CARBON EMISSIONS UPDATE

Our Portfolios Compared to the Market

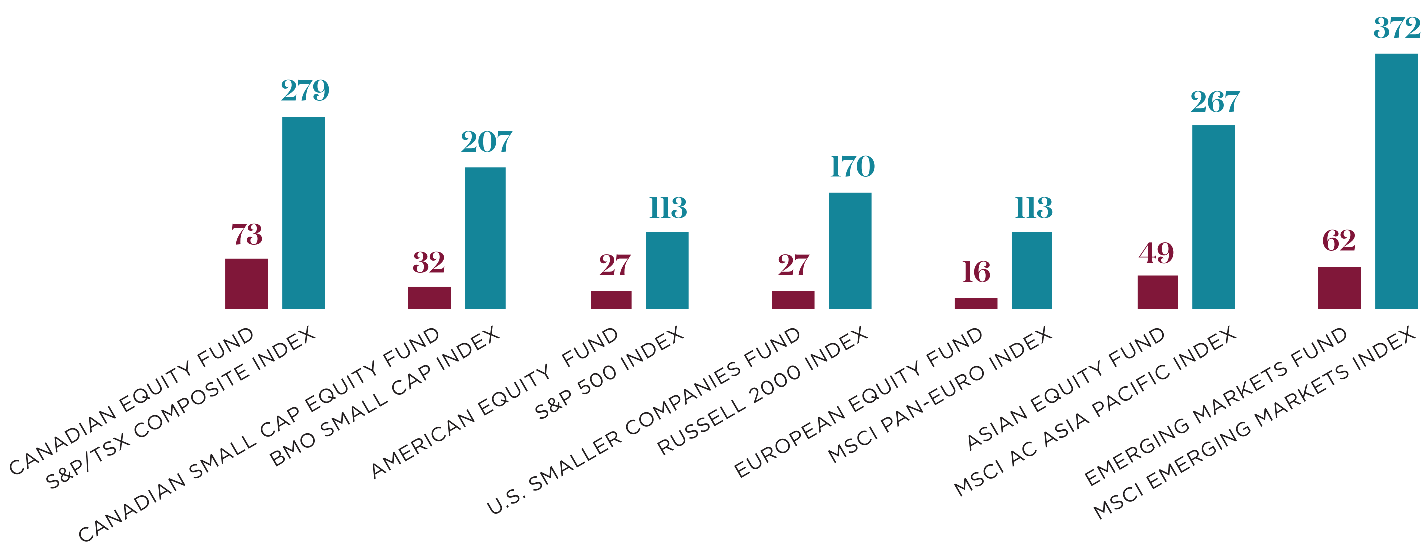
In last year's report, we showed you how some of our regional portfolios stacked up against their respective benchmarks with respect to their carbon footprint. Over the past year, we have been doing more work on collecting and analyzing carbon emissions data for our portfolios, which we would like to share with you.

Carbon emission data is generally reported using a metric called the weighted average carbon intensity (WACI). It measures the portfolio's carbon intensity per unit of revenue and is expressed as tonnes of carbon dioxide equivalent per million dollars of revenue (tCO2e/$M). This allows us to compare carbon footprints across different sized companies.

Figure 1 shows the WACI of our portfolios against those of the broader market as represented by their respective benchmark indices.[1] The chart captures Scope 1 and 2 emissions. Scope 1 emissions are direct emissions that occur from sources that are controlled or owned by the organization. Scope 2 emissions are indirect emissions associated with the purchase and use of electricity, steam, heat, or cooling by the organization.

FIGURE 1

Weighted Average Carbon Intensity of Burgundy Funds Compared to Benchmark Indices



[1]*Emissions intensity data as of September 30, 2023, sourced from Sustainalytics.*

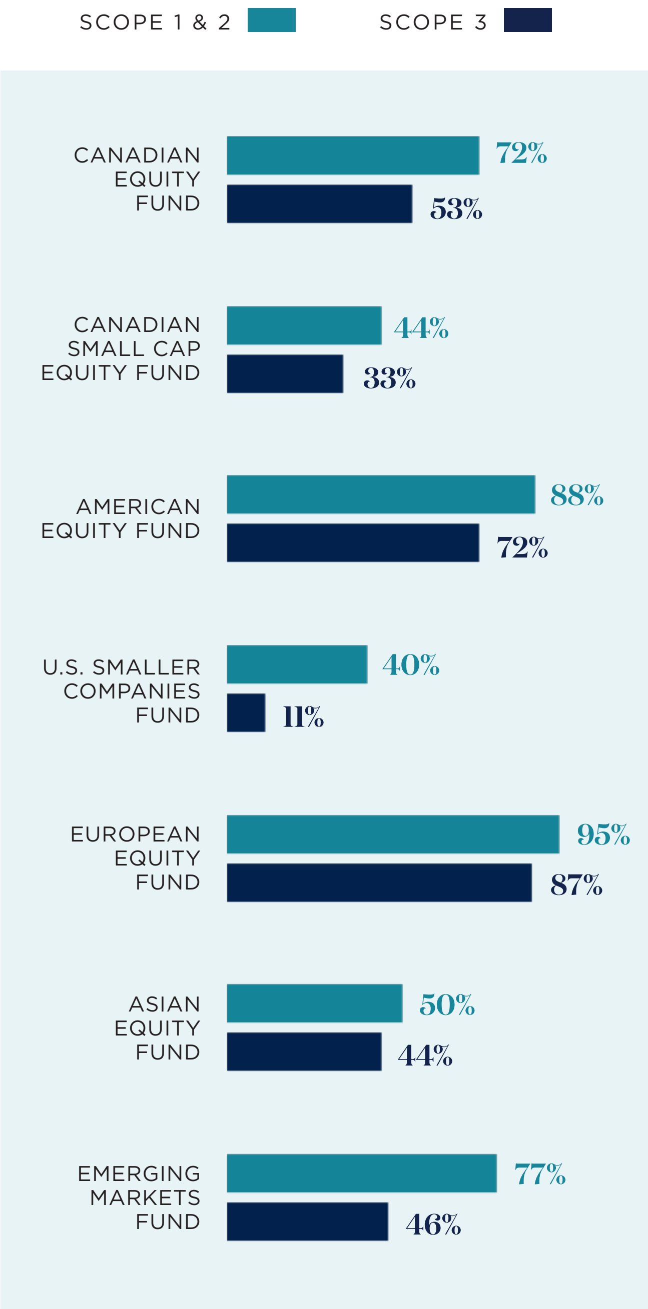
The data shows that our portfolios have much lower carbon intensity than the broad market indices. To generate a dollar of revenue, our companies emit about one-fifth of the carbon as companies in benchmark indices on average. This is a byproduct of our investment approach that focuses on investing in high-quality businesses. Our Portfolio Managers do not manage their portfolios with top-down carbon targets in mind; however, focusing on wealth-creating businesses that have strong economics and competitive advantages generally steers us away from upstream commodity-type businesses, which are often large carbon emitters. This approach aligns with relatively low carbon intensity. As you will see in the next section on carbon credits, reducing carbon emissions is a complex and costly undertaking which creates considerable risks for investors.

Carbon emission data can be broadened out to include emissions from activities and assets not owned or controlled by the organization, but that the organization indirectly impacts in its value chain. These are called Scope 3 emissions. Including Scope 3 data yields similar results to what we found in our analysis of Scope 1 and 2 emissions, with lower emissions in our portfolios compared to benchmark indices. Scope 3 data is, however, complex and costly to collect. As a result, many smaller companies do not measure or disclosure their Scope 3 emissions. Outside of European and U.S. large cap companies, less than half of our portfolio companies reported Scope 3 emissions (as shown in Figure 2).

Regulators and other stakeholders are, however, increasingly expecting companies to not only report on Scope 3, but also reduce their emissions from these sources in line with the 2015 Paris Agreement. We have been engaging with some of our portfolio companies to try to understand how they are approaching Scope 3 and dealing with challenges associated with tracking and reducing these emissions. We feature one such engagement (with Nestlé) in this report.

FIGURE 2

Percent of Companies Reporting Carbon Emissions Across Burgundy Funds



Source: Sustainalytics data, as at September 30, 2023.

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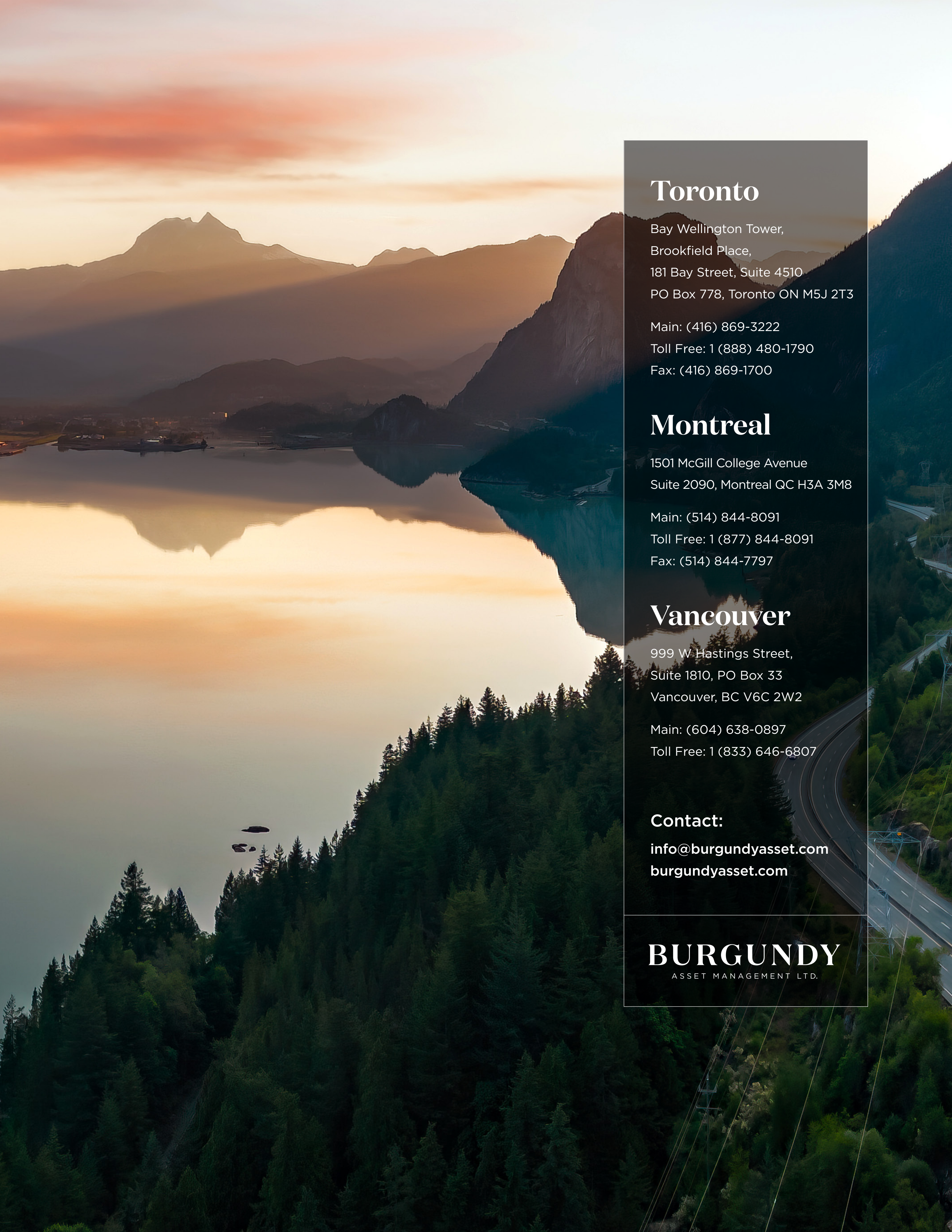

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