Company Engagements

This report features highlights from our engagements with:

- Mondelez International, Inc.
- Dollar Tree, Inc.
- Badger Infrastructure Solutions Ltd.

Engagement is a critical aspect of Burgundy's investment philosophy and process. Engaging with companies helps us better understand key issues and, in certain instances, allows us to influence outcomes, including those related to material ESG factors.

We engage with companies on ESG topics because these issues can have a material impact on their underlying fundamental value (what we call intrinsic value). Given the materiality, frequency, and complexity of ESG issues, Burgundy created an in-house Sustainability Team to assist our Investment Team with ESG integration and engagement.

The Sustainability Team works closely with our Investment Team to enhance our ESG-specific engagements with companies. This year, we researched key ESG issues for several companies within Burgundy's portfolios and selected engagement targets based on those with the most pressing concerns. Our process identified a diverse range of ESG issues this year, including climate change, employee health and safety, sanitation, labour relations, water stewardship, and regulatory risks.

Mondelez International, Inc.

Core Business:
Snack Food

Established:
2012 (Predecessor, 1824)

Headquarters:
Chicago, Illinois, United States

Mondelez is one of the world's largest snack companies, with a dominant position in chocolates and biscuits globally. The company was formed through the merger of Kraft's confectionary business and Cadbury. With iconic brands that include Oreo, Cadbury, Ritz, Chips Ahoy, and Milka, Mondelez has a strong worldwide presence, including in emerging markets, and a mix of leading local and global brands.

In our research, we identified key ESG issues that are important to our investment thesis. These include Mondelez's sourcing of cocoa, climate change, and the EU Deforestation Regulation. To address these issues, members of Burgundy's U.S. Equities and Sustainability teams met with Mondelez's Chief Impact & Sustainability Officer.

Sourcing of Cocoa

Cocoa is a key ingredient in many of Mondelez's products, accounting for roughly 10% of the company's cost of goods sold. Cocoa is a soft commodity, and historically, its price has fluctuated widely as production is concentrated in a few countries and impacted by weather, disease, and poor environmental and social practices. However, recent price volatility is unprecedented, with prices quadrupling over the past two years. We sought to understand how Mondelez is managing both this price volatility and its longer-term measures toward responsible cocoa sourcing.

We learned that the recent price increases have been driven primarily by environmental factors that have disrupted supply, while demand has held steady. The cocoa-growing region of West Africa, which contributes 60% of the world's cocoa supply, experienced extreme wet conditions followed by intense heatwaves and drought. This led to crop diseases, resulting in reduced yields and a significant drop in supply. Mondelez uses hedging instruments to mitigate the risk of short-term price volatility.

Cocoa production faces long-term structural challenges related to unsustainable environmental and social practices. In West Africa, the commodity is grown by smallholder farmers who cannot afford sustainable farming practices such as pruning, new tree varieties, and replanting, which can help fight diseases. Farmers have tended to abandon old farms and start anew in fresh forests, leading to deforestation. There have also been concerns about child labour and farmers not making a living wage. Mondelez has addressed these concerns by seeking to build a more resilient and sustainable cocoa supply through its Cocoa Life Program, launched in 2012. The program tackles the root causes of the complex, systemic issues in cocoa farming, including poverty, farm productivity, farmer incomes, child labour, and deforestation. It does so through initiatives like training farmers in sustainable agricultural practices, distributing cocoa seedlings, offering premiums for sustainably sourced cocoa, empowering women, promoting education, and offering financial incentives for forest protection.

In 2019, Mondelez set a target to source 100% of the cocoa it purchases through the Cocoa Life program by 2025. In 2023, the program had reached over 240,000 cocoa farmers and accounted for approximately 85% of the cocoa Mondelez purchased that year. The company's progress here is promising.

The cocoa supply challenge is complex and affects the entire industry. Through the leadership of its Cocoa Life program, we believe Mondelez is helping the industry transition to a more sustainable production model. We believe this will strengthen the cocoa supply chain, making it more resilient.

Climate Change

In addition to supply chain risks, climate change creates regulatory, taxation, and reputational risks for Mondelez. In our discussion with the company, we learned that Mondelez has four strategies for mitigating climate risk: (1) a net-zero target, (2) a no-deforestation target, (3) increasing regenerative agricultural practices, and (4) enhancing social sustainability and human rights. These strategies aim to mitigate the aforementioned risks, reduce Mondelez's climate impact, and build a more resilient, sustainable business.

A central focus of Mondelez's strategy is reducing emissions, which is designed to mitigate risks associated with climate regulations, carbon taxes, and the company's reputation with consumers and stakeholders. To guide its emissions reduction efforts, Mondelez has set an interim goal of cutting emissions across its value chain by 35% by 2030 (compared to 2018 levels) and achieving net-zero emissions by 2050.

We believe Mondelez has taken steps in the right direction to address the risks posed to the company by climate change. However, the company is still in the early stages of its climate action plan, and we will continue monitoring the company's progress toward its climate goals.

EU Deforestation Regulation

The EU Deforestation Regulation requires companies trading in commodities like cocoa, coffee, palm oil, soy, and their derived products to trace these commodities back to the farm to ensure they have not been produced as a result of recent deforestation. This regulation has the potential to increase costs for Mondelez, given its use of cocoa and palm oil in its products. The regulation was initially set to take effect at the end of December 2024, but the European Commission has recently proposed a 12-month delay.

From our conversation, we learned that Mondelez was well prepared for this regulation, largely because of its long-time focus on sustainably sourcing its commodities. Mondelez has been mapping its cocoa farms online since 2016 and uses satellite imagery to monitor the forests on Cocoa Life farms. For palm oil, Mondelez has been certified by the Roundtable on Sustainable Palm Oil (RSPO) since 2013 and published its Palm Oil Action Plan in 2014. By 2023, 99% of the palm oil sourced by the company was traceable to the mill, and 90% to the plantation.

We believe Mondelez is well-positioned for when the regulation comes into effect. We will continue to monitor this and other regulations that could affect the company.

Conclusion

Our conversation with Mondelez's Chief Impact & Sustainability Officer supported the company's claims of having diligent oversight of its ESG risks. We were particularly impressed that Mondelez is leading the industry in sustainably sourcing cocoa—an important consideration for the company. We are encouraged by the progress Mondelez is making on this front and across various other aspects of its operations. B

Dollar Tree, Inc.

Core Business:
Discount variety store operator

Established:
1986

Headquarters:
Chesapeake, Virginia, United States

Dollar Tree operates discount stores across the United States and Canada. It has over 16,000 stores under its Dollar Tree and Family Dollar banners and employs over 200,000 associates. Dollar Tree stores offer merchandise over a wide variety of categories, ranging from everyday items like beverages and cleaning supplies to smaller discretionary items such as seasonal goods, and party supplies. The customer proposition is based on a balance of convenience and value. In particular, the Dollar Tree banner is a unique retail concept with a strong track record that is currently being reinvigorated under new management.

In our research, we identified important ESG issues that are potentially material to our investment in the company. These include concerns about how Dollar Tree handles product recalls, distribution centre sanitation practices, employee health and safety, and labour relations. To address these issues, members of Burgundy's U.S. Equities and Sustainability teams met with Dollar Tree's new sustainability leaders, the Chief Sustainability Officer and Chief Ethics & Compliance Officer.

Product Recalls

Dollar Tree has had challenges with implementing product recalls at the store level in the past. Leaving recalled products on store shelves exposes the company to the risk of regulatory fines, consumer litigation, and reputational damage, all of which can be financially material. We sought to understand how Dollar Tree is seeking to improve its recall process.

We learned that Dollar Tree has taken the following steps to improve its execution of recalls:

IMPLEMENTED A STRIKE FORCE

- A designated group now convenes the morning after a recall notice to quickly assign roles in de-stocking the recalled product. This is an improvement from the previous process, where roles and responsibilities were unclear, and stakeholders were not responding quickly enough.

ENHANCED REPORTING AND ANALYTICS

- Recalling products from 16,000 stores is challenging. To address this, Dollar Tree has improved its inventory tracking system and instituted a post-recall analysis to identify gaps.

INTRODUCED THIRD-PARTY VERIFICATION FOR HIGH-RISK RECALLS

- For high-risk recalls, Dollar Tree has engaged external parties to visit stores and verify that recalled products are not present on store shelves or in backrooms.

We are pleased with the steps Dollar Tree's new management team is taking to improve the execution of its recall process, and we will continue to monitor its progress in this area.

Distribution Centre Sanitation

Dollar Tree has previously encountered issues with sanitation in its distribution centres, notably a rodent infestation at its Arkansas distribution centre in 2022, which led to its shutdown. Sanitation issues in distribution centres expose the company to regulatory fines, costs associated with recalling impacted products, consumer litigation, operational disruptions, and reputational damage. Dollar Tree agreed to pay a $42 million penalty to the U.S Food and Drug Administration (FDA) for the rodent infestation at its Arkansas distribution centre, for instance.

The company has acknowledged past shortcomings in safety and sanitation standards but is now taking steps to address these issues. One key initiative is the creation of the VP of Food Safety, Quality & Sanitation role, filled by an industry veteran with over 35 years of experience. This position leads a dedicated team focused on ensuring compliance with food safety, quality, and sanitation standards. Additionally, Dollar Tree has partnered with an independent, accredited certification body to conduct thorough audits of its U.S. distribution centres, all of which have passed the audit. Dollar Tree has also consolidated its pest management services with a single vendor to improve coverage and communication.

Like many retailers with a broad footprint, safety and sanitation standards are a significant challenge for Dollar Tree yet critical to its success. We believe that the significant investments in both personnel and process made by the new management should lead to improvements in Dollar Tree's distribution centre sanitation standards.

Employee Health & Safety

Dollar Tree has faced several Occupational Safety and Health Administration (OSHA) violations in its stores. Past violations, including blocked exits, obstructed access to fire extinguishers, and unstable stacks, have posed safety risks to employees and customers. Poor health and safety practices expose the company to regulatory, legal, reputational, and employee morale risks.

In recent years, Dollar Tree has taken significant steps to improve its safety performance by investing in the training and technology required to enhance the overall safety in its stores. The company launched its Comprehensive Approach to Store Safety (CASS) program in 2022, which follows established policies and standards to ensure compliance with OSHA regulations. Dollar Tree has also developed industry-leading data analytics to proactively identify stores that may require additional safety support and has put in place administrative controls to provide that support.

In response to the specific concerns identified by OSHA, Dollar Tree has set an expectation that all stores must comply with its S.P.E.E.D. guidelines—"S"- Stacking height no higher than eight feet and stable; "P" - Pathway clearance to all exit doors; "E"- Extinguishers unblocked; "E"- Electrical panels unblocked; "D" - Doors unblocked, unlocked and clear. In 2023, over 23,000 store audits were conducted, either through in-person visits or backroom cameras. The results revealed a more than 150% improvement in the company's S.P.E.E.D. compliance.

We are reassured by the new management team's focus on improving employee safety and its investments in this area. Store associates play a critical role in the overall store experience and ensuring their health and safety is essential to the success of the business. We believe initiatives like the CASS program and the S.P.E.E.D. message should help improve safety practices and reduce OSHA violations.

Labour Relations

Dollar Tree has experienced past challenges with labour relations, including issues related to wages, work hours, and rest periods. Poor labour relations raise the risks of employee litigation, operational disruptions, reputational damage, and high employee turnover.

Dollar Tree has acknowledged the need to improve labour relations and to ensure better compliance with wage and hour regulations. The company has shifted to a more proactive approach, focusing on prevention rather than reacting to issues. This includes establishing clear standards, policies, and procedures, providing training for both leaders and employees, and using data to monitor compliance. Additionally, Dollar Tree has increased wages, recognizing the link between wage levels, employee turnover, vacancies, and overall performance.

As with many other large retailers, Dollar Tree has encountered labour relation challenges. Nevertheless, we are encouraged by the steps the new management team has taken to address these issues. While this is a complex area, we think the company's more proactive approach should help it improve its labour relations.

Conclusion

Dollar Tree has faced challenges in areas such as product recalls, sanitation, employee safety, and labour relations in the past due to underinvestment and mismanagement. We raised these concerns because they are critical to the long-term position of the retail concept, its brand and reputation, and are material to Dollar Tree's intrinsic value. We are encouraged by the new management team's serious commitment to addressing these issues, as evidenced by their significant investments in people and processes. We will continue to track progress in these key areas.

Badger Infrastructure Solutions Ltd.

Core Business:
Hydro vac trucks

Established:
1992

Headquarters:
Calgary, Alberta, Canada

Badger Infrastructure Solutions is a Canadian company specializing in hydro vacs—trucks with powerful vacuums that remove dirt and enable construction crews to quickly dig trenches and bury pipes and wires. Badger is the largest provider of non-destructive excavating and related services in North America. This service is crucial for sectors such as construction, energy, and utilities, where precise and safe excavation is required.

In our research, we identified key ESG issues that could materially affect our investment in the company. These include Badger's use of water resources, waste management, carbon emissions, and employee health and safety.

To address these issues, members of Burgundy's Canadian Small-Cap Equities and Sustainability teams met with Badger's CEO, CFO, and Chief Sustainability Officer.

Water Stewardship

Water is a critical resource for Badger, as its hydro vacs rely on water to safely excavate soil surrounding critical underground infrastructure. Given that some of areas in which Badger operates, such as parts of California, are already experiencing high levels of water stress, the sustainable use of water resources is an important consideration. Excessive water usage exposes the company to risks such as conflicts with local communities, regulatory fines, increasing costs due to water scarcity, and reputational risk.

Badger's management team acknowledged this issue and is addressing it in two ways:

1. ESTABLISHING A WATER USAGE BASELINE

- This entails tracking water usage across its fleet, manufacturing facilities, and offices. Badger has engaged a third-party provider to conduct an analysis of its water usage and assist senior leadership in developing strategic recommendations for improving water stewardship.

2. EXPLORING THE USE OF AIR AS A SUBSTITUTE FOR WATER IN ITS EXCAVATION PROCESS

- The company has made significant investments in developing Airvac technologies, which eliminate the need for water during operations while offering the same non-destructive benefits as regular hydro vacs.

We believe Badger's management is taking meaningful steps to address the risks associated with its reliance on water resources. By establishing a baseline for its water usage, the company is laying the foundation for informed water reduction actions. We think the development of Airvacs could contribute to reducing Badger's water footprint over time as well. We will continue to monitor the development of this technology and track the company's progress in managing its water usage.

Waste Management

During soil excavation, the Badger Hydrovac produces slurries—a mixture of soil, water, and debris—that require careful handling and disposal. Improper disposal of these slurries can lead to regulatory fines, conflicts with local communities, and reputational damage, all of which can be financially material.

Badger's management has recognized this risk and taken steps to ensure slurries are recycled, treated, and stabilized appropriately based on their composition and in adherence with materials management regulations. To support these efforts, Badger has developed a system that evaluates client and third-party disposal sites for compliance with local regulations. The company also recently introduced an electronic bill of lading tool, which generates detailed reports outlining the composition, volume, location, and individuals responsible for the disposal of customer materials.

The use of Airvacs is also beneficial to Badger's waste management efforts since Airvacs extract dry soil, which can be used to refill the same hole or deposited on the same site, thereby eliminating the need for special treatment of excavation waste.

We are reassured by the initiatives and controls Badger has put in place to ensure that slurries produced by its Hydrovacs are safely disposed of. The combination of its risk management system, electronic reporting tools, and innovative Airvac technology demonstrates the company's commitment to improving its waste management practices.

Carbon Emissions

Badger's heavy-duty excavation fleet runs primarily on diesel, which is a significant emitter of carbon. High levels of emissions not only damage the environment but also expose the company to the transition risks of climate change, such as carbon taxes.

Badger is in the early stages of measuring its carbon emissions and developing strategies to reduce emissions. The company has engaged a third-party provider to improve its baseline reporting of Scope 1 and Scope 2 emissions, benchmark its current performance against peers, and develop recommendations to advance its decarbonization efforts.

Some of Badger's initiatives to reduce water usage and efficiently dispose of waste have also had a positive impact on reducing its carbon emissions. The use of Airvacs reduces the number of trips taken between client locations and regulated disposition sites, as the dry soil extracted by Airvacs can be recycled on the client site. Additionally, Badger's electronic bill of lading tool helps improve the routing and dispatching of its excavation fleet, resulting in lower overall emissions. Badger has also integrated hybrid pickup trucks into its light-duty fleet and is developing heavy-duty excavation vehicles that run on alternative fuels to reduce its emissions.

Despite these positive developments, we are disappointed by Badger's emissions reduction plan. We will continue to monitor Badger's progress in this area and assess the impact of its ongoing initiatives.

Employee Health & Safety

Employee health and safety is an important consideration for Badger, given the nature of the work and equipment used by operators. Poor health and safety practices not only put employees in harm's way but can also cause safety incidents, which can lead to operational disruptions, regulatory fines, employee lawsuits, and increased employee turnover.

Badger is the largest player in the industry, with a fleet that is more than 10 times the size of the next largest firm. Badger's scale enables it to run Badger University, a comprehensive training program that all its operators participate in. Through this training program, Badger operators are taught best-in-class safety behaviours and practices, instilling a culture of safety in the organization.

In addition, Badger has invested in the Lytx DriveCam system used in its vehicles. This system uses artificial intelligence and machine vision to identify and notify drivers of risky road behaviours in real-time. These instances of risky behaviour are recorded and used by managers to coach drivers on road safety best practices.

To reinforce its commitment to safety, Badger has linked part of each executive officer's bonus to three measures of employee safety: (1) recordable incident rate, (2) vehicle incident rate, and (3) behaviour-based observations. Badger's CEO reinforces the importance of safety by starting every investor earnings call with a discussion on employee safety.

We believe that Badger is taking the right approach to employee health and safety by being proactive. The company has demonstrated its commitment to this issue by linking health and safety metrics to executive compensation.

Conclusion

During our call with Badger's CEO and CFO, we were encouraged by their depth of knowledge and the emphasis they placed on ESG topics. We believe Badger has shown a strong commitment to addressing the ESG issues we identified in our research, and we will continue to monitor the company's progress on these and other ESG matters. B

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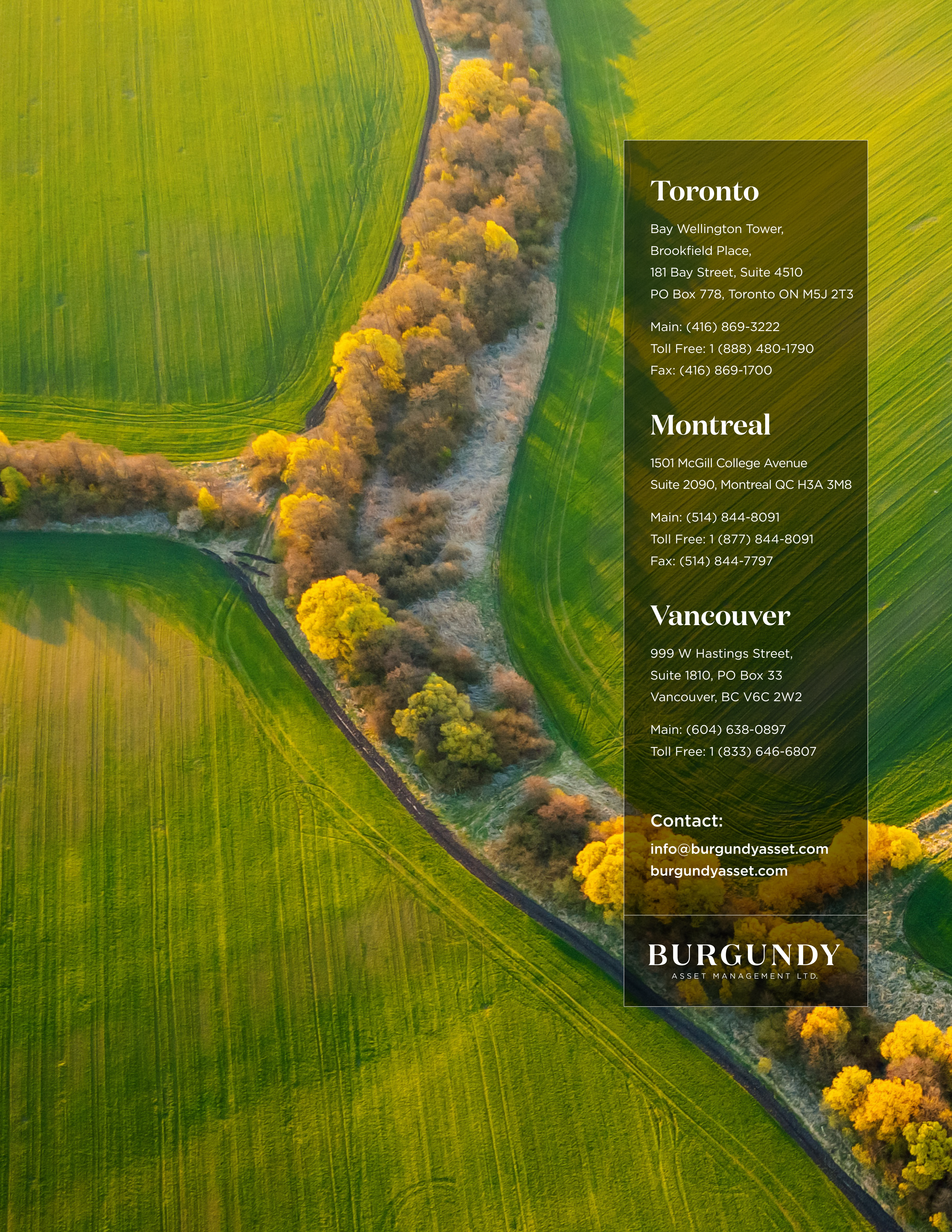

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