on climate science. Its reports have cemented the 1.5 to 2 degree limit into the Western approach to climate policy. For the IPCC, everything follows from this temperature limit, which is calculated on a risk-adjusted basis in order to avoid the more serious possible effects of climate change. Working backwards, it calculates the cumulative amount of GHGs that can be added to the atmosphere before the limit is breached. This is called the 'carbon budget'. A range of pathways are generated that pull the three levers described above in different combinations to keep emissions within the carbon budget. Next, each pathway is modelled within a range of 'Shared Socio-Economic Pathways' (SSPs) which encompass assumptions such as GDP growth rates, population change, energy demand, and so on. This cross-analysis indicates what sets of global conditions support different pathway variants. For example, as we explore further below, more aggressive pathways may depend on lower population growth, while more expensive pathways depend on higher economic output. In this way, the IPCC subordinates wider macro assumptions to the carbon budget imperative.

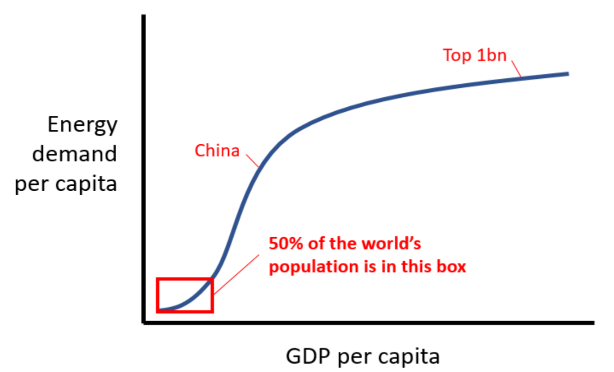
The combination of technologies used to achieve a given pathway is important because some options are more expensive than others. This expense is generally measured as 'carbon abatement cost', and represents the dollar cost of avoiding the addition of one tonne of GHG emissions into the atmosphere. This is calculated by dividing the additional cost associated with the technology by the amount of GHGs it removes (or avoids adding). For example, the average abatement cost of using Direct Air Capture to suck CO_2 out of the air is around $200 per tonne of GHGs removed, while generating electricity from solar panels rather than fossil fuels costs an additional $30 per tonne. The overall cost of reaching net zero therefore, in the simplest terms, is a sum of the abatement costs of the technologies used, weighted by their overall contribution to netting out the carbon budget. This is an important implied element of pathways to net zero, because whether viewed via capital costs on companies involved in the transition, real costs to an average consumer of energy, or fiscal costs on government budgets, a more expensive transition pathway is inevitably harder to navigate. This is not the primary focus of the IPCC, because cost and the macro conditions affected by it are secondary to the goal of reducing temperature change. But for actual implementation, cost is a key determinant of overall feasibility.

What assumptions are being used, and how do they differ?

The more expensive the pathway, the more incentive there is to tweak the underlying assumptions to balance the books. The influential Paris-based International Energy Agency's (IEA) roadmap to net zero attempts to translate an IPCC-consistent pathway into a specific energy supply mix accompanied by a supporting set of policy guidelines. In line with the IPCC, the IEA focuses overwhelmingly on reducing gross emissions rather than relying on CDR. This is achieved by dramatically reducing the overall carbon intensity of energy by altering the supply mix. As such, the IEA has power generation from coal reducing by about 98%, from oil by 75%, and from gas by 55%, while renewables ramp up by around 850%. This represents an almost complete overhaul of the global energy system, and it is to be accomplished in under 30 years. The world's two previous major energy transitions, from biomass to coal and then from coal to oil and gas, took around 100 years and 60 years respectively. The scale of the change required is reflected in the cost of the pathway, which McKinsey recently estimated at an eye-watering $3.5tn in additional investment per year between 2020 and 2050. To keep the pathway within the realms of viability, the IEA is forced to adjust its demand assumptions. As such, by 2050 their pathway sees the world economy 2x larger than today, the population 1.25x larger, but global energy demand 8% *smaller.*

Manipulating assumptions about underlying energy demand to 'force' a pathway into viability requires caution, because energy demand is strongly correlated with economic activity. GDP per capita rises consistently with energy use, following an

S-curve such that energy use grows more quickly at lower and middle income levels before flattening as per capita GDP reaches levels found in advanced economies. The richest one billion people in the world have 22x the average GDP per capita and use 10x more energy per person than the poorest four billion, but experience the flattest marginal benefit of adding more energy. Richer countries can raise living standards by around $1k with just 0.3 MWH additional energy, on a per person per annum basis. Conversely, the poorest 50% of the world's



Source: Hosking Partners, Thunder Said Energy (March, 2022)

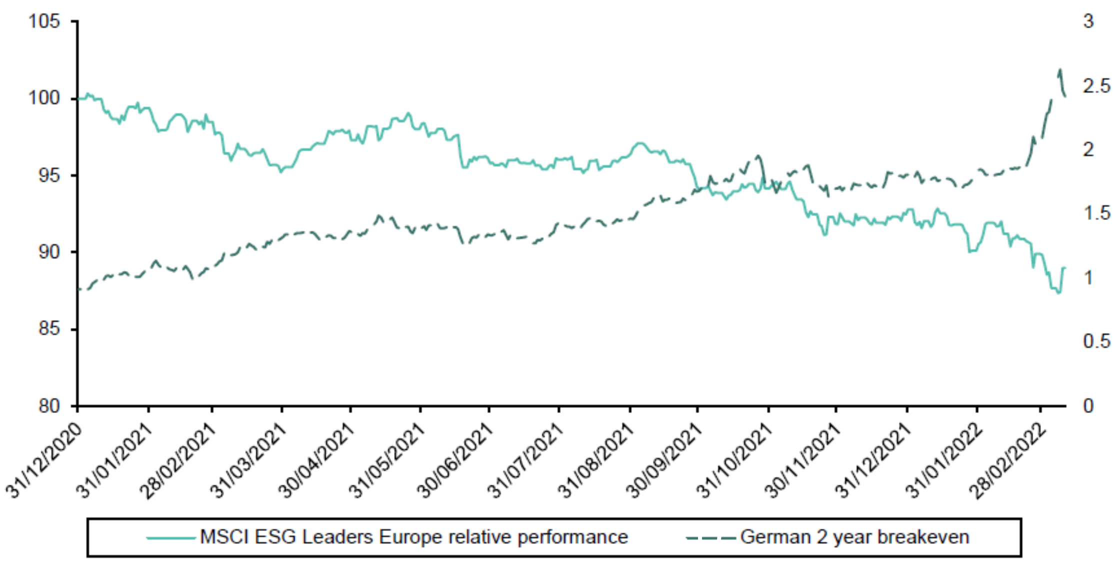
population require over 3x *more* added energy to achieve an equivalent increase in prosperity. Even if overall population growth slows or remains flat, energy demand still increases dramatically as the 50% of the world that has GDP per capita of less than $2000 raises itself towards the prosperity of their richer counterparts. Because renewables generally produce less energy output per unit of energy input than fossil fuels, to achieve the sort of energy mix the IEA is proposing the world may have to forego a significant amount of economic growth in return. The IEA suggests this will be mitigated by naturally slowing population growth and increased energy efficiency (i.e. getting more out of less). But this is a big gamble. Because of the time lag between investment and new energy actually reaching the market, if the world invests according to the IEA's energy mix, and the IEA's demand assumptions prove over-optimistic, the world will experience devastating energy shortages. In fact, research suggests that global energy supply is already running 2% light, and this undersupply is accelerating. Unchecked, this will cause the market to adjust via the quickest available route – halted growth, energy poverty, and widespread recessions – and because demand growth is unequally distributed these impacts will fall disproportionately on the world's poorest.

A net zero pathway describes a route to a 'possible world' that could exist in the future. Estimating the impact of global warming involves modelling the influence of surface temperature on a wide array of phenomena and then extrapolating second and third order socio-economic consequences from those simulations. The number of 'possible worlds' that emerges from such analyses is mind-boggling, with each representing a tapestry of interconnected variables, some of which are easier to quantify and predict than others, and as the number of combined variables grows, the margin of error increases. The IPCC suggests that no viable 1.5 degree pathway exists for a 'possible world' that includes geopolitical rivalry and high population growth. Conversely, the only 'possible world' that the models unanimously agree will successfully limit warming to 1.5 degrees requires low population growth and low per capita energy demand, but also high economic growth per capita, high levels of education, and high life-expectancy. This sort of analysis prompts a chicken and egg question: does adopting a net zero pathway create the macro conditions required for its success, or do those conditions determine the pathway that is adopted?

What does this all mean for investors today?

Many 'possible worlds' envisage fossil fuels continuing to outperform in the near to medium term. Purely 'green assets' like renewables and clean tech may be scientifically exciting, but they make speculative investments. This is because they are disrupters, and the future cash flows that the market uses to price them are highly dependent on a particular 'possible world' emerging – one where net zero is achieved via a pathway variant that relies heavily on the particular technology that asset represents. Positive sentiment for that kind of transition inflates the cash flow expectations, and thus the price of these assets – a classic investment bubble. As we have seen over the past decade, many pathways have tended to subordinate macroeconomic conditions to the temperature imperative. Investing for the energy transition has dutifully repeated the mistake. This is visible in the performance of ESG-labelled funds over recent years. These funds exhibit heavy sector-bias, and tend to be overweight long-duration clean energy assets and tech companies. Thus, their performance is inversely correlated to inflation expectations. The retreating likelihood of a possible world defined by low energy prices, low capital costs, and low inflation has hoist them by their own petard by exposing the narrow set of assumptions behind their design.

This is not to say that investors should shun investment in green assets and technologies. In fact, the maths suggests that if we are to achieve our net zero goals, we are severely underinvesting in renewables. But the world is also grossly underinvesting in natural gas, which is both a vital near-to-medium term solution to the



Source: Bernstein (March, 2022)

world's reliance on coal, and a comparatively clean means of backstopping intermittent renewable electricity grids. Modelling indicates *per annum* upstream investment in wind and solar is currently 25% light ($100bn in 2021), and natural gas 20% light ($65-80bn in 2021). Given that investment in these energy sources must step up substantially year-on-year, each missed target compounds the future challenge. Hosking Partners' diversified portfolio includes a number of promising companies across both areas.

Investment and divestment across the energy transition must be contextualised within the overall picture of total energy supply and demand. The world is engaged in an attempt to replace a small number of efficient fuels with an array of less efficient – but much cleaner – alternatives. As shown above, the resulting misallocation of capital may be more likely to exacerbate energy shortages than usher in a greener future. And as discussed in our recent Hosking Post ('New World Order?'), sustained overall energy shortages represent arguably the greatest threat to both global growth and a successful transition away from carbon intensive energy. By catalysing such shortages, poorly managed divestment from fossil fuels may actually increase the likelihood that the energy transition stumbles. This is a realisation that is gradually gaining prominence, even amongst environmentalists. Jeremy Grantham recently acknowledged that "going off fossil fuels in the long run will require using one more spurt of fossil fuels in the short run". Hosking Partners retains investments in a number of carefully selected oil and coal companies, with examination of capital allocation and transition risk management key areas of focus.

Concluding thoughts

The maze of possible pathways to net zero is fraught with uncertainty, misinformation, and surprises. The idea that Germany would be turning coal-fired generators back on in March 2022 would have seemed implausible in December 2021. Our approach to such uncertainty is threefold. Firstly, energy shortages caused by underinvestment must be rectified, and we are overweight commodities accordingly. Secondly, broad diversification remains essential to mitigate non-systemic risk, a major theme of the Hosking Partners portfolio. Thirdly, unconstrained active ownership combined with regular, targeted engagement is a vital lever to ensure investee companies are managing an uncertain transition with integrity and care. Key to this engagement is ensuring that the hardest to decarbonise areas are led from the front by forward-thinking public companies that are owned by responsible shareholders who are not afraid to hold them to account. This will remain a key focus for Hosking Partners' engagement over the coming years, as the world continues its journey deeper into the maze to net zero. ◘

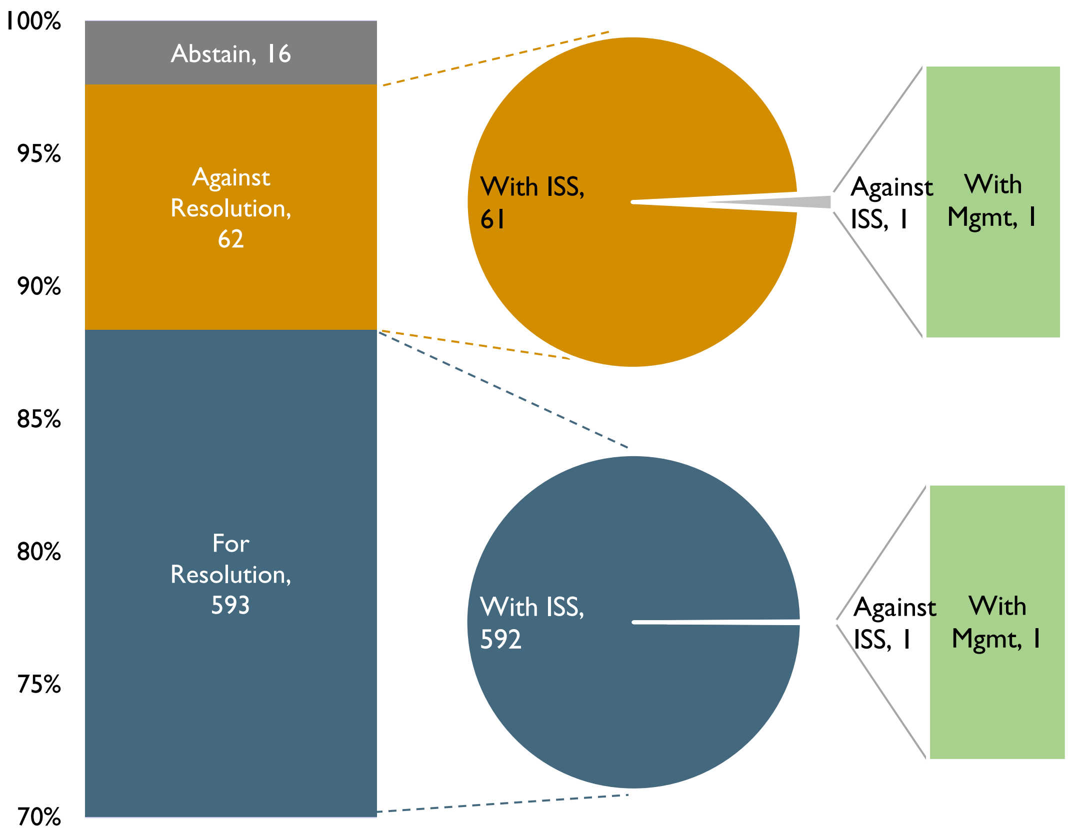
Next time

In next quarter's ESG and Active Ownership report, we will look further at how the energy transition stands to affect different parts of the world, identifying possible winners, losers, and those stuck between the two.

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.

Q1 2022 VOTING BREAKDOWN



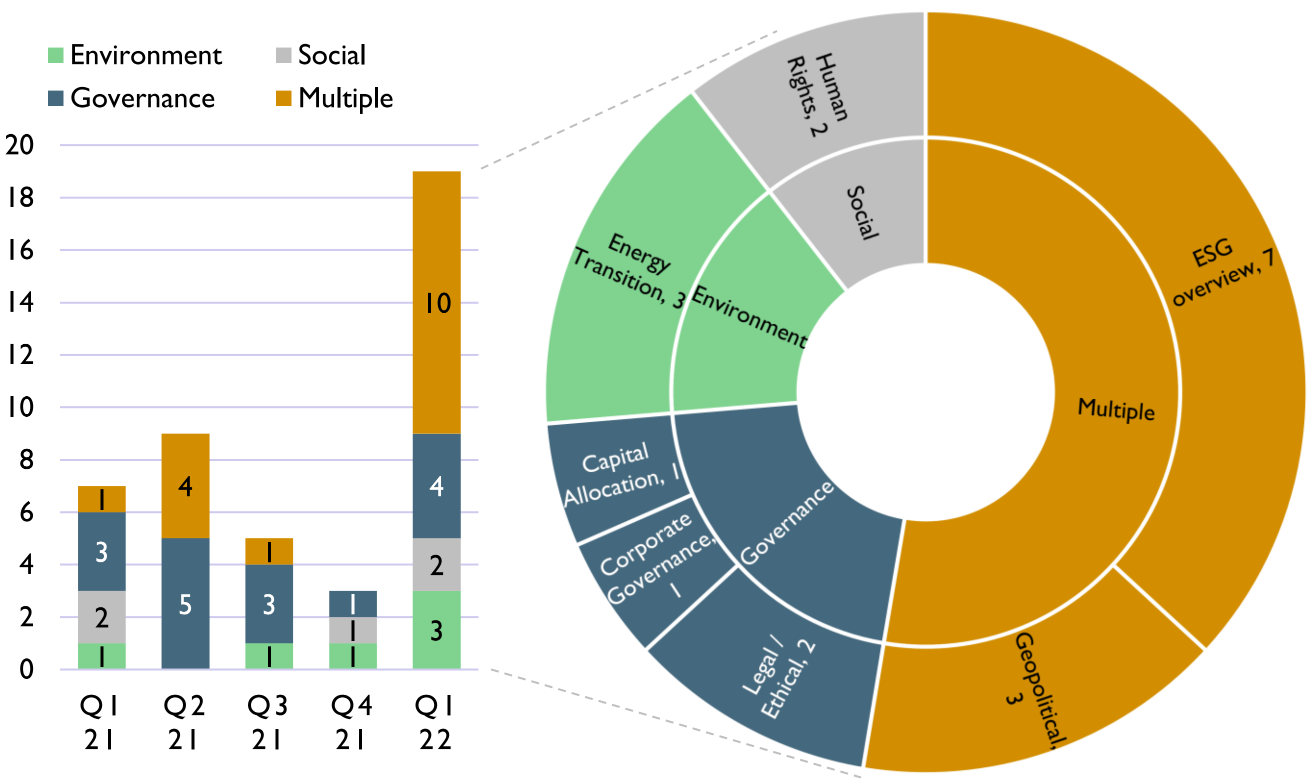
2022 THEMATIC BREAKDOWN	FOR		AGAINST		ABSTAIN		AGAINST ISS	
Director related, elections etc	295	44%	30	4%	13	2%	-	-
Routine/Business	121	18%	7	1%	1	<1%	-	-
Capitalisation incl. share issuances	49	7%	1	<1%	-		-	-
Remuneration & Non-Salary Comp	75	11%	6	1%	-		1	<1%
Reorganisation and Mergers	15	2%	2	<1%	1	<1%	1	<1%
Anti-takeover Related	3	<1%	-		-		-	-
Other, incl. wider ESG	35	5%	16	2%	1	<1%	1	<1%

* Not depicted 1x instruction to 'Withhold' and 1x instruction for 'One Year' (advisory vote on pay frequency), both voted with Management and ISS.

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.

Q1 2022 ESG ENGAGEMENTS BREAKDOWN



With the arrival of Roman Cassini, this quarter saw us refresh our ESG engagement process. This process is designed to support the portfolio managers without affecting the autonomy of our multi-counsellor approach. The central aim is to "enable rather than constrain". The process revolves around the core pillars of Monitoring, Identifying, Engaging, and Communicating, which are described briefly below.

- **Monitoring**. Constant monitoring of ESG developments across the portfolio, including emergence of security, sector and geography level controversies and risks. This includes low-level 'routine' engagements.
- **Identifying**. Selection of targets for specific 'issue-based' engagements, which may be proactive or reactive.
- **Engaging**. Engagements are usually commenced via letter or 1-on-1 meeting, and involve both Roman and at least one PM. Following the initial engagement, a decision is made whether to continue, escalate, or resolve the issue.
- **Communicating**. We have updated this report to offer more transparency and insight into all of our ESG engagements and the process that supports them.

A focus on… Associated British Foods

ESG focus topic: **Social**

MSCI ESG rating: **AA**

Shares owned: *Disclosed to clients only*

CO2e intensity vs benchmark: **-0.02%**

Source: iStock

Following the introduction of the Uyghur Forced Labour Prevention Act (UFLPA) in the US in December 2021, we have focused attention on the issue of forced labour hiding in the supply chains of otherwise reputable companies. It is a complex issue that often evades detection, particularly now that the supply chains leading to a final product are long, opaque threads that crisscross international borders and regulatory regimes. In the early 2010s the British retail chain Primark, a subsidiary of Associated British Foods (ABF), was repeatedly accused of weak supply chain oversight. The combined trends of rapidly outsourced manufacture to weak regulatory environments and spiking demand for 'fast fashion' created a perfect ESG storm of opportunity and incentive.

Today, Primark has 450 Tier 1 (i.e. final assembly) factories in China alone, out of a total of over a thousand globally. China exported over $11bn of cotton in 2021, of which around 84% is grown in the Xinjiang region. Xinjiang cotton has been linked with forced labour. To offset these structural risks, in the last several years ABF has taken some impressive steps to increase supply chain transparency and audit. ABF (in conjunction with Primark) have declared comprehensive policies on cotton sourcing and forced/child labour. ABF employ a team of around 130 'local experts' across relevant geographies whose task is to monitor and audit Tier 1 suppliers. The largest such team is in China. Audits are unannounced, and occur roughly every 6 months. The teams are specially trained to spot issues unique to their particular geography. In China this includes identifying Uyghur workers who have been transferred outside of Xinjiang. This is important because ABF has no Tier 1 suppliers based within Xinjiang itself. ABF accept that Tier 2-4 supply chains remain a challenge. They are tackling this from a number of angles, including via their proprietary Sustainable Cotton Programme which aims to achieve 100% supply chain traceability in the long term. ABF currently has 30% 'direct line-of-sight' to their Tier 4 cotton supplies, and they aim to increase this to 60% by the end of 2022. This 'line-of-sight' method can be contrasted to the Mass Balance system employed by the Better Cotton Initiative (BCI), which provides sustainable cotton credits to retailers that effectively 'net out' the effect of them using opaquely sourced cotton. This is roughly comparable to the difference between having truly zero carbon emissions and using offsets to be 'net zero'. ABF argue that since the use of forced labour is a more directly observable and unambiguously unethical practice than emitting CO2, they feel that having line-of-sight all the way to Tier 4 is preferable to risking direct use of forced labour but 'offsetting' it by indirectly promoting sustainability elsewhere. This is a key area in which we feel they are an industry leader.

In areas where the deep supply chain remains out of direct 'line-of-sight', ABF has a policy of refusing to grant long-term contracts to suppliers until they have passed a series of rigorous sustainability checks for at least one year, to incentivise compliance. ABF also employ an interesting verification technology called Oritain which uses forensic techniques (isotope ratio analysis and chemical profiling) to trace cotton to its production region. This helps overcome the problem that many Tier 1 suppliers may genuinely not know whether or not they are using irresponsibly sourced raw materials. Where they encounter such cases, Primark is developing methods to help suppliers move to more sustainable alternatives (and therefore secure the long-term contract). This is another leading approach that will over time help improve the entire supply chain, because it reaches directly from Tier 1 to Tier 4.

This combination of smart technology, proprietary 'line-of-sight' strategies, and local audit teams combines to form a convincing end-to-end supply chain risk management process. We expect to see ABF further develop their position as an ESG innovator. Repairing reputational damage sustained in the German market may be a particularly positive outcome for revenues.

Appendix

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. The publicly released version of this document does not include engagement examples at all. Where this is the case, further information about the engagements is available to clients upon request.

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