Hosking Partners®

ESG & Active Ownership Report

Q4 2025

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Foreword

At the end of a strong year of performance for Hosking Partners amidst an ongoing global market regime shift, we focus this quarter's active ownership report by contrast on the quiet and steady progress being made within the portfolio. We explore a long-held company that may be overlooked as an obvious ESG leader within its industry, consider the impact of our active engagement approach with one of our largest portfolio holdings and highlight the importance of voting against management in some cases, even when share performance has been strong, to help drive change.

This quarter, we introduce the first of our "hidden ESG" company series, where we will explore companies that at first glance may not check the traditional ESG standards box, but in fact are making significant environmental progress, while also offering compelling investment upside. First up is Steel Dynamics, where we discuss management's long-term goals and incentives and the sustainability of the business.

With rising geopolitical tensions, it is clear there is an ongoing shift in thinking about defence stocks and the place for these companies in global portfolios. Our engagement piece for this quarter explores our ongoing dialogue with leading UK defence company, Babcock, a position we have held since 2023. Babcock is a great example of a company with a transformative management team that takes capital allocation and governance seriously.

As we look ahead to 2026, we will continue to evolve our active ownership report to share deeper insights directly from the portfolio managers into some of the differentiated businesses we own and how we are using our position as a long-term, active shareholder to assess and support management and to advocate for change where appropriate.

Gwin Myerberg
Director, Client Service, Business Development & ESG

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Hidden ESG: Steel Dynamics

Hosking Partners' diversified, unconstrained investment approach integrates consideration of environmental, social and governance (ESG) factors as an important piece of our bottom-up assessment of each opportunity, rather than imposing rigid top-down exclusionary criteria. This allows our portfolio managers to invest across a broad range of opportunities, combining long-term, individual idiosyncratic stock ideas with baskets in areas at or nearing the point of maximum pessimism, where our capital cycle lens suggests that returns are poised to rebound in the near-to-medium term.

We believe that taking an integrated approach enables us to own companies that may be missed by a broader ESG screen, particularly in higher carbon emissions areas, such as energy and materials, which risk being excluded due to their industry without consideration being taken for businesses and management teams that are leading the way for positive change. We consider key risks for each individual company, sector and region as an input into our overall analysis of investment opportunity and monitor these on an ongoing basis.

We have historically used our active ownership report to highlight key environmental, social or governance topics impacting a sector or region in the portfolio or the asset management industry more broadly. Typically, when we write about individual companies held in the portfolio, it is to highlight active engagement or proxy voting examples, which often means that we are pushing for change in some form. We would like to also highlight those businesses and management teams that are taking all the right steps, where our engagement generally involves supporting progress being made.

These are companies that we deem to have compelling long-term upside in the portfolio, that by traditional ESG standards may not naturally fit into any "one size fits all" category. We will consider their "hidden" ESG factors and our investment thesis for these companies as we think about management's long-term goals and incentives and the sustainability of the business. In our first "Hidden ESG" installation, we profile Steel Dynamics, a company that we have owned since October 2017.

Steel Dynamics is among the largest steel producers in the U.S with 16 million tons of steelmaking capacity, despite being founded as recently as 1993, by three ex-Nucor executives who wanted to revolutionise US steel production. In its steelmaking operations the company differentiates itself by exclusively focusing on building and operating electric-arc furnaces (EAFs), a more efficient, lower-carbon alternative to the traditional steelmaking process, creating steel from coking coal and iron ore in blast furnaces. EAFs utilise electricity and recycled steel (scrap) as feedstock to produce steel, resulting in reduced emissions and lower energy usage.

Steel Dynamics is a great example of a hidden ESG security. The Sustainable Accounting Standard (SASB) materiality map highlights greenhouse gas (GHG) emissions, air quality, energy management, water management, waste management, workforce health and safety, and supply chain management as key areas of potential risk to assess within the steel industry. Meanwhile, external ESG ratings providers offer a mix of ratings for Steel Dynamics, ranging from 'high ESG risk' at a score of 32.61 from Sustainalytics to AA (a positive, considered to be low-risk rating) from MSCI ESG ratings. We do not subscribe to external ESG ratings providers. In fact, we would submit that such a broad range of ratings for a single business highlights why these external ESG risk factor ratings are highly subjective and why we insist on doing our own bottom-up research to assess each holding.

Producing steel in blast furnaces is among the highest emissions-intensive industrial activities globally – the steel industry accounted for 7-8% of total greenhouse gas emissions in 2024 – so the industry push towards EAFs represents an enormous opportunity to significantly reduce the level of emissions globally.

Steel Dynamics' steel mills have about a 60% lower greenhouse gas (GHG) emission intensity to blast furnace mills (global average) and require close to 80% less energy. Its circular manufacturing model, recycling steel content and reusing nearly all the water produced, is not only advantageous from a sustainability perspective but results in lower costs as well. There are few single actions that have a larger impact on mitigating GHG emissions than replacing a blast furnace with an EAF. Just 30% of steelmaking worldwide is produced through EAFs today, and if the remaining global steel industry was turned into EAFs, roughly 1.3 Gt of emissions would be saved annually out of the 38Gt produced annually (approx. 3.4% savings).

For context, the International Energy Agency (IEA) estimates that the three largest renewable energy technologies – solar, wind, and nuclear – together with the key clean energy technologies – electric cars and heat pumps – prevent c2.6 Gt of emissions annually.

We first initiated our investment in Steel Dynamics, in 2017, as we foresaw many years ahead of the US' legacy blast-furnace producers ceding market share to the more efficient EAF competitors while maintaining a pricing umbrella to support EAF profitability. The industry previously relied on scale because of the enormous demands of blast furnaces, which incentivised volume at the cost of profitability even during periods of low-end demand, but the transition to EAFs has changed industry dynamics, allowing for smaller, leaner sites and more flexibility among the operators.

Steel Dynamics is among the lowest-cost, most efficient steel producers and is well-positioned to continue to take advantage of the industry's continued transition to EAF: blast furnaces still represent 25% of US steel production and should continue to cede share to more efficient EAFs over time. In addition, Steel Dynamics has a robust capital allocation framework that has proved its ability to invest capital into new growth projects at attractive rates of return over many years.

We are encouraged that co-founder and CEO Mark Millett retains a large ownership in the company (2%, or cUS$600m), as does his fellow co-founder and director Richard Teets (3.5%, or cUS$1bn), the latter of which has not sold a single share since Steel Dynamic's inception over 30 years ago. The significant shareholding by the executive team and among the board members creates an alignment of incentives that we believe will continue to lead to more value creation at the company in the future.

On the long and bumpy road towards a more sustainable future, our steel companies could be considered as integral to the transition journey as its more obvious counterparts in solar PV and wind turbine manufacturers.

Alexander Nelson
Investment Analyst

Babcock: The next line of defence

Rising geopolitical tensions over the past several years have prompted a reassessment of long-standing assumptions around defence spending and national resilience, and particularly in the UK, the role of affordable and dependable energy.

Against this backdrop, Hosking Partners' portfolio holding in leading defence company Babcock International has emerged as a critical player in the UK, specifically for maintaining the nation's nuclear and naval capabilities. The tailwinds behind the company's recent growth resurge is expected to continue as Europe strengthens its defence amongst an ever-increasing volatile geopolitical future.

Jeremy Hosking first initiated a holding in Babcock in March 2023, following a "single stock pitch idea" from then-analyst Omar Malik, establishing a small position following a reassessment of the defence sector in light of these evolving geopolitical realities. Babcock presented itself as an operational turnaround story under a new management team that joined in 2020, with significant progress made in restructuring the balance sheet, improving contract economics, and refocusing the business on core engineering competencies. The shares also traded at a significant discount to the replacement value of the asset base, a phenomenon we often see at the bottom of a cycle. Here, we explore why we have continued to build out our exposure since first entering the position and look at the importance of our ongoing engagement activity with the management team.

Babcock International is one of the UK's most strategically essential engineering services companies, specializing in the management of complex defence and nuclear assets. Its responsibilities include maintaining the UK's continuous at sea nuclear deterrent and managing three of four key dockyard assets in the UK – HMNB Devonport, HMNB Clyde, and Rosyth. In the case of Devonport and Rosyth, they directly own these irreplaceable assets. It remains one of two operators capable of performing nuclear submarine refits, upgrades, and life extension work at scale. This unique positioning has only grown in importance since Russia's invasion of Ukraine, which reignited cross-party support in the UK for strengthening the deterrent with a particular focus on submarines.

With public perceptions shifting, defence companies such as Babcock have increasingly been categorised by investors less as controversial investments and more as essential companies for continued national security.

The shift of Babcock's largest contract, managing the submarine fleet, towards a cost-plus model in early 2024 represented a material de risking of the business. We could see a clear path towards a more stable, long cycle business operation aligned with the UK government's renewed focus on availability and readiness, rather than cost minimisation.

As a result, two additional portfolio managers added Babcock to their holdings. This is the typical lifecycle of a position in the Hosking Partners portfolio and shows the benefits of our multi-counsellor approach. An idea is surfaced and initiated by one portfolio manager, leading to increased conviction over time as the idea is monitored and discussed internally, followed by purchases by other portfolio managers at opportunistic price points.

Part of our investment approach also involves active, constructive engagement with management on capital allocation and governance matters, which has certainly been the case with Babcock. We have maintained a consistent dialogue with Babcock's leadership regarding operational priorities, financial discipline, and shareholder returns.

In late 2024, we sent a letter advocating for the company to pursue a share buyback program in order to opportunistically take advantage of the undervaluation of Babcock's shares. Despite four years into the turnaround and significant improvements across operations, culture, and financial strength, we felt the shares remained stubbornly depressed at 8x operating profits. We also expressed our desire to engage with the board regarding the management incentive scheme, which we felt was inadequate in highlighting the long-term opportunity at Babcock. Six months after our correspondence, the company announced the launch of a £200m share buyback programme.

More generally, throughout our ownership we have found Babcock's management team to be open, engaged, and strategically aligned with long-term investors. This receptiveness to shareholder input stands in contrast to the historical perception of defence contractors as opaque, overly bureaucratic entities. Babcock's new leadership has demonstrated a willingness to modernise both operations and capital allocation policies, which has been instrumental in restoring confidence across the investor base.

Since our initial investment in March 2023 and our last piece written on Babcock in the Q3 2024 AOR, shares in the company have risen +447% and +214%, respectively, reflecting fundamental improvements made at Babcock in the last three years. Accelerating revenue growth and consistent margin expansion are having significant impacts on the bottom line with Babcock reporting record underlying operating profits in the last 12 months.

A de-levered balance sheet and the emergence of new growth opportunities following increased defence spending in Europe has also had a meaningful impact. It is worth noting the shift in investor perceptions around defence companies, with companies across the board having seen their valuations increase, including Babcock's.

The post Ukraine environment has redefined defence companies as essential contributors to national and allied security. The public continues to recognise the importance of deterrence, cyber security, and the maintenance of vital infrastructure.

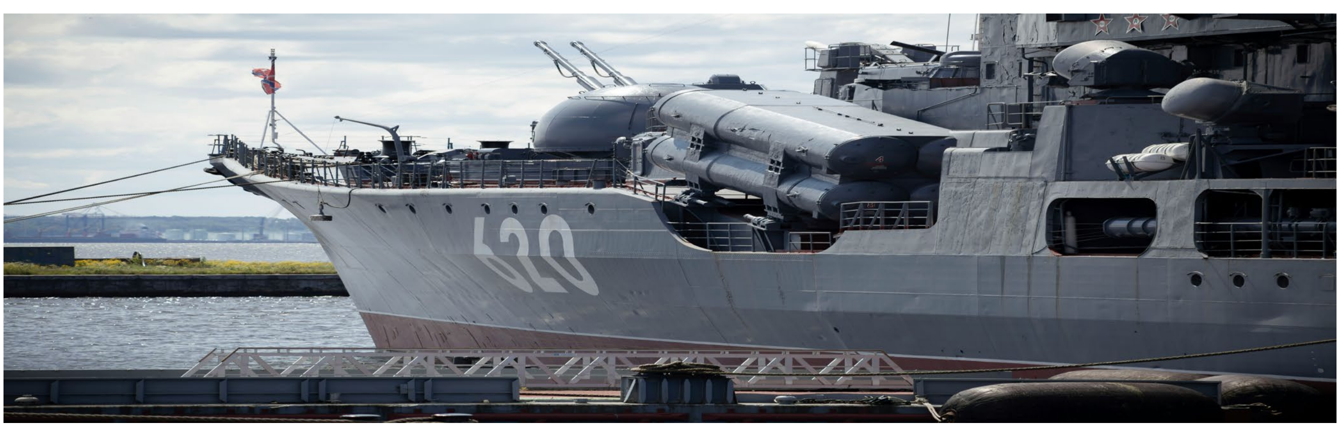
One of the potentially most promising and least appreciated business areas within Babcock is the company's civil nuclear engineering division. While it remains early days, given the UK government's explicit intention to accelerate nuclear power deployment, there is a credible argument that we could be at the beginning of a new cycle.

After a period of consolidation during the downturn, Babcock is the only surviving British company with the capabilities to service nuclear power stations and to take advantage of the emerging opportunities in advanced and small modular reactors. Given the sensitive security concerns around nuclear the government is likely to favour domestic incumbent with the correct regulatory credentials and high levels of trust. The nuclear division is one of the group's highest-margin areas and could become a meaningful driver of future profit growth if the government is serious about addressing the UK's high energy costs. Despite the exciting opportunity ahead, management is clear that the scale of the opportunity will depend on the economic terms of the contracts offered to the private sector. An important discipline to avoid repeating the mistakes Babcock made in defence a decade ago.

From an ESG angle, owning defence and nuclear companies carries inherent complexity, requiring far more nuance than simplistic ESG frameworks often allow. At Hosking Partners, we employ a holistic approach to ESG and assess each company and its particular circumstances on a fundamental case-by-case basis.

We see Babcock playing a necessary and stabilising role in maintaining credible military deterrence for NATO nations. Its blend of irreplaceable national infrastructure assets, specialised engineering known-how, improved financial discipline, and renewed growth tailwinds continue to make it an attractive investment opportunity in the defence sector at Hosking Partners.

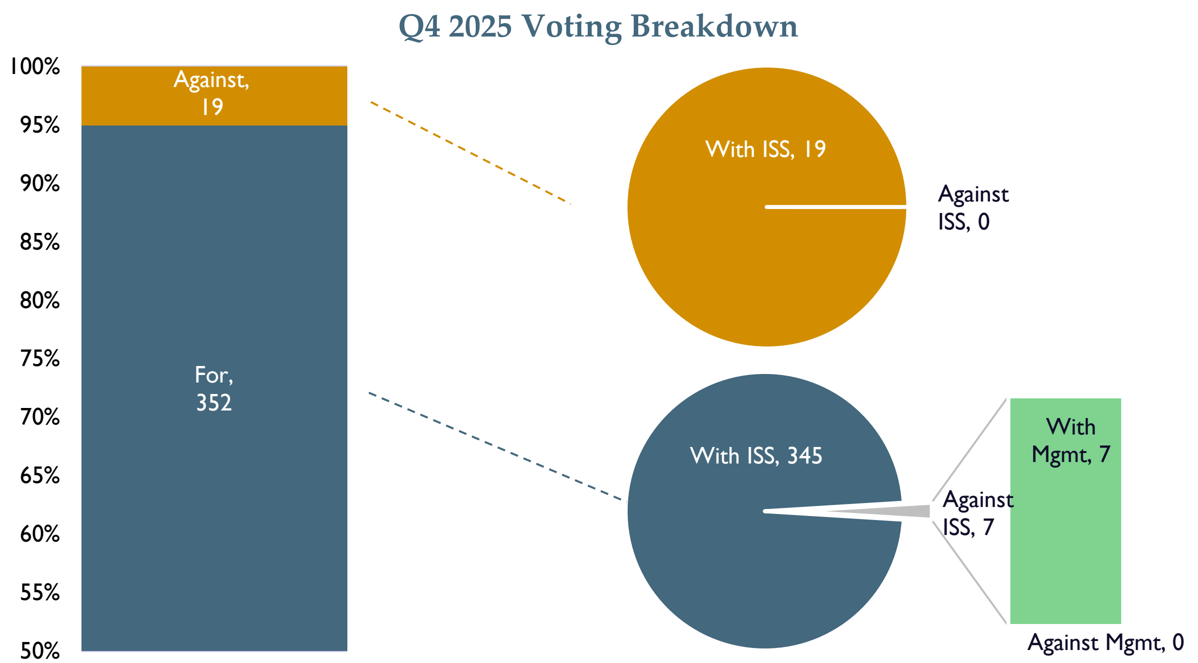
Omar Malik
Portfolio Manager



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.

VOTING SUMMARY	Q4	2025
Meetings Voted	34	375
Proposals Voted	371	4,731



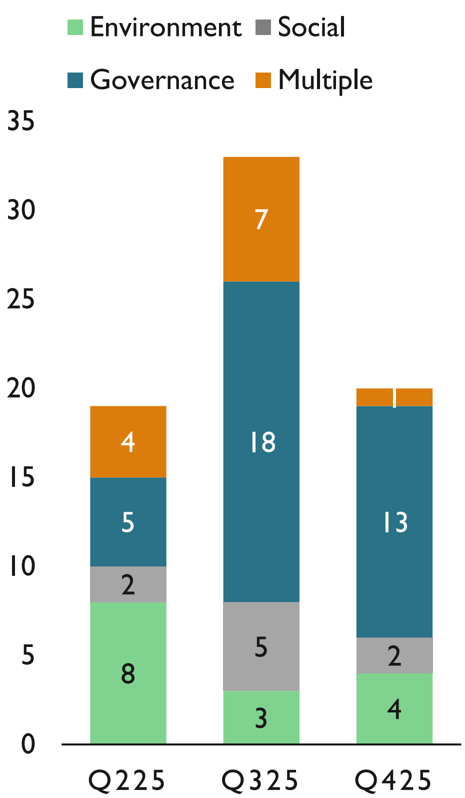
2025 YEAR TO DATE THEMATIC BREAKDOWN	FOR		AGAINST		ABSTAIN		AGAINST ISS	
	Total	% share-holder	Total	% share-holder	Total	% share-holder	Total	% share-holder
Director related, elections etc	2,423	0%	187	12%	18	28%	53	11%
Routine/Business	812	1%	26	27%	-	-	3	33%
Capitalisation incl. share issuances	433	0%	24	0%	-	-	15	0%
Remuneration & Non-Salary Comp	426	2%	95	1%	-	-	20	0%
Takeover Related	61	0%	4	0%	-	-	1	0%
Environmental, Social, and Corporate Governance	54	15%	62	89%	-	-	2	0%
Other	68	10%	10	60%	-	-	2	50%
Total	**4,277**	**1%**	**408**	**23%**	**18**	**28%**	**96**	**8%**

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

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 2025 Engagement Breakdown



Voting Discussion

Company	Country	Meeting Date	Meeting Type	% of Voting Shares
Lam Research Corp	US	4th Nov 2025	Annual	<0.01%
Micron Technology Inc	US	15th Jan 2026	Annual	0.01%

Proposal(s)	Management Recommendation	ISS Recommendation	Our Vote
Reduce Ownership Threshold for Shareholders to Call Special Meeting	AGAINST	FOR	FOR

*% of voting shares at end of Q425.

In the fourth quarter of 2025, Hosking Partners voted against management on the same shareholder proposal at two leading US semiconductor companies: Lam Research Corporation and Micron Technology.

Both firms were notable outperformers during the year, benefiting from sustained strength in the semiconductor cycle based on constrained supply dynamics and accelerating demand across memory, AI related workloads, and advanced manufacturing. This strong operational backdrop was reflected in share price performance, attracting increased interest from both institutional and retail investors seeking exposure to semiconductor and AI themes.

Against this backdrop, both companies faced a governance challenge. John Chevedden, an individual shareholder known for frequently submitting governance focused proposals often using small qualifying holdings, filed an identical resolution at each company's Annual General Meeting. His proposals called for Lam Research and Micron to amend their governing documents to allow shareholders holding 10% of outstanding common stock to call a special meeting - a reduction from the current 20% threshold. While his approach is sometimes viewed as unconventional, his proposals often highlight areas where larger institutional investors have been slow to act, particularly on shareholder rights.

Chevedden's proposal drew attention to the limited practicality of the current 20% threshold, which in most circumstances makes the right to call a special meeting difficult to exercise because dispersed shareholders cannot realistically reach such a high ownership level. In his view, a more accessible threshold would help ensure management remains responsive between annual meetings and strengthen the mechanisms through which shareholders can raise concerns or react to corporate developments.

In publishing proxy research, ISS reached a similar conclusion. They recommended voting **FOR** the proposal at both companies, noting that many US corporates already offer a 10% threshold and that nearly half of Russell 3000 constituents provide shareholders with the right to call special meetings. From a governance perspective, the absence of such a right can limit investors' ability to act swiftly - whether to address board composition, respond to strategic developments, or raise concerns that require timely shareholder input. Higher thresholds can therefore have the effect of insulating management from timely shareholder oversight.

Management at both Lam Research and Micron opposed the proposals and recommended voting **AGAINST**. They maintained that the existing 20% threshold strikes an appropriate balance between shareholder access and protection against misuse by investors with very small holdings. The boards also pointed to market practice as justification for maintaining their current bylaws. However, in large capitalisation companies such as these, reaching a 10% ownership level is realistically achievable only for the largest index tracking institutions.

Major holders such as Vanguard and BlackRock - typically passive in their engagement style - are unlikely to use the right aggressively even if the threshold were lowered. As a result, concerns about potential abuse appear overstated. Instead, reducing the threshold would make the right more meaningful for the broader shareholder base and reinforce the principle that management should remain accountable to investors of all sizes.

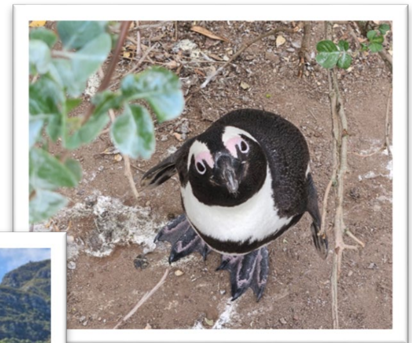
For these reasons, Hosking Partners voted against management at both companies and **FOR** both proposals. We viewed the proposals as a constructive step toward strengthening shareholder rights and signalling to management that even in high performing businesses, governance structures must evolve to reflect investor expectations. A sizeable proportion of investors ultimately voted in line with our position.

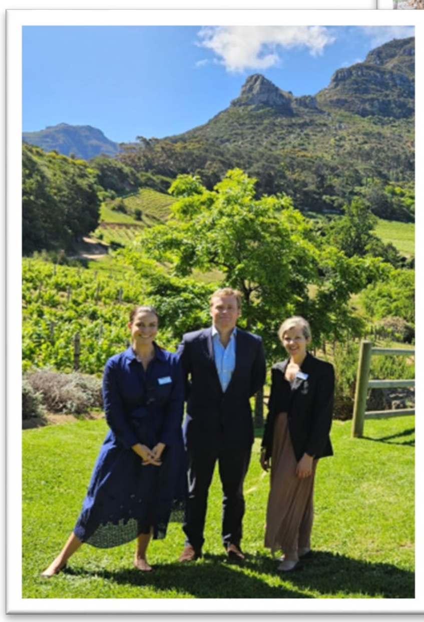
At Lam Research, the proposal received 41.36% support, and at Micron it achieved 43.0% - levels that, while short of a majority, represent a meaningful block of shareholders advocating for a lower threshold. Such strong minority support across both companies reinforces the signal we intended to send and shows that enhanced shareholder rights remain an important priority for many investors. The vote serves as a clear reminder that even well performing companies are expected to maintain governance standards that respect shareholder rights.

Matt Clarke
Operations Analyst

Hosking Partners' Q4 2025 postcards

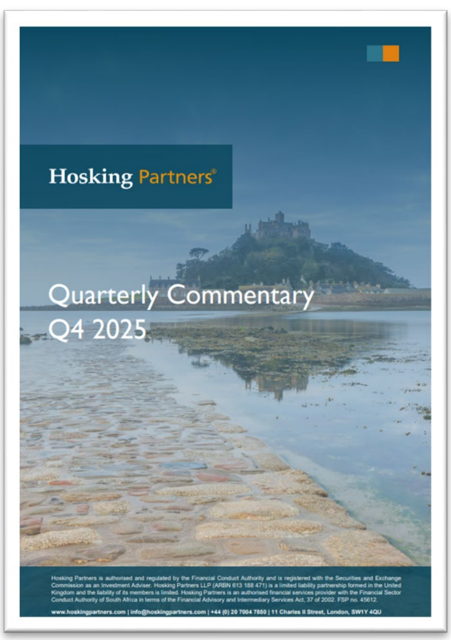
Senior Partner, Luke Bridgeman and Gwin Myerberg visit Boston





The HP team spend time in South Africa with clients and local partners (penguin included!)

Read portfolio manager Jeremy Hosking's quarterly commentary **here**



The office Christmas tree captures all things capital cycle this year

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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REFERENCES

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

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