2022 ESG Report

Integration & Engagement

YEAR ENDING JUNE 30, 2022

BURGUNDY
ASSET MANAGEMENT LTD.

OUR APPROACH TO ESG

Contents

CALENDAR YEAR 2021

Burgundy at a Glance

Rigorous & Fundamental Global Research

1000
The number of company meetings across the globe

1/3
How often we met with regional portfolio companies during management meetings

78%
The percent of meetings with senior management

Expert Networks

5
The number of expert networks we worked with

500
The number of one-on-one calls we conducted

1000
The number of expert call transcripts we reviewed

Governance & Advocacy Activities

Portfolio Managment Association of Canada (PMAC)	Member since 2003
Canadian Coallition for Good Governance (CCGG)	Member since 2004 (founding year)
Investment Adviser Association (IAA)	Member since 2005
United Nations-supported Principles for Responsible Investment (UN PRI)	Signatory since 2019
CCGG Stewardship Principles	Endorsed in 2020

CALENDAR YEAR 2021

ESG Efforts

Engagement

260

The number of ESG engagements with portfolio companies*

70%

The percent of total ESG engagements conducted by meeting/call

1/4

How often we raised an ESG issue during a management meeting**

Proxy Voting

430

The number of meetings we voted

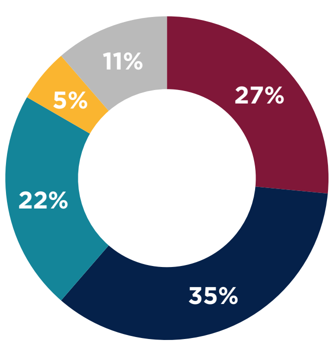
40

The number of environmental ("E") and social ("S") shareholder proposals

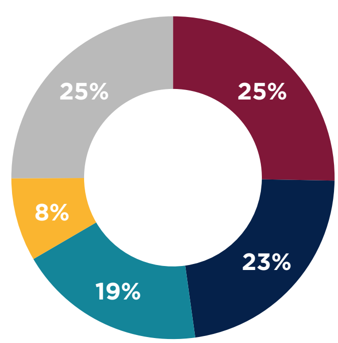
38%

How often we supported E&S shareholder proposals, up from 18% in 2018

Engagement by Region



Meetings Voted by Region

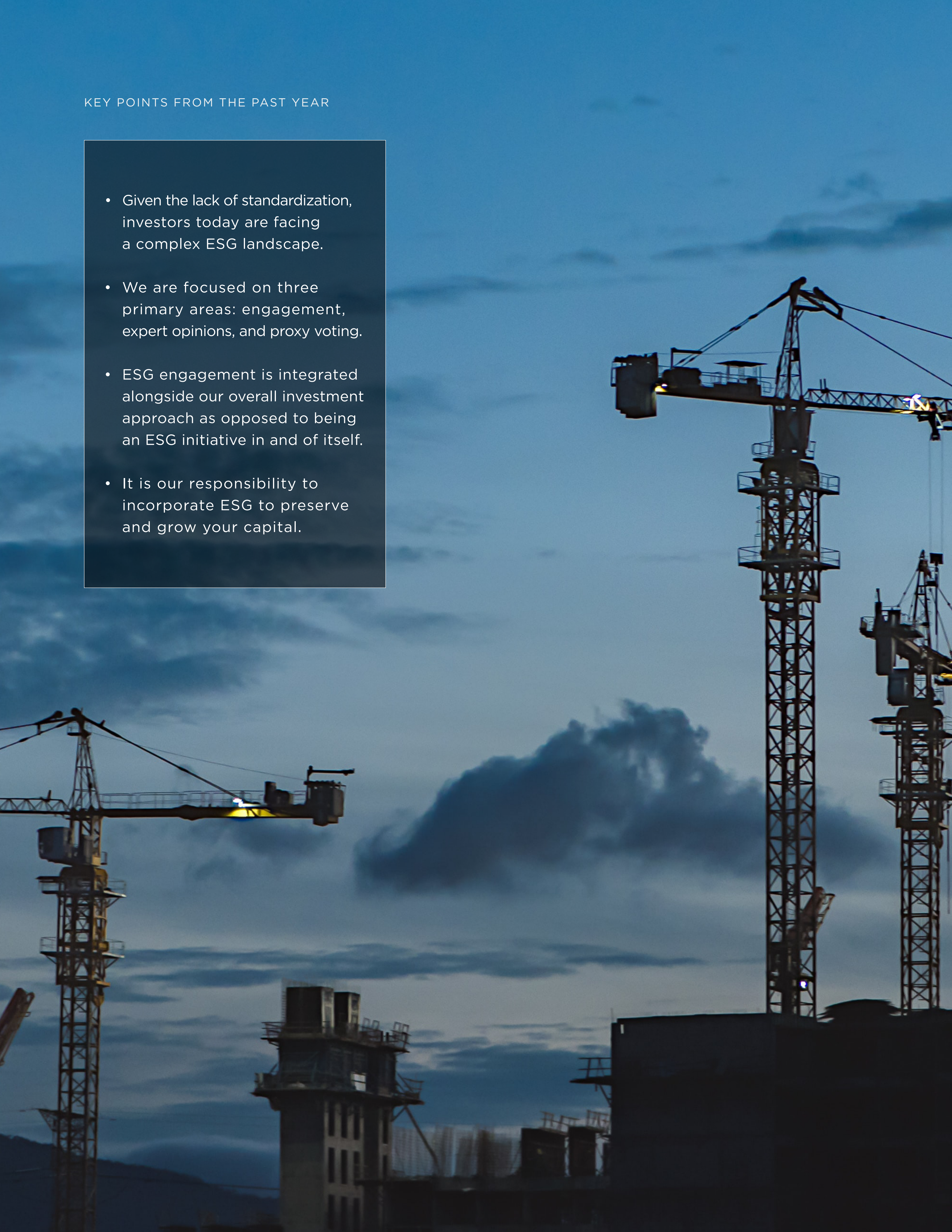


■ Canada ■ U.S. ■ Europe ■ Asia ■ Emerging Markets

Source: *Burgundy research*
**Includes ESG engagement via meeting, call, letter, email, and proxy vote.*
***In 2021, Burgundy conducted over 1,000 company meetings. Approximately 630 were considered one-on-one while the others were in a group setting. One-on-one meetings are conducted by a Burgundy Portfolio Manager and/or Investment Analyst with the management team or investor relations of the company. An "ESG issue" is either an environmental, social, and/or governance (ESG) factor as defined by Burgundy's approach to ESG.*

KEY POINTS FROM THE PAST YEAR

- Given the lack of standardization, investors today are facing a complex ESG landscape.
- We are focused on three primary areas: engagement, expert opinions, and proxy voting.
- ESG engagement is integrated alongside our overall investment approach as opposed to being an ESG initiative in and of itself.
- It is our responsibility to incorporate ESG to preserve and grow your capital.



ESG INTEGRATION

Message from our CIO

Focused on Integration and Engagement.

BY: ANNE METTE DE PLACE FILIPPINI

SENIOR VICE PRESIDENT, CHIEF INVESTMENT OFFICER, PORTFOLIO MANAGER

In last year's report, we highlighted the ambiguity investors face when it comes to ESG. Amid a plethora of competing terms, ratings, and approaches, it is no wonder people (ourselves included) are left scratching their heads.

In the spring 2022 article "An investigation into the murky world of ESG ratings," the Globe and Mail discussed how a lack of standardization and regulation creates confusion for investors. The article points to the distressing reality that since ratings providers employ such a range of measuring tactics, "the same company can be judged as both an ESG leader and a laggard, depending on who's doing the measuring."

The challenges with ESG ratings reinforce why Burgundy favours bottom-up integration, which means our portfolio teams assess ESG factors when analyzing the risks and opportunities of a potential investment.

We do not apply blanket ESG screens, which would preclude our investment team from investing in certain companies and sectors, and while we may review ESG ratings as a sound check, we rely on our own research to guide us. Our regional investment teams' rigorous and fundamental research includes engaging with management teams, fact checking through expert opinions, and messaging through proxy voting to get to our primary goal of achieving risk-adjusted returns.

Engagement

When it comes to our integrated investment approach, a critical aspect is engagement, which involves interacting with the management teams of both our portfolio and prospective companies and asking them ESG questions directly. Last year, our regional teams conducted roughly 260 engagements with portfolio companies.

As we weave ESG factors into our research approach, engagement plays a key role. In this year's report, we review how our investment team engages with companies, gains information, and attempts to use that information to elicit positive change. Discussion topics include the global transition to cleaner energy, diversity among management and employees, and board member selection.

Expert Opinions

While engaging directly with companies and management is vital to our integrated approach, we also use experts to help us assess ESG risks. Talking to people who are at an arm's length to the company, including competitors, customers, ex-executives, and suppliers, helps us remain balanced in our ESG analysis.

These individuals make up a group that we call our expert networks, which is Burgundy's largest annual research expenditure. Last year, we conducted more than 500 one-on-one calls and reviewed more than 1,000 expert call transcripts. In this year's report, we share examples of how expert networks helped us assess social media's impact on society and how carbon offset credits are impacting the consumer products and transportation industries.

Proxy Voting

To ensure that corporate decisions are made with the long-term interests of all stakeholders in mind, and we have considered this our duty since we were founded. Here, Burgundy casts a ballot on behalf of our clients around various shareholder resolutions such as the election of the directors and capital allocation discussions.

Last year, we voted in roughly 430 meetings. Increasingly, we are seeing environmental and social resolutions being put forward by other shareholders. This is another opportunity for us to send a message to the management team. This year's report highlights the significance of proxy votingby sharing how our regional teams consider ESG factors when casting their votes. Examples include reporting on greenhouse gas (GHG) emissions, disclosure and enhanced oversight/risk controls for large-cap technology, as well as formally disagreeing with a proposed acquisition.

> "Burgundy will continue to reflect and adapt to do what is best for you, our clients."

Looking Ahead

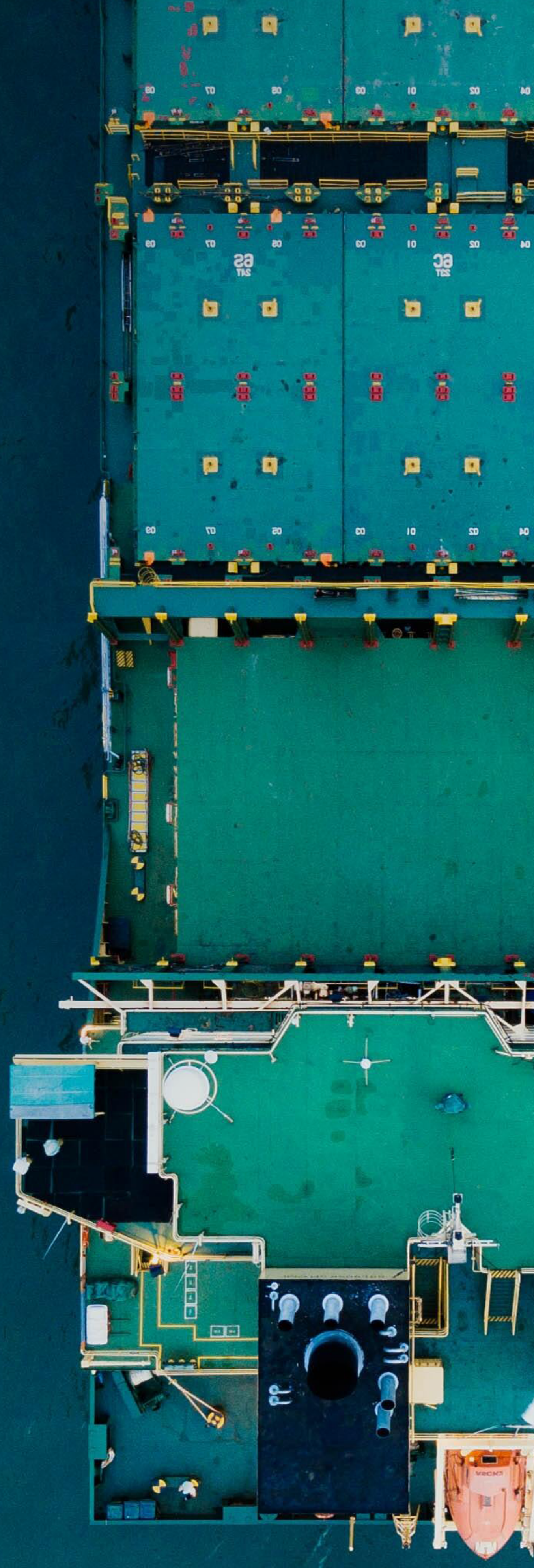
At Burgundy, our primary objective to our clients is to deliver attractive, risk-adjusted long-term returns. To this end, we think it is our responsibility to incorporate all factors, including environmental, social, and governance factors, in our perpetual pursuit of building portfolios of quality companies.

Since 2019, we have been signatories of the United Nations Principles for Responsible Investment (UN PRI), which has helped us further refine our ESG integration and engagement approach. In June 2022, Burgundy reached another milestone in our ESG journey when we formed a dedicated Sustainability team. Led by Jaclyn Moody, Vice President, Head of Sustainability & Institutional Services, and Yasin Salyani, Analyst, Sustainable Investing, the goal of this team is to support Burgundy's ESG integration process by providing a dedicated resource to the investment team for ESG-specific research and engagement and to serve as a centralized location at the firm for all matters relating to responsible investing and ESG. The newly formed Sustainability Advisory Council will govern the team. The Council is comprised of Burgundy's Chief Executive Officer, Chief Investment Officer, Director of Research, and members of the Sustainability team, formalizing the governance structure and tying the team's efforts back to Burgundy's investment team.

As we consider our learnings from the past 12 months while looking ahead, we share the sentiment that we expressed in last year’s message: ESG continues to be an evolving area and, as in all aspects of our approach, Burgundy will continue to reflect and adapt to do what is best for you, our clients.

KEY POINTS FROM OUR
CARBON RESEARCH

- Where material reporting is available, greenhouse gas emissions for Burgundy's major regional investment strategies is "low" relative to respective market indices.
- Over the past year, we have learned about the regulated carbon markets from portfolio company Intercontinental Exchange Group and gained knowledge on the voluntary carbon markets through an industry expert.
- Burgundy’s focus on wealth-creating businesses aligns with relatively low carbon intensity.
- Our Portfolio Managers tend to find companies that are modest carbon emitters in the perpetual pursuit of quality companies.



Carbon Research Spotlight

BY: ANDREW IU, CFA
VICE PRESIDENT,
PORTFOLIO MANAGER,
DIRECTOR OF RESEARCH

Carbon is an ESG issue that we continue to study. Like all ESG factors, we have learned about carbon – its emission, its taxation, and its disclosure – through the eyes of our companies. This year, we studied carbon by analyzing company carbon disclosures, by speaking to one of our holdings (Intercontinental Exchange Group), and by talking with experts. Here are a few things we learned.

> “Our Portfolio Managers do not manage their portfolios with top-down carbon targets in mind. Portfolios are constructed from the bottom up, with the guiding principle of owning quality companies."

Emissions Intensity

“What’s the emissions intensity of my portfolio?” To answer this question for our clients, we compiled greenhouse gas (GHG) emissions for our major regional investment strategies. Unsurprisingly, large-cap companies in the developed world have the best disclosure, while disclosure in small caps, emerging markets, and Asia tends to be poor.

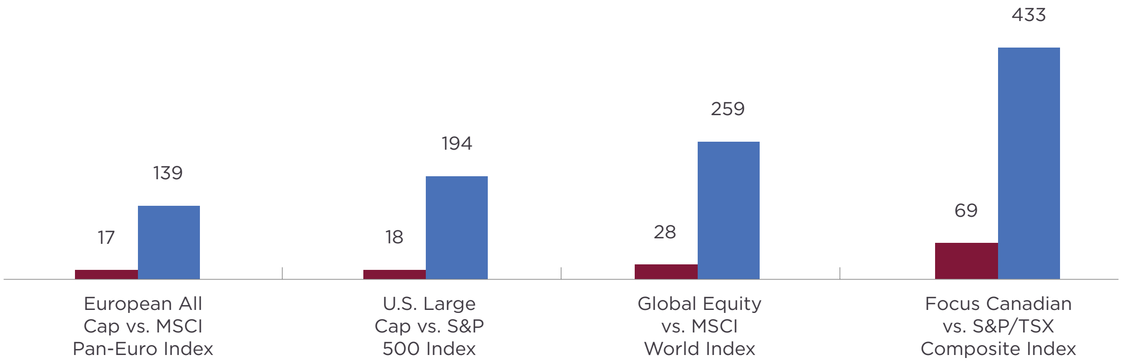
For our European, U.S. Large Cap, and Canadian Large Cap portfolios, there is sufficient disclosure by our companies to calculate an average GHG emission level per one million dollars of revenue generated. The answer to the emission intensity question for these three portfolios, as well as our broader Global Equity portfolio is “low,” at least relative to respective market indices. In Figure 1, we show the GHG emissions per one million dollars of revenue generated for these four portfolios against their indices.

While this is a satisfying answer, it is also a puzzling one. Our Portfolio Managers do not manage their portfolios with top-down carbon targets in mind. Portfolios are constructed from the bottom up, with the guiding principle of owning quality companies.

FIGURE 1

GHG emissions per Revenue*

(in tonnes per $ 1 million)



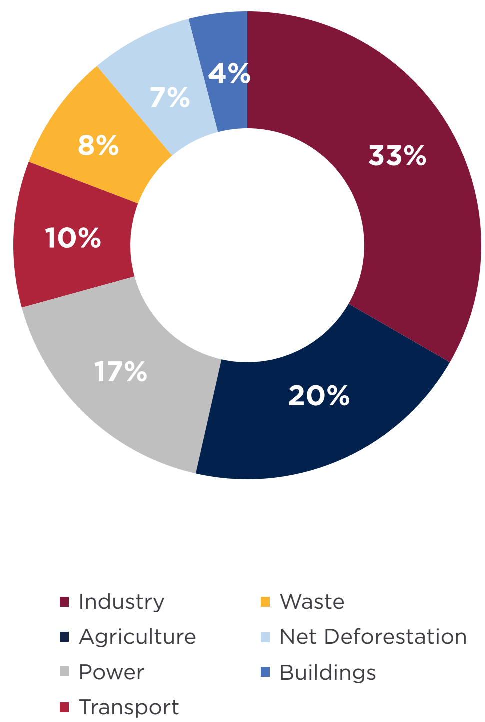
Focusing on wealth-creating businesses happens to align with relatively low carbon intensity. Our Portfolio Managers tend to find companies with competitive advantages and high returns on capital in industries that are modest carbon emitters.

Figure 2 is a breakdown of global GHG emissions by sector in a report compiled by Canaccord Genuity. "Industry" as referenced in red is the largest GHG emitter and includes sub sectors like steel production and petrochemical refining. Agriculture is the second-largest emitter, and power generation is third. These sectors are often cyclical, capital intensive, and commoditized, and therefore are not fertile hunting grounds for our investment team.

To further illustrate emissions differences by sector, Figure 3 and 4 is the Burgundy Global Equity portfolio compared to the MSCI World Index. For each sector, we show the average emissions intensity of the companies in that industry. This Burgundy portfolio is light on the most pollutive sectors (utilities, energy, and materials). By contrast, the places where our team spends the most time (Communication Services, Consumer Staples, Industrials, Information Technology, Health Care, and Consumer Discretionary) have smaller carbon footprints.

FIGURE 2

Share of yearly GHG emissions by sector



As at October 15, 2021

Figure 1 Source: *Burgundy research, Bloomberg.*

*Currency shown in U.S. dollars unless otherwise noted. *The highlighted regions for GHG Emissions per Revenue are those of material reporting (>40%) for both the Burgundy portfolio and respective index. Data for other regions can be provided on request. Methodology: A simple average for both Burgundy portfolios and indices was used to calculate the above. Greenhouse gas (GHG) emissions are based on scope 1 (direct) and scope 2 (indirect upstreaming activities) GHG emissions.*

Figure 2 Source: *McKinsey, World Bank, Canaccord Genuity as at January 2021*

Regulated Carbon Markets

In the Burgundy U.S. equity strategy, we invest in a business called Intercontinental Exchange Group, or ICE. ICE is mostly a futures exchange, but it has a budding business serving as a trading venue for carbon credits. In fact, ICE has 95% global market share in regulated carbon markets, which are markets where governments have imposed carbon emission limits.

In these markets, companies that over-emit relative to their quotas must buy carbon credits from lighter emitters, creating the need for a carbon credit exchange. Through ICE, we learned about how policymakers are attempting

FIGURE 3

Sector Positioning

	BURGUNDY GLOBAL EQUITY FUND	MSCI WORLD INDEX
UTILITIES	0.0%	2.9%
MATERIALS	1.1%	4.5%
ENERGY	0.0%	4.3%
INDUSTRIALS	14.4%	10.0%
REAL ESTATE	0.0%	2.8%
CONSUMER DISCRETIONARY	12.1%	11.6%
CONSUMER STAPLES	15.7%	7.0%
INFORMATION TECHNOLOGY	14.3%	22.5%
COMMUNICATION SERVICES	15.9%	7.9%
HEALTH CARE	12.9%	12.9%
FINANCIALS	10.9%	13.7%
CASH	2.8%*	0.0%
TOTAL	100.0%	100.0%

FIGURE 4

MSCI World Index GHG Emissions per Revenue

(in tonnes per $ 1 million)

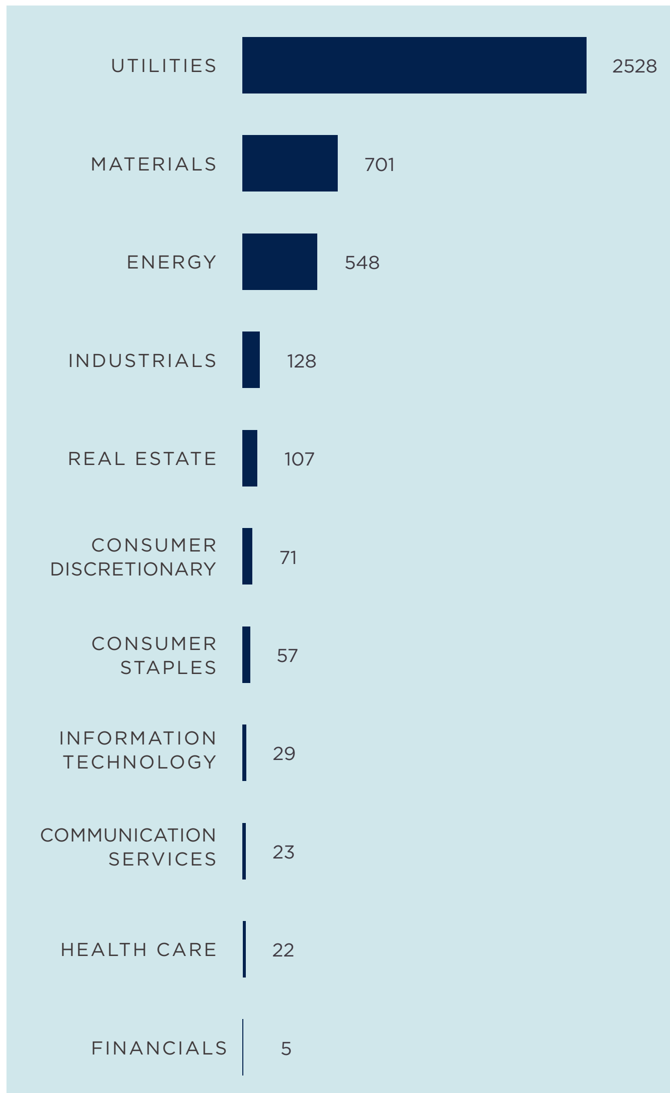


Figure 3 Source: *As at October 15, 2021. *Noted as portfolio's cash weight*
Figure 4 Source: *Burgundy research, Bloomberg, FactSet. Currency shown in U.S. dollars unless otherwise noted.*
Sector classification is based on GICS (Global Industry Classification Standard) as at March 31, 2022 ***Methodology:*** *A simple average for the index was used to calculate the above. Greenhouse gas (GHG) emissions are based on scope 1 (direct) and scope 2 (indirect upstreaming activities) greenhouse gas emissions.*

to reduce emissions, particularly in the dirtier industries we identified above. For example, the European Union and the state of California have the most rigorous cap-and-trade programs in the world, with both regimes targeting utilities and industrial plants. Other regimes may follow, creating cost uncertainty for companies in the utility and industrial sectors.

Voluntary Carbon Markets

A related trend is companies voluntarily purchasing carbon offsets. As a result of both consumer and shareholder pressure, there are more and more businesses committing to net-zero pledges. Net Zero Tracker reports that 695 companies have made this pledge, including Walmart, Apple, Alphabet, Microsoft, IBM, and other large enterprises. To deliver on the net-zero pledge, companies are increasingly purchasing carbon offsets because it is practically impossible to reach zero emissions on a "gross" basis. An ecosystem of carbon offset verification firms has emerged alongside trading venues like the ones ICE provides.

A common source of emissions for consumer products companies is transportation. To help us understand how these businesses are managing their transportation-related carbon footprints, we invited Stuart McAvoy to sit down with our investment team. Mr. McAvoy had a 42-year career at UPS, which culminated in managing UPS's carbon calculation and offset program. Stuart taught us that many consumer brands, such as Nike and Louis Vuitton, are buying carbon offsets through UPS to manage their carbon footprints, deliver sustainable products, and protect their brands. On a per-item basis, carbon offsets are not prohibitively expensive, so we expect more companies to follow this trend and demand this type of service from logistics providers, which is another industry we invest in across several geographies.

Final Thoughts

Improved disclosure around GHG emissions seems inevitable. The Securities and Exchange Commission is working on rules that require climate-related disclosures in the U.S., and other markets may follow. Based upon current disclosure, on average, Burgundy portfolio companies are below-average emitters in aggregate, but there are always outliers. The broadening scope of both regulated and voluntary carbon markets present potential risks for these outliers, which we remain vigilant of.

> Ultimately, the businesses that Burgundy selects are quality companies with strong management teams, and these businesses are the ones that will act thoughtfully and assess exposure to all risks."

KEY POINTS

Canadian Equities

- Engaged with companies like Enbridge Inc. and TC Energy Corp. on the risks and opportunities with the global energy industry's shift away from fossil fuels.
- Tracked gender diversity metrics of our portfolio companies, including CGI, relative to the S&P/TSX Composite Index.
- Engaged with CN Rail on the importance of prudent capital allocation and its impact on current profitability and long-term growth.

ESG IN ACTION

Canadian Equities

BY: DAVID VANDERWOOD, CFA

SENIOR VICE PRESIDENT,
PORTFOLIO MANAGER

Environmental

At Burgundy, we are constantly testing and assessing the long-term competitive positioning of all our holdings. In the case of North America's two largest energy infrastructure companies, **Enbridge Inc.** and **TC Energy Corp.**, this process is particularly important given that these businesses invest in and own capital-intensive and long-life assets in an evolving industry.

In an effort to combat climate change, the global energy industry is in the nascent stages of a massive structural transition away from fossil fuels to cleaner sources of energy. Very few companies will be left untouched by these changes, and there will be winners and losers that emerge over time. As such, our engagements with the management teams from both Enbridge and TC Energy have been centred around two key areas. First, understanding the potential risks to demand for services on their existing bases. This is the so-called "stranded asset risk." Related to this, we have also discussed the mechanisms that will allow these companies to earn an appropriate return on and of capital on the regulated asset bases.

Our second key area of analysis has been centred on developing a better understanding of longer-term opportunities that an energy transition may present for Enbridge and TC Energy. This has included dialogue with the respective companies about new or alternative uses for existing assets, emerging technologies, as well as areas where these companies can leverage their scale, cost of capital, and development and operating expertise.

We are confident that both companies will play leading roles in the renewable energy buildout over time. Enbridge, which is already a significant owner and operator of offshore wind assets in Europe, is poised to grow its renewable power portfolio significantly. TC Energy is taking a slightly different approach with a focus on solving some of the intermittency challenges of traditional wind and solar power generation through solutions like its proposed pumped storage project in Ontario.

> TC Energy is focused on solutions like its proposed pumped storage project in Ontario."

Social

One of the social factors we analyze within our portfolios is gender diversity. Over 85% of our portfolio companies report the percentage of women on their board of directors. This rate of disclosure is roughly in line with that of the S&P/TSX Composite Index and results in approximately 30% female representation. Where our portfolio companies can improve is on disclosure of gender diversity in the broader workforce. Only 25% of our portfolio companies report this figure, compared to 50% for the index. While this is partially a function of the lower-average market capitalization of companies in our portfolio compared to the index, we continue to encourage our portfolio companies to report these statistics so that we can benchmark and track their progress.

Over the last year, one example of engagement on this front has been with **CGI Inc.,** the leading provider of managed (outsourcing) IT, systems integration, and technology consulting globally. The company has a stated gender diversity target of 30% of employees, which is in line with the S&P/TSX Composite Index average. However, in 2021, the company reported that 33% of its workforce was comprised of women. As a result, we believed their target was out of date and too conservative, and we reflected this in the ESG score we gave to management. We encouraged management to increase the target to 50% and believe this is achievable over time.

CGI has a credible long-term strategy to accomplish this goal. By sponsoring STEM (Science, Technology, Engineering, and Math) Camp programs for high school and college students in demographics that are under-represented in the field (including minorities, females, economically disadvantaged students, and those with disabilities), the company is able to address its diversity goals at the ground level. Over 12,000 students have participated in these programs to date. Specifically, the **CGI** I.T. Girl Challenge, which is a mobile-app building competition for high school girls with the winner receiving post-secondary scholarship funds.

Governance

In late 2021, activist involvement in railroad company **CN Rail** caused us to engage with the company's management team on their strategic priorities. While we supported the incumbent management team, their growth strategy, and their technology initiatives, we felt that the pendulum had swung too far in the direction of investing for long-term growth at the expense of current profitability. Based on the points raised by the activist and feedback from meetings like ours, CN announced a 2022 strategic plan that included meaningful improvements in its operating margins, capital intensity, and capital allocation priorities. B

CGI'S GENDER DIVERSITY TARGET

We encouraged management to increase the target to 50% and believe this is achievable over time.

CN'S 2022 STRATEGIC PLAN

CN announced a 2022 strategic plan that included meaningful improvements in its operating margins, capital intensity, and capital allocation priorities.

Sources: *CGI 2021 Corporate Sustainability Report, Burgundy research, CGI's website*

KEY POINTS

Canadian Small-Cap Equities

- Analyzed carbon emissions disclosure despite the lack of disclosure in the small-cap space, including probing and engaging with company management of higher-carbon industries.
- Reviewed worker safety for industrial portfolio companies like Badger Infrastructure and Blackline Safety.
- Engaged with the board of McCoy and mdf commerce for greater shareholder representation.

ESG IN ACTION

Canadian Small-Cap Equities

BY: ANDREW IU, CFA

VICE PRESIDENT,
PORTFOLIO MANAGER,
DIRECTOR OF RESEARCH

Environmental

As part of Burgundy's carbon emissions research, we spent time analyzing the rate of emissions disclosure in our portfolio. Sadly, we found that only four of our holdings disclose carbon emissions. Of these, only two, Equitable (bank) and ATS **Automation Tooling System** (automation equipment supplier), are in low-carbon industries. The four that disclosed carbon were larger capitalization companies, suggesting smaller businesses may not have the managerial resources for carbon reporting yet.

Of the four companies with disclosure, **Enerflex,** an operator of emissions-intensive gas compressors, was the emissions outlier. After probing the management team, we learned that Enerflex is acutely aware of this issue and is making plans to electrify its compressor fleet over time to reduce emissions. Enerflex is also engaged in carbon capture and store projects, where its compressors are used to remove carbon from the atmosphere (this is still a modest business today). One company we engaged with for better disclosure was **K-Bro Linen.** K-Bro is an outsourced laundry operator that provides clean linens to hospitals and hotels and uses natural gas to power its washing and drying facilities. In our last management meeting, we asked K-Bro's team for information on the carbon footprint of its facilities. They provided some useful information which assured us that the company's footprint was not a major risk factor and said they are working on improving shareholder disclosure.

ENERFLEX'S CARBON DISCLOSURE

Carbon Capture

Enerflex's compressors are used to remove carbon from the atmosphere.

Social

Within social factors, worker safety was an area of focus this year. We reviewed our industrial holdings' information circulars in search of evidence of a safety culture at the management and board levels. Two of our six industrial holdings, **Badger Infrastructure** and **Mullen Group,** have a component of executive compensation tied directly to observable safety indicators.

Badger and Mullen both use recordable injury frequency as a driver of executive compensation as well as a mixture of other safety key performance indicators (KPIs). While Mullen does not disclose the magnitude, a meaningful 25% of executive bonuses at Badger are tied to safety. We were pleased to see this alignment between executives and workers at Badger and Mullen.

The other industrial holdings have board oversight functions that involve health and safety, but nothing as direct as Badger and Mullen. This is disappointing, although for some it may simply be because the workplace is less dangerous. For instance, Calian, another portfolio holding, is classified as an industrial but is largely a consulting and staffing business in healthcare, IT, and military training.

One company we think is benefitting from the rising focus on worker safety is **Blackline Safety.** Blackline provides connected gas detection devices to lone workers operating in hazardous environments like refineries and gas utilities. While we are not impact investors, we like the fact that Blackline is aligned with the broad societal push for safer working environments.

Governance

This year, we tried to engage with boards when we thought more shareholder representation was appropriate. In the summer of 2021, we suggested a director for McCoy's board because we felt the low valuation of the business warranted an exploration of strategic alternatives.

McCoy is an energy service business that suffered a significant drop in demand as drilling activity declined over time, culminating in the record low rig count through COVID-19. This pressure left McCoy trading at a fraction of its working capital. As a result of the new director's influence, McCoy announced it had hired a financial advisor in November to explore strategic alternatives.

More recently, we engaged with software business **mdf commerce** by suggesting two ex-technology executives as directors. We know one of these director candidates from our investment in VitalHub, where he leads the board's capital allocation committee. As mdf commerce focuses on organic growth and acquisitions, the company has been undergoing a board refresh, creating an opportunity for us to propose directors. B

WORKPLACE SAFETY

25%
for safety

At Badger, 25% of executive bonuses are tied to safety.

Sources: *Bloomberg, company filings, Burgundy research*

KEY POINTS

U.S. Equities

- Voted against a shareholder proposal brought to AutoZone that we believed would hinder its ability to work on its sustainability goals.
- Conducted calls with industry analysts and subject experts to better understand the digital content landscape and potential risks to Meta (Facebook) and Alphabet (Google).
- Engaged with Dollar Tree's management team and the independent committee regarding its pace of change and changes to the board.

ESG IN ACTION

U.S. Equities

BY: DOUG WINSLOW, CFA

VICE PRESIDENT,
PORTFOLIO MANAGER

Environmental

In 2022, we made the decision to vote "against" a shareholder proposal brought to **AutoZone**, a retailer of aftermarket automotive parts and accessories. The proposal requested that, within one year, AutoZone generate a report covering specific greenhouse gas (GHG) emission targets over the short, medium, and long term as well as operational and product-related emissions. It is worth noting that the specific requirements of any proxy proposal are evaluated and given due consideration.

Prior to voting, we spoke with the company's Chief Executive Officer (CEO) regarding AutoZone's ESG strategy and its ongoing work with a global energy management and ESG specialist. Over the past couple of years, we have seen AutoZone significantly enhance its disclosures and board oversight around its ESG efforts.

The company has also played a significant role in the disposal of used oil, automotive batteries, and other chemical products. In our discussion, the CEO explained the current process of developing short, medium, and long-term sustainability goals to us, which was initiated prior to the submission of the proxy proposal and included reducing GHG emissions and conducting an ESG materiality assessment to develop a multi-year roadmap. Our conversation gave us a clearer understanding of the company's position. In order for AutoZone to make more informed decisions on allocating its resources and determining its priorities, the company wanted to finish its current process.

"Over the past couple of years, we have seen AutoZone significantly enhance its disclosures and board oversight around its ESG efforts."

By voting against this proxy proposal, we supported the company's position. We felt it was better for all stakeholders if the company finished its current work on its sustainability goals, understanding that we could revisit the matter in the following year.

Social

Digital content consumption has created powerful business models, but it has also fueled discourse around its deleterious effects on society, including implications related to privacy, mental health, and user safety. Given our exposure to companies such as **Meta Platforms** (formerly Facebook) and **Alphabet** (Google), we are actively monitoring the situation.

As various stakeholders navigate this complicated and evolving topic, they are still in the early days of figuring out how to capture the positives of social media while reducing potential negative effects. Changes in the communication medium often create disruption, but the magnitude of this shift requires different solutions than in the past. So far, governments have struggled with this challenge. Of note, Facebook has requested additional regulation to provide more rules of the road.

Despite all the negative press, we think social media can provide several positives to society, including giving a voice to marginalized groups and improving responses to natural disasters. These outlets also allow small businesses to connect more efficiently with their targeted customer base.

We have had calls with industry analysts and subject experts to better understand the landscape and potential risks. To help promote greater accountability, we have voted on proxies in favour of more disclosures and enhanced oversight/risk controls. We do not expect the debate to subside soon, and we will continue to analyze information holistically. While we believe that the companies continue to make improvements, there is more to be done, and we expect our holdings to show leadership in the process.

Governance

While the discount variety store **Dollar Tree** has a long history of providing value for consumers, the company has experienced a few bumps in the road in recent years. Dollar Tree struggled with its acquisition of the Family Dollar banner and, more recently, was negatively affected by cost headwinds. We worried about the pace of change and evolution of the model, and we spoke with company management to share our thoughts on the opportunities for the business as well as areas requiring attention.

In December 2021, the investment firm Mantle Ridge proposed a new slate of board members for Dollar Tree, including Rich Dreiling, a distinguished retail executive who was previously CEO of one of Dollar Tree's competitors, Dollar General. Following this news, we wrote a letter to the board, believing that the Board was not adequately reviewing any proposals for change.

In an effort to share our views and better understand everyone's position, we also subsequently engaged with the independent board committee and with Mantle Ridge. In March 2022, Dollar Tree reached a settlement with the investment firm, adding seven new directors, including Rich Dreiling as Executive Chairman. This was a change we fully supported. B

> "To help promote greater accountability, we have voted on proxies in favour of more disclosures and enhanced oversight/risk controls."

Sources: *Company filings, Burgundy research*

KEY POINTS

U.S Small-Cap Equities

- Completed a tour of Armstrong World Industries’ facilities and were encouraged about the company’s goals around efficiency and sustainability.
- Analyzed and found investment conviction in Bridge Investment Group’s ability to expand its offering of affordable housing.
- Engaged with Jefferies Financial Group’s board on executive compensation and shareholder alignment.

ESG IN ACTION

U.S. Small-Cap Equities

BY: STEVE BOUTIN, CFA

SENIOR VICE PRESIDENT, PORTFOLIO MANAGER

Environmental

On a recent visit to the corporate campus of **Armstrong World Industries** (ceiling and ceiling-grid solutions designer and manufacturer) in Lancaster, Pennsylvania, one of the first things we noticed when walking through the nearby manufacturing facility was a large sign hanging from the ceiling with a line struck through the word "SCRAP" (think of the Ghostbusters logo). This was encouraging since we knew that Armstrong targets three perfect manufacturing efficiency goals annually and are always eager to see how this is implemented in the day-to-day operations. As it so happens, waste reduction and recycling play a critical role in these margin-expansion initiatives.

Early on, Armstrong realized that those environmental practices made just as much business sense as they did common sense. Simply by cutting down on waste, Armstrong can reduce costs and expand margins. From installing industrial size vacuums, to collecting and reusing sawdust, to having contractors ship back broken and discarded ceiling tiles to be recycled into new tiles, the reduction of waste has been a part of Armstrong's culture for years. By 2030, Armstrong is targeting a 30% absolute reduction in Scope 1 and 2 greenhouse gas emissions, a shift to 100% renewably sourced electricity, and a 50% absolute reduction in waste from operations.

With customers actively seeking LEED (Leadership in Energy and Environmental Design) and WELL-certified buildings, demand is increasing for more sustainably sourced materials and healthy space options. We anticipate that Armstrong's

ARMSTRONG BY 2030

30% Reduction

in Scope 1 and 2 greenhouse gas emissions.

50% Reduction

in waste from operations.

environmental initiatives will not only reduce manufacturing costs over time but drive increased demand for healthy and sustainable products. This should bolster Armstrong's market position as the industry leader and drive even higher margins over time as customers demand more premium products.

Social

Over the past year, we invested in the initial public offering of **Bridge Investment Group**, a private equity firm that invests in real estate. A portion of our thesis was predicated on Bridge's opportunity to expand its offering of affordable housing.

Specifically, Bridge launched its first Workforce and Affordable Housing (WFAH) fund in 2017 to invest in affordable rental housing communities where at least 51% of units are occupied by families earning less than 80% of the area's median income. This meets a significant and growing social need, as roughly 12 million households in the U.S. spend over 50% of their annual income on housing. Bridge's WFAH funds focus on preserving and rehabilitating older multi-family properties while offering community enhancement services such as on-site education, health, and employment services in partnership with non-profits like Project Access. The funds have been a success for both investors and tenants and have received several awards, including being named "ESG Private Markets Strategy of the Year" by Pension Bridge, "Social Fund of the Year" by Environmental Finance Sustainable Investment Awards, winner in the category of "Best ESG Investment Fund: Private Equity," and runner-up in the category of "Best ESG Investment Fund: Real Estate/ Property" by ESG Investing.

Moreover, Bridge was an early-mover in launching Qualified Opportunity Zone (QOZ) funds in 2019, which develops much-needed apartment stock in economically distressed communities that have been designated for tax benefits to promote economic development. These funds represent Bridge's first foray into real estate development (as opposed to investment in pre-existing structures), which will contribute directly to spurring economic activity in underinvested communities. With US$3.4 billion of assets under management in these zones, Bridge is now one of the largest managers of QOZ-focused investment strategies. Combined, Bridge's WFAH and QOZ strategies have grown to represent over one-third of Bridge's total AUM since they were launched in 2017 and 2019, respectively, and have significant opportunities for continued growth.

Sources: *Company filings, Burgundy research*

Governance

Led by CEO Rich Handler and President Brian Friedman, **Jefferies Financial Group**, the New York-based investment bank, has undergone a very impressive transformation over the years. We commend both executives for the incredible job they have done refocusing the business and positioning it to grow for the long term.

However, as is often the case in the financial industry, top executives at Jefferies are very well paid. We have engaged with the company's board of directors since 2014 on numerous items, but more specifically on top executive pay. We have provided as much input as we can to help ensure that if executives are going to receive above-average compensation, it should be linked with above-average performance that ultimately benefits common shareholders.

On this note, top executives at Jefferies have received the majority of their pay in the form of restricted stock units and performance stock units that vest over time. For example, since becoming CEO, approximately 69% of Mr. Handler's compensation has consisted of non-cash, equity-related securities vesting over three to five years. That same figure sits at approximately 72% for Mr. Friedman since becoming President. This compensation structure incentivizes Jefferies management to avoid optimizing for the short term, and instead focus on the kind of long-term value creation that we look for.

Additionally, Jefferies' CEO and President are two of the largest shareholders in the business and together own over 10% of the company's common shares outstanding. We take comfort in this alignment of interests, knowing that for management to win, all common shareholders must win alongside them. B

"We take comfort in this alignment of interests, knowing that for management to win, all common shareholders must win alongside them."

KEY POINTS

European Equities

- Engaged with Nestlé on its aggressive approach to reducing its carbon footprint and how it was impacting the financials of the business.
- Discussed the Chinese government's "common prosperity" initiative with Richemont's Chief Financial Officer and how it may impact the business.
- Investigated and discussed potential concerns related to Schindler's board and audit committee.

ESG IN ACTION

European Equities

BY: KEN BROEKAERT, CFA

SENIOR VICE PRESIDENT, PORTFOLIO MANAGER

Environmental

Nestlé, the multinational food and drink processing conglomerate, has been a core holding within the European portfolio for over two decades and is a leader in ESG. As part of our engagement process, we have spoken to the company many times on ESG issues. One area we have conducted considerable research on is Nestlé's approach to reducing its carbon footprint. We discussed the company's efforts recently during a one-on-one meeting with the CEO. Nestle's management team is taking an aggressive approach to reducing carbon emissions through explicit and measurable targets, including a 20% reduction in Scope 3 greenhouse gas emissions by 2025, a 50% reduction in that metric by 2030, and net-zero Scope 3 emissions by 2050.

We think this approach is commensurate with the expectations of Nestlé's customers and necessary to preserve the company's wholesome brand image. Unfortunately, the cost of meeting management's carbon footprint goals will be meaningful. This negatively impacted our assessment of Nestlé's intrinsic value, which contributed, in part, to our recent decision to trim our position in the company.

The above notwithstanding, when it comes to the Burgundy European strategy, we do not think that climate change poses a substantial risk to the competitive advantages or reputations of most of the companies in the portfolio or to our investment theses on them.

NESTLÉ IS TAKING AN AGGRESSIVE APPROACH TO REDUCING SCOPE 3 GREENHOUSE GAS EMISSIONS:

20% reduction by 2025

50% reduction by 2030

net-0 emissions by 2050

As a result of our quality/value-based investment philosophy, we tend to avoid companies where climate-related risks are the mostpresent, including capital-intensive manufacturing and commodity industries.

Social

We became shareholders in the luxury goods producer **Compagnie Financière Richemont** (commonly referred to as Richemont) in 2018 and since that time, we have been very pleased with the performance of the company as well as the stewardship of its controlling shareholder. However, Richemont derives a significant portion of its earnings from China (we estimate approximately 40%-50%), and we think this poses social risks for the company and the intrinsic value of its shares.

There is, in our view, some risk that the Chinese government could seek to significantly reduce the size of the luxury market in China over concerns that it has negative cultural externalities. The government's recent "common prosperity" initiative has heightened this risk. We are also concerned that Richemont might be forced to acquiesce to the Chinese government on political issues in a manner that offends Western values in general, and our values in particular. We recently discussed these issues with the Chief Financial Officer (CFO) of the company and conducted considerable research into the implications of the common prosperity initiative. We ultimately concluded that these risks are manageable within the context of our investment thesis on Richemont; however, we continue to monitor the situation closely for evidence that the risks are greater than we perceive them to be.

"Richemont derives a significant portion of its earnings from China (we estimate approximately 40%-50%), and we think this poses social risks for the company and the intrinsic value of its shares."

Governance

Elevator and escalator manufacturer Schindler has been a Burgundy holding for over 15 years. While reviewing Schindler's proxy circular ahead of casting our votes at the annual general meeting, we found two issues we felt garnered further attention. The first had to do with consulting payments to two board members, which we felt lacked sufficient disclosure. The second was that the chair of the Schindler's audit committee was also the company's former CFO. We addressed both of these issues during a meeting with Schindler's current CFO.

On the consulting payments, the CFO pointed out that the amounts were low and for legitimate expenses that the board members incurred on behalf of their work for the company. On the audit committee issue, he conceded that it is not ideal from an optics perspective, but that the board and controlling family trust the former CFO implicitly and believe he is well qualified for the role. While the families that control Schindler do not always follow conventional governance practices, their prudent long-term stewardship of the company and alignment with us are critical components of our investment thesis on Schindler. As a result, we are inclined to acquiesce to their judgement on these issues.

Sources: *Company filings, Burgundy research*

KEY POINTS

Asian Equities

- Engaged with Fuji Seal on how the company is finding new ways to make its products more environmentally friendly and more appealing to its customers' sustainability requirements.
- Analyzed the pandemic initiatives of New Zealand-based holding Mainfreight by reviewing the company's response to employee payroll and the government's wage subsidy program.
- Reviewed Japan Exchange Group's role in working to improve corporate governance practices in Japan, including formulating Japan's first Corporate Governance Code in 2015.

ESG IN ACTION

Asian Equities

BY: CRAIG PHO, CFA

SENIOR VICE PRESIDENT, PORTFOLIO MANAGER

Environmental

Fuji Seal is the leading supplier of shrink sleeve labels and labeling machines to global consumer packaged goods companies in Japan, the U.S., and Europe. Shrink sleeve labels fit perfectly to PET (polyethylene terephthalate) containers of any shape or size without requiring the use of adhesives. The perforation on the label also makes it easy to remove the sleeves from the containers prior to recycling, making the technology attractive from an environmental perspective. That said, if the labels are not removed prior to recycling, the quality of the recycled PET (rPET) that is produced is diminished. Low-quality rPET is a barrier to the development of a circular economy for PET products, which is expected to play a critical role in reducing the negative impact of single-use plastic on the environment.

We have engaged directly with management on this topic, and our findings are encouraging. For example, in 2019, Fuji Seal successfully launched its RecShrink line of shrink labels in its Americas division. Since RecShrink labels use washable ink and materials with higher melting points than traditional shrink sleeves, they can be recycled alongside PET containers without diminishing the quality of the rPET.

RECSHRINK LABELS

RecShrink labels use washable ink and materials with higher melting points than traditional shrink sleeves. They can be recycled alongside PET containers without diminishing the quality of the rPET.

RECYCLABLE PRODUCTS

2% Sales in 2021 — GOAL → 50% Sales by 2025

Fuji Seal's development and commercialization of RecShrink and other recyclable products will be critical to meeting its customers sustainability requirements, its goal of achieving a 50% sales ratio from recyclable products by 2025 (versus 2% in 2021)[1], and, ultimately, its ability to create shareholder value over the long term.

Social

Mainfreight is a leading third-party logistics service provider in New Zealand with operations in Australia, the U.S., Europe, and Asia. Specializing in high-value-added less-than-container load shipments, the company has an attractive mix of customers operating in predictable and defensive end markets and a distinct corporate culture that is entrepreneurial, customer centric, and performance driven. Through our regular engagements with the company, we have learned that a critical factor supporting Mainfreight's culture comes from management's fundamental belief that happy and motivated employees lead to happy customers, and, ultimately, happy shareholders. The positive outcomes that can accrue from adhering to socially responsible principles such as this was put on full display in the first year of the global pandemic.

Between March and April of 2020, freight volumes in New Zealand were down 40%, and the future operating environment was highly uncertain. Management made the critical decision not to furlough any of its employees while accessing the government's wage subsidy program to the tune of NZ$10.6 million as a safety net for the uncertain times ahead. When demand returned in relatively short order, the company was well-positioned to help its customers flexibly navigate the challenging freight environment, which is characterized by constrained capacity, surging demand, and elevated freight rates, while winning market share from weakened competitors. Unsurprisingly, Mainfreight paid back the wage subsidy in full, while providing its employees a cost-of-living increase and delivering on their well-earned profit-sharing bonuses at year-end2.

> "The Corporate Governance Code was revised in 2021 to better align with new market structure and promote a higher level of governance among Prime-Market-listed companies in particular."

Governance

Japan Exchange Group (JPX) operates one of the largest cash equities markets in the world and is largely a monopoly with approximately 90% share of trading, clearing, and settling of Japanese equities. JPX enjoys an entrenched market position, economies of scale, high regulatory barriers, a diversified stream of recurring revenues from its non-trading businesses (listing fees, data services), and attractive and resilient economics.

In recent years, JPX has played a crucial role working to improve corporate governance practices in Japan. In 2015, JPX formulated Japan's first Corporate Governance Code, establishing fundamental principles for effective corporate governance practices at listed companies in Japan (e.g., guidelines for the responsibilities of boards, treatment of shareholders and other stakeholders, transparent information disclosures). Starting in April 2022, JPX began restructuring the Tokyo Stock Exchange's (TSE's) four market segments (First Section, Second Section, Mothers, and JASDAQ) into three market segments (Prime Market, Standard Market, and Growth Market). Under this new market structure, companies have to meet certain initial and ongoing listing criteria related to liquidity, governance, and business performance. To increase the appeal of the Prime Market segment to global institutional investors, the listing criteria related to this market became the most stringent. The Corporate Governance Code was revised in 2021 to better align with new market structure and promote a higher level of governance among Prime-Market-listed companies in particular. The revisions call for enhanced board competency and independence, promoting diversity among management and employees, and improved ESG practices and disclosures. B

[1] Fuji Seal 2021 Integrated Report. [2] 2020 10 19 and 2021 10 16 Mainfreight Management Call Notes

Sources: *: Fuji Seal 2021 Integrated Report, Japan Exchange Group 2021 Integrated Report and Corporate Website, Burgundy Research, Company filings*

KEY POINTS

Emerging Markets

- Engaged with Yum China's management team and explored their plans to reduce greenhouse gases, water usage, and electricity usage within its operations.
- Investigated the social externalities of Chinese afterschool tutoring companies when considering the sustainability of the industry.
- Discussed acquisition plans with the Chief Executive Officer and Chief Financial Officer of Burger King Brasil and expressed why we, as shareholders, planned to vote against the deal.

ESG IN ACTION

Emerging Markets

BY: ANNE METTE DE PLACE FILIPPINI

SENIOR VICE PRESIDENT, CHIEF INVESTMENT OFFICER, PORTFOLIO MANAGER

Environmental

As environmental factors become an increasingly important issue for businesses, consumers, and the government, we incorporate them into our analysis of potential investments. **Yum China** is a leading quick-service restaurant operator in China. The company's strong focus on sustainability has proven to not only be good for the environment, but also good for business.

We have engaged with the company's management team and explored their plans to reduce greenhouse gases (GHG), water usage, and electricity usage within Yum China's operations. Over the last three years, overall Scope 2 GHG emissions have been reduced by 15%, hitting the company's 2025 GHG target five years early. This was done through various initiatives such as reducing plastic packaging, removing plastic straws, and moving to wooden cutlery versus plastic. The company has saved over 8,000 tonnes of paper and 1,200 tonnes of plastic annually over the last three years. Any plastic packaging that is used is 100% recyclable. Yum China is also targeting reduction in water usage per restaurant and has seen 20% reductions over the last three years through initiatives such as new dishwashers that save 0.9 tonnes of water per day and using thawing cabinets that use air versus water. Finally, the company has also reduced the average electricity consumption per restaurant by 15% with more energy-efficient equipment and lighting as well as intelligent stores that are using artificial intelligence to automatically switch off equipment and lighting. Within the supply chain, smarter route planning and more new energy vehicles will also help to reduce emissions and make the operations more sustainable. One strength of Yum China has been its operating efficiency and ability to manage costs. Through the reduction of water usage, electricity usage, and GHG, Yum China is also able to save money and drive greater operating efficiency.

Finally, the company has set out an ambitious target to have zero value chain GHG emissions by 2050. The company has regular sustainability committee meetings to find new ways to reduce its environmental footprint. Yum China's reduction in its environmental impact can result in substantial cost savings and help it to continue to deliver value to consumers.

> "Finally, the company has set out an ambitious target to have zero value chain GHG emissions by 2050."

Social

Social factors are important to consider when thinking about the sustainability of a business. Chinese **afterschool tutoring** (AST) companies provide tutoring services to help students prepare for the various levels of examination within the Chinese education system, the most important being the university entrance exam (known as the Gaokao).

For a long time, AST companies looked to be fantastic investments generating strong cash flows, high returns on capital, and a long runway for growth. However, upon closer examination and viewed through our ESG framework, we could not get comfortable with the social impact that these businesses had on Chinese society.

AST companies further fed the hyper-competitive environment in China and resulted in multiple negative social externalities. Parents felt squeezed from the increasing cost burden of their children's education, students felt extreme time and psychological pressures, the government saw an exodus of high-quality teachers from the public school system to these private institutions, and teachers would see exhausted students fall asleep in class. To us, it seemed clear that the only beneficiaries of these businesses were the investors. The negative social impact of AST was probably best encapsulated by a predatory advertisement we saw on Chinese social media that translated to: "if we don't train your kids, we will train your kids' competitors."

Eventually we saw new government regulation banning for-profit afterschool tutoring, which effectively erased these businesses from existence at substantial permanent loss of capital for investors. Our focus on the social risks within our potential investments allowed us to completely avoid investing in the sector. A key takeaway from this experience is that businesses should add value to all stakeholders over the long term and profitability should not come at the expense of one or more groups of stakeholders.

Governance

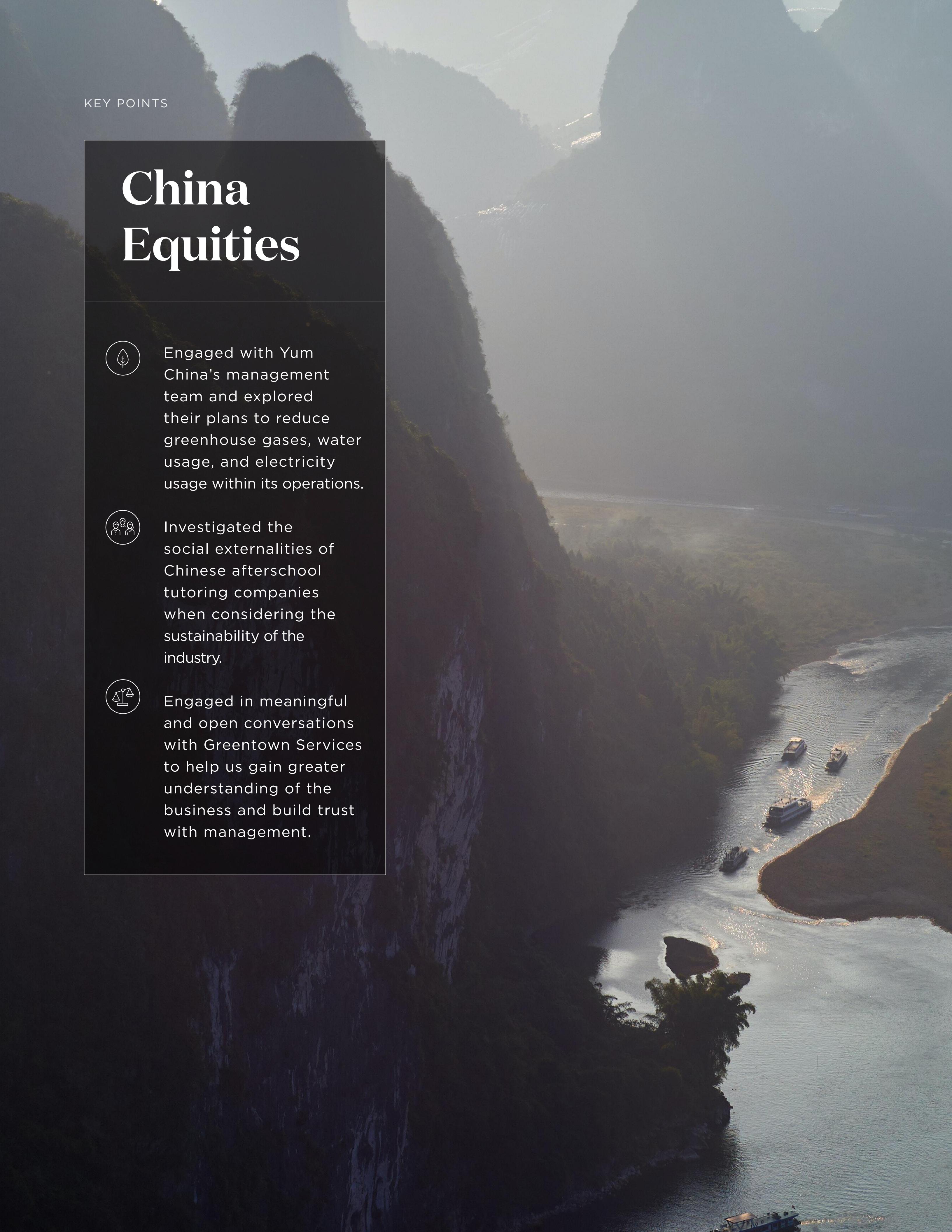
In 2021, we engaged with senior management at **Burger King Brasil**, the master franchisee for the Burger King and Popeyes brands in Brazil. The team has had an impressive run since 2011, reaching over 930 stores by year-end 2021 (second only to McDonald's in Brazil). More recently, the company navigated through COVID-19 and inflationary pressures in 2020 to 2021, increased operational efficiency, and created and scaled new digital channels and a loyalty program with millions of users.

In July 2021, Burger King Brasil announced the acquisition of the Domino's Pizza master franchisee in Brazil. Management planned to pay for the acquisition by issuing shares, assuming it was first approved by shareholders. After studying the target and the deal terms, we engaged with the CEO and CFO on multiple occasions and explained why we planned to vote against the deal. Our main concerns were (1) the disparity of the valuation implicit in Burger King Brasil's shares versus the valuation they were paying for Domino's, (2) the large dilution via share issuance at a time when we thought our stock price was severely undervalued, and (3) the deal would distract senior management from their main priorities, which we felt were increasing sales per store and improving delivery economics.

Thankfully, management decided to cancel the proposed deal even before publishing the shareholder meeting documents. This experience also brought us closer to management and we remain confident on management's ability to create value over the long term. B

> The negative social impact of AST was probably best encapsulated by a predatory advertisement we saw on Chinese social media that translated to: 'if we don't train your kids, we will train your kids' competitors.'"

Sources: *Yum China's annual ESG Report, company filings, Burgundy research*



KEY POINTS

China Equities

- Engaged with Yum China's management team and explored their plans to reduce greenhouse gases, water usage, and electricity usage within its operations.
- Investigated the social externalities of Chinese afterschool tutoring companies when considering the sustainability of the industry.
- Engaged in meaningful and open conversations with Greentown Services to help us gain greater understanding of the business and build trust with management.

ESG IN ACTION

China Equities

BY: CHING CHANG, CFA

VICE PRESIDENT,
PORTFOLIO MANAGER

Environmental

As environmental factors become an increasingly important issue for businesses, consumers, and the government, we incorporate them into our analysis of potential investments. **Yum China** is a leading quick-service restaurant operator in China. The company's strong focus on sustainability has proven to not only be good for the environment, but also good for business.

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Finally, the company has set out an ambitious target to have zero value chain GHG emissions by 2050. The company has regular sustainability committee meetings to find new ways to reduce its environmental footprint. Yum China's reduction in its environmental impact can result in substantial cost savings and help it to continue to deliver value to consumers.

Note: Due to crossover with company holdings, this section features many of the same examples from our Emerging Markets discussion

Social

Social factors are important to consider when thinking about the sustainability of a business. Chinese **afterschool tutoring** (AST) companies provide tutoring services to help students prepare for the various levels of examination within the Chinese education system, the most important being the university entrance exam (known as the Gaokao).

For a long time, AST companies looked to be fantastic investments generating strong cash flows, high returns on capital, and a long runway for growth. However, upon closer examination and viewed through our ESG framework, we could not get comfortable with the social impact that these businesses had on Chinese society.

AST companies further fed the hyper-competitive environment in China and resulted in multiple negative social externalities. Parents felt squeezed from the increasing cost burden of their children's education, students felt extreme time and psychological pressures, the government saw an exodus of high-quality teachers from the public school system to these private institutions, and teachers would see exhausted students fall asleep in class. To us, it seemed clear that the only beneficiaries of these businesses were the investors. The negative social impact of AST was probably best encapsulated by a predatory advertisement we saw on Chinese social media that translated to: "if we don't train your kids, we will train your kids' competitors."

Eventually we saw new government regulation banning for-profit afterschool tutoring, which effectively erased these businesses from existence at substantial permanent loss of capital for investors. Our focus on the social risks within our potential investments allowed us to completely avoid investing in the sector. A key takeaway from this experience is that businesses should add value to all stakeholders over the long term and profitability should not come at the expense of one or more groups of stakeholders.

Governance

Greentown Services is a property management company in China that is a core holding in the Burgundy China strategy. We were impressed with company's long-term oriented strategy and its philosophy of employee development (the company trains its service-oriented frontline staff to become managers) and its track record of providing high-quality service to tenants.

The company was also very receptive to shareholder engagement and open to hearing ideas from shareholders on how to continuously improve their governance functions. We were able to have an ongoing dialogue with the company on how to best present itself to investors and investor relations. This includes best practices that we have seen elsewhere in the world in the areas of investor materials and disclosure as well as how best to communicate with shareholders and the capital markets. We think that helping Chinese companies gain a better perspective on global business best practices within their investor relations efforts will allow global investors to better understand Chinese businesses and allow Chinese companies to improve and professionalize their investor relations efforts and disclosures. We were also able to engage with the company's management on capital allocation such as on dividends and share buybacks and how best to increase shareholder value especially during turbulent times in the Chinese real estate market.

Greentown Services views its shareholders as partners, and we have been able to engage in meaningful and open conversations to help us gain a greater understanding of the business and build trust with management. We have found they have been open to incorporating our suggestions. B

> "The negative social impact of AST was probably best encapsulated by a predatory advertisement we saw on Chinese social media that translated to: 'if we don't train your kids, we will train your kids' competitors.'"

Sources: *Yum China's annual ESG Report, company filings, Burgundy research*

Fixed Income

- Attended Wabtec's most recent investor day and learned about how the company's ongoing developments are part of a move to decarbonize the rail industry globally.
- Found conviction in Allied Properties' commitment to preserving heritage and culture in the communities it operates.
- Analyzed Stericycle's larger transformational changes to the company's governance structure and how it influenced the board in terms of independence and diversity.

ESG IN ACTION

Fixed Income

BY: JAMES ARNOLD, CFA

VICE PRESIDENT, PORTFOLIO MANAGER

VINCE HUNT, CFA

VICE PRESIDENT, PORTFOLIO MANAGER

Environmental

Westinghouse Air Brake Technologies Corp. (Wabtec) is one of the world's largest providers of equipment and components to the global freight and transit rail industries. The company holds a leading market share in many products that are core to the operations of rail networks globally. While attending Wabtec's most recent investor day, we learned some interesting developments that will lead to the decarbonization of the rail industry globally.

Wabtec's core business is to facilitate the movement of goods and people by rail, which helps reduce greenhouse gas (GHG) emissions. According to the American Association of Railroads (AAR), moving freight by rail instead of by truck can reduce GHG emissions by up to 75%. Trains are three to four times more fuel efficient than trucks, and one train can carry the equivalent freight of hundreds of trucks. As a result, despite accounting for 40% of U.S. freight, trains only produce 1.9% of U.S. GHG emissions. Wabtec is well-positioned to be an ESG leader in a space that is already an environmentally friendly mode of transportation.

One of Wabtec's core products is the locomotive, which is essentially the engine of a train. Currently, most locomotives are fueled by diesel gasoline. Despite being more environmentally friendly than trucking, burning diesel still emits harmful GHGs into the atmosphere. Wabtec is working towards reducing industry emissions though innovation. In 2021, Wabtec delivered the world's first heavy-haul 100% battery-electric locomotive. This is just one of many examples of innovative technologies that Wabtec is working on to help lead the industry to a zero-emission rail network in the future.

> "According to the American Association of Railroads (AAR), moving freight by rail instead of by truck can reduce GHG emissions by up to 75%. Trains are three to four times more fuel efficient than trucks, and one train can carry the equivalent freight of hundreds of trucks."

Social

Allied Properties is a leading owner, manager, and developer of Class I office properties in Canada, a distinct class of real estate created by re-using light industrial buildings located in urban markets. These properties have distinctive physical attributes, such as high ceilings, natural light, and exposed brick, and are located near central business districts, which makes them attractive to a diverse mix of tenants.

A core holding in our fixed income portfolios for many years now, we have spent a lot of time touring buildings and meeting with the company's management. This has led us to appreciate how Allied is shaping the communities its buildings are in. Since most of Allied's properties are former heritage buildings from the early 1900s that have been adapted to modern use cases, these structures must be managed in a way that commemorates history while also respecting the neighborhoods they reside in.

An example of Allied's commitment to these communities is the company's Make Room for the Arts program, which has been running since 2012. The goal of this program is to support the economic viability of local artists and increase the cultural and artistic vibrancy of the neighbourhoods where the company operates. Allied provides discounted temporary and permanent spaces for artists, hires artists to integrate art and culture into its buildings, and partners with institutions that support artists and artist communities.

Allied's commitment to preserving heritage and culture in the communities it operates has led to ownership in some of the most interesting office spaces in the city, which has helped attract high-quality, knowledge-based tenants like Google and Shopify.

Governance

A provider of regulated medical waste management and document destruction services, **Stericycle Inc**. serves more than one million clients worldwide, including hospitals, dental offices, pharmacies, and municipalities.

Back in 2019, Stericycle's governance structure underwent some large transformational changes. The business had recently gone through a tumultuous period resulting from aggressive pricing practices with some of its customers. As part of the turnaround, a new management team was bought in, led by CEO Cindy Miller, a former executive at UPS. We were immediately impressed with Cindy after meeting with her for the first time in 2019. She was firm in her view that to turn the business around, Stericycle needed to overhaul its balance sheet, internal enterprise resource planning (ERP) systems, and its governance structure.

Since 2017, Stericycle has added nine new directors to its board. The average tenure for a director is now less than four years after several long-tenured directors stepped down. There are now tenure limits on directors to ensure continued independence and fresh thinking. Eleven of 12 board members are independent, and the chair of the board as well as committee chairs are independent. Diversity is also a core component of the governance structure, with 30% of board members being female and 50% of directors being considered diverse by gender, race, or ethnicity.

Overall, we are very pleased with the changes that have been made to Stericycle's governance structure in recent years. The current governance practices we see reinforce our belief in the high-quality characteristics of Stericycle's business. B

Sources: AAR Sustainability Fact Sheet, Wabtec Sustainability Report, Allied ESG Report, Burgundy research, company filings

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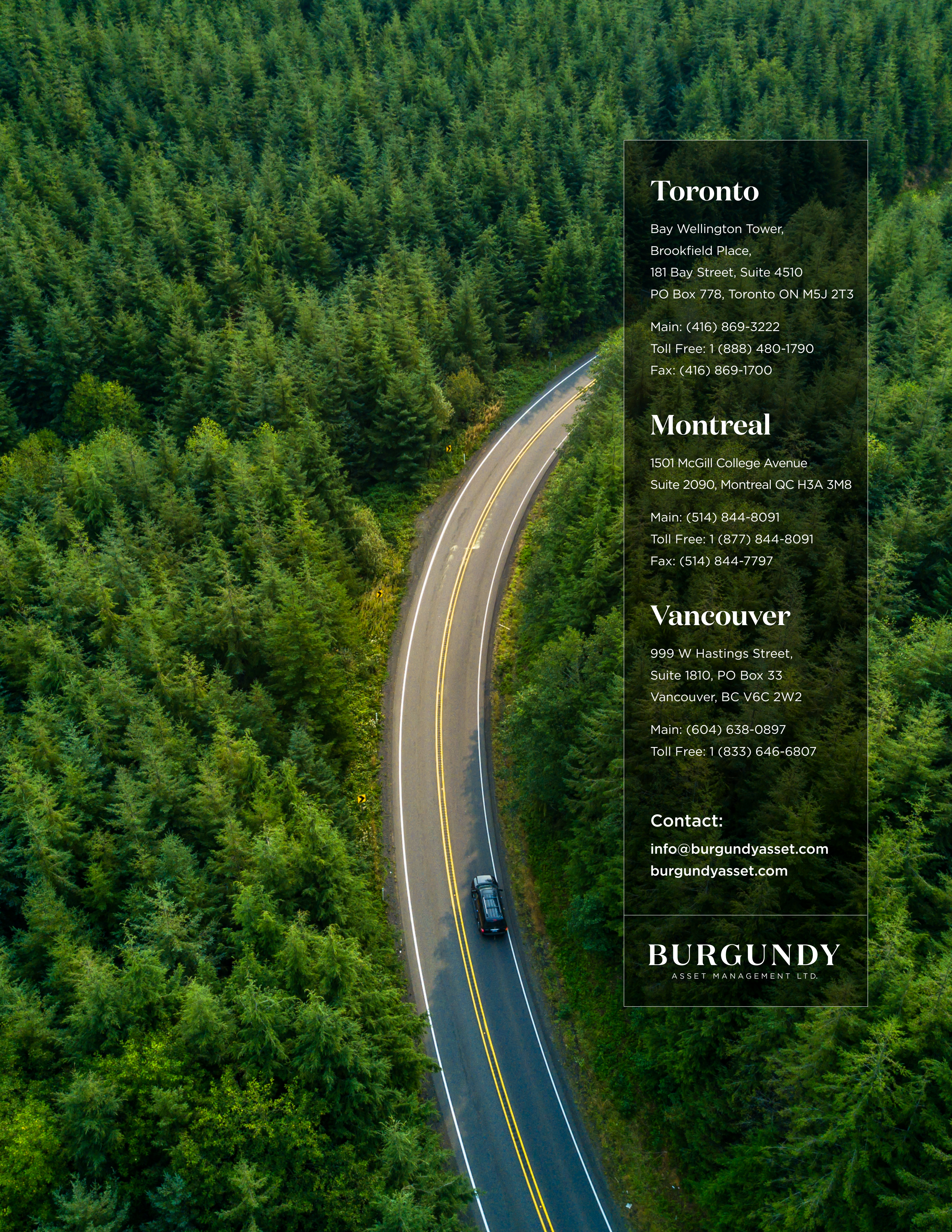

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