Craig Pho, CFA
Panelist
Senior Vice President,
Portfolio Manager,
Asian Equities

Ken Broekaert, CFA
Panelist
Senior Vice President,
Portfolio Manager, European
& Global Equities

Ching Chang, CFA
Panelist
Vice President,
Portfolio Manager, Emerging
Markets & China Equities

Caroline Montminy, CFA
Moderator
Vice President,
Investment Counsellor
(Montreal Office)

Investing Internationally - Is it Worth the Effort?

VIDEO #1: CONSIDERING THE GEOPOLITICAL RISKS: RUSSIA AND CHINA

Amid mounting geopolitical concerns in Russia and China, Ken, Craig, and Ching add context to the headlines, revealing what they are witnessing in their environments, and how they consider macro risk alongside portfolio management.

VIDEO #2: THE QUALITY "HEDGE" AGAINST INFLATION

With inflationary concerns top of mind, Ken and Craig define what quality means to them. They explore why businesses with competitive advantages and product differentiation may act as a hedge against inflation, regardless of the Fed's actions and broader economic activity.

VIDEO #3: EMOTIONS & EXPECTATIONS

Craig and Ching discuss how they rely on a well-tested investment process to manage their emotions and find opportunity. In addition, Ching explores today's low expectation and attractive valuation in the emerging markets.

VIDEO #1: CONSIDERING THE GEOPOLITICAL RISKS: RUSSIA AND CHINA

Caroline Montminy: Together, they've witnessed events over their careers, such as 30 years of deflation in Japan, the sovereign debt crisis in Europe, and the onset of a global pandemic in China more recently. I'd like to leverage their experience to ask for their perspective on a topic that's very top of mind today, geopolitical risks. There are a number of them at the moment and a number of them that are very concerning. The one that's perhaps most concerning at the moment is the invasion of Ukraine by Russia and the possible contagion to neighbouring countries, including countries that are members of NATO. I'll start my first question to you, Ken, if you can speak about the implications of this conflict for our European portfolio.

Ken Broekaert: Quite a relevant topic, and I'd say, overall, we are in a time period with probably more than a usual number of geopolitical and macroeconomic cross currents to think about. And this one with the Russian invasion of Ukraine is an especially sad one too for the Ukrainian people. So, I want to say that up front rather than getting straight to business on it, but I'll get to business on it too. Our European portfolio has been through a number of difficult times. Anne Mette spoke a long history of difficult times, but just in my time period, since 2003 at Burgundy, we went through the Global Financial Crisis, then we went through the sovereign debt crisis in Europe. A key thing that's helped us in Europe through all of this is that we own companies that are headquartered in Europe, but they have dominant market positions around the world. And just to share relevant statistic, more than 40% of the revenues of the companies we own in Europe on average are made in the Americas, 20% in Asia, and the remaining 40% are Europe, Africa, and the Middle East. So even Europe-wide, it's a headwind or a tailwind if Europe's doing well, but it's not all the business. They really do well all around the world. When it comes specifically to Russia/Ukraine, it's about 1% to 2% of the business of our European companies. So, it matters, but it's not thesis making or thesis breaking.

Indirect effects are the bigger deal to watch. One of those is that this is exacerbating the inflation issues that we already are seeing all around the world, from extra supply chain shortages, especially in oil and gas. And we'll probably get into this more on the panel, but a key thing with that, and we've mentioned it today, is competitive advantage and pricing power. We've got that with our European companies. That's a key thing during times of exacerbated inflation. The other key point I would say is the competitive advantage one is probably the most important with pricing power, but the resilience of our business models of our companies in Europe is also key. So that's where I would start.

Caroline Montminy: It's good to remind ourselves that our businesses in Europe are more resilient because they've diversified globally, but there are also global ramifications to the current conflict.

> **"…competitive advantage and pricing power. We've got that with our European companies. That's a key thing during times of exacerbated inflation."**

Everyone's watching China right now and what it's doing. And there are even some people who are speculating that there's a new world order coming and perhaps the successful trade relationship that has existed between China, Europe, and the U.S. could be untangling. So, Craig, you've been investing in Asia since 1998. What do you think about what's going on right now?

Craig Pho: Well, first, just to concur with others that have sort of noted this idea that uncertainty is always present. I started my career 23-some years ago. It was the Asian Financial Crisis. And I always say the only constant it seems in my career has been the constant of uncertainty. Things that are different and the same. What's different is it seems like these events are happening with greater frequency. And I don't know if this is central banks trying to minimize volatility and in fact are just creating more of it. But the things that are the same always are the feelings, the fear, the anxiety, the uncertainty raises the level of stress. And that is always the same with all of these events.

> **Is China perfect? Certainly not, but I think there's room for optimism as we look at what China's trying to do. And from our perspective as bottom-up investors, what we're ultimately trying to find are well-run businesses that can compound value over time. And from that perspective, the opportunity set is still very attractive within China.**

Now, the question on China. We would acknowledge that China's relationship with the West, and in particular the United States, is very contentious. And their actions leading up to the war by sort of announcing a partnership with Russia and their action or inaction since the war is only leading to more of this contentiousness. China's not alone, however, in their inaction. The United Nations voted recently to condemn the actions Russia is taking in Ukraine and five countries voted, no, which are all the global bad actors, Syria, North Korea, Iran, but 35 countries, including China, India, and probably governments that represent more than half of the world's population abstained. We don't know what this really implies, what this means, what the implications are, but the issues around the contentious relationship with China, whether it's trade, technology access, market access, capital access, and now this war, I don't think are going away. And what we need to make sure of is owning businesses that themselves think about the risks that their businesses face, the decisions of what to invest in and where to invest have to be well thought out. Risk has to be front of mind. We as investors think like that, but there are no easy and simple answers on this.

Caroline Montminy: Thanks, Craig. You've highlighted a number of issues related to China. Ching, does it even make sense to allocate capital to China in this context?

Ching Chang: I would agree with both Ken and Craig that we are in a more complicated world, and it is making our jobs as investors much tougher. In the context of China, it faces many of its own challenges in terms of aging demographics, in terms of overinvestment in real estate, in terms of increased regulation, and this increased antagonism with the rest of the world. But I think if you take a step back and you look at what's enabled China's success over the last 40 years, it's really the desire of its 1.4 billion people for a better life. And that desire has led to substantial entrepreneurial energy, and desire for higher incomes and higher consumption. And I think when we look at it, our view is government, despite all its flaws, is trying to deliver that better quality of life to its citizens. Is China perfect? Certainly not, but I think there's room for optimism as we look at what China's trying to do. And from our perspective as bottom-up investors, what we're ultimately trying to find are well-run businesses that can compound value over time. And from that perspective, the opportunity set is still very attractive within China. I'll give you some examples, both on the consumer side and industrial side.

This consumer and industrial upgrading we're seeing is leading to the emergence of many strong globally competitive Chinese brands. One example is a hotel group that we hold in our portfolio called Huazhu. This is a leading domestic hotel group that started in the economy segment, but has moved to the mid and high end as the consumer desire for better travel experiences emerged. Another example, on the industrial side, is a company called CATL, which is a leading global electric battery producer. That has over 30% global market share and is driving the adoption to a cleaner future with the electric vehicles. So, I think the opportunity set in China is still attractive. We are aware of the risks. We are aware of the challenges, but I think we also have to think about what are the possible paths that China can take to succeed over the next 10 years and what are the enablers, what are the companies that are going to enable that? And those are the companies we should look to invest in.

VIDEO #2: THE QUALITY "HEDGE" AGAINST INFLATION

Caroline Montminy: I'd now like to move on to very much a topic de jour on the macroeconomic front, which is inflation. The investor's mantra for the past couple of years has been, Don't fight the Fed (short for "Federal Reserve" in the United States). What this meant was you needed to invest aggressively while the monetary policy was loose. We're now witnessing a reversal of this phenomenon with a stark change in tone coming from the Fed and central banks around the world. Our clients here today are worried. Their expenses are going up and more recently they've seen the value of their portfolio go down. Should we follow the Fed? Should we invest more conservatively? And how does that impact your portfolios, your respective portfolios?

Ken Broekaert: Maybe I can start from my point of view on Europe. I think the answer might be a Burgundy-wide one, but we can see if everybody agrees. I don't think we have a point of view about whether the Fed's loose or tight, whether the weather's bad or good. Another Buffett saying or idea comes to mind that we don't want to try to out forecast others. We just want to build arks. What does that mean to us? What's the attributes of an ark in a company? I'd say one is balance sheets. So, we want companies that have not as much debt. We want conservative levels of debt. One direct way this helps in a time of inflation and rising interest rates is if you have more conservative debt levels, you don't have as much of a hit on interest expense or on your net profits or cash flows. Another key area that I touched on that we really want to reiterate is you need companies that really have a competitive advantage, that have the ability to increase prices with unexpected inflation increases. This lets them protect their profits, both absolute and the profit margin levels, and their cash flows over time. And another key element is just the nature of their business models.

In Europe, one of the things that we've always looked for are companies that have a lot of recurring demand and a lot of recurring revenue. And just to make it a bit real for you, one of our biggest stakes is in consumer staples companies. Some of the best ones in the world are headquartered in Europe. And if you think in times that are difficult, where consumers have stretched budgets because of inflation, or if it gets difficult economically, where are you going to cut your budget first? We don't think it would be your Nespresso coffee, or your Purina dog food, or your Unilever's Dove brand. It's not going to be Henkel's Persil laundry detergent. If you go into other categories, we have quite a reasonable stake in some world-class healthcare companies. If you're in need of medicine, you're not going to stop taking the innovative and patented drugs of Novartis, Roche, or Genmab. If you need to have ultrasounds, or CT scans, or MRIs, you're not going to avoid using Phillips machines that are in the hospitals. And if we go to another example of a company we've own for a while with SAP, it's a world-leader in enterprise business software. 75% of their revenues are contractually recurring, which are annual subscription and maintenance. So, companies where the core of their business runs on this software, it doesn't change whether times are good or bad.

Caroline Montminy: Thanks, Ken. It's always important to remember that inflation affects companies differently. Craig, do you have any examples in your portfolio?

Craig Pho: In the first panel, I think people talked on this idea of quality. Quality in a business to me means the success of that business is not dependent upon whether the Fed tightens or loosens, or whether it's a strong economy or a weak economy. We want success to be determined by competitive advantage, by product service differentiation. These are controllable factors within the realm of managements, and we can find them. There are not a lot of them but one example in the portfolio would be a company like Komatsu, which maybe you would know as a maker of large construction and mining equipment – think dump trucks, bulldozers, and excavators. You might think it only succeeds when there's a strong economy and when commodity prices are doing well. But in fact, more than half of the business and a much more profitable part of the business is recurring parts, maintenance, and service. So, this is a company that regardless of what the Fed is doing, or whether the economy is strong or weak, does well. And as the install base of its equipment grows, so too does that recurring revenue that is quite reliable and quite profitable.

VIDEO #3: EMOTIONS & EXPECTATIONS

Craig Pho: I talked earlier about the feelings being the same all the time in tough times. We can't let our emotions, our disappointments, and frustrations interfere with good decision making and good solid portfolio construction. The best time to buy is always when it feels the worst. And I do feel we've never owned a higher-quality portfolio today. The idea of owning a small number of really high-quality businesses proves out over the long term. It has historically. I believe it will continue, but it's not reliable in the short term for some of the risks we are talking about today, there's just a greater level of uncertainty.

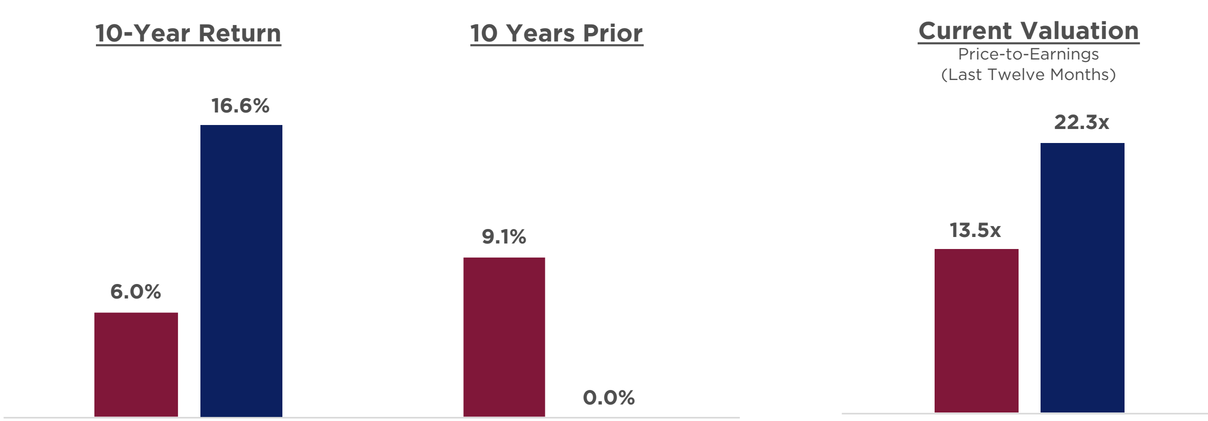
The process of looking for companies is well-tested and proven. We know how to find and identify good-quality businesses. And we own, as I said, the highest-quality collection of businesses in my career. So, I look at the current market, and I'm thinking in the back of my head what Richard and Tony were saying about being contrarian. There's a real opportunity today with knocked-down prices, to buy quality at much more reasonable prices. So, while it is frustrating to see these poor numbers currently, the future returns are likely to be better just because we've sort of taken it on our chin here recently.

Caroline Montminy: Important to keep our emotions in check as Rob alluded to in his speech earlier. Ching, emerging markets was an area where there was a lot of hype happening a few years ago, and returns have been disappointing for this asset class as well. Do you want to talk about your portfolio today?

Ching Chang: When we look at our portfolio, we do believe we have a set of very high-quality, resilient companies at very attractive valuations. But maybe taking a step back and putting it in a bit of context for you as we look at how emerging markets perform relative to the U.S., if you look at the last 10 years, emerging markets has only produced about 6% returns compared to much higher returns in the U.S. [see Figure 1]. So, we've been significantly disappointed in the returns and part of that has been disappointing growth, part of that's been currency. But I would say that if you look at it, the U.S. has not always been a leader in terms of return generation. And if you look at the decade prior to that from 2002 to 2012, the emerging markets actually significantly outperformed the U.S. And part of the performance in the U.S. we've seen over the last 10 years is driven by pretty attractive starting valuations, as well as earnings growth. And if you look at the valuation today between the emerging markets and the U.S., we see a substantial discount, and that's reflected within our portfolio as well.

FIGURE 1

The Potential for the Emerging Markets



As at April 30, 2022
Source: FactSet
Performance reported in Canadian dollars, gross of fees, and is annualized. Please note that past performance is not indicative of future performance, and investment results are not guaranteed. The expected return ranges do not consider unique objectives, constraints or financial needs, and investors should speak to their Investment Counsellor.

So, we feel that valuations are attractive. Expectations are quite low. I don't think anybody's really looking to invest in emerging markets today. Many of the risks that people feared are now out in the open, with increased regulation, with increased geopolitical uncertainty, and valuations have come down to reflect that. But I think with those low expectations and the attractive valuations, it doesn't take much for there to be upside surprise and hopefully better forward going returns.

Caroline Montminy: Thanks, Ching. I think we saw earlier how the U.S. has disappointed in the past, and I think this is the case for global diversification. You don't know what the leadership will be in the next five years.

FINANCIAL CONCEPTS - QUICK REFERENCE GUIDE

Active Investing/Passive Investing

Investors employing an active approach look to generate returns above and beyond an index – their goal is to create a portfolio that beats the markets. A passive approach involves creating a portfolio that mirrors an index (in terms of both stock selection and weight within the portfolio) in order to earn an index-like return.

Bull Market/Bear Market

A "bull" market signifies an upward-trending market and positive sentiment from market participants, whereas a "bear" market signifies a downward-trending market and negative sentiment or fear. They are named for each animal's motion of attack (the upward motion of a bull's horns versus the downward motion of a bear's claw).

Capital Allocation

How a company allocates its cash within the business. Examples would be to reinvest in the business, or to pay out cash to shareholders in the form of dividends.

Dream Team

A list of companies that embody the business, financial and management characteristics that Burgundy deems high quality, but their current market price does not offer enough of a margin of safety to warrant investing at this time.

Intrinsic Value (Valuation)

An estimate of a company's actual worth, based on in-depth research and both quantitative and qualitative factors. A company's intrinsic value may differ from its market price.

Margin of Safety

The difference between a company's market price and its intrinsic value. The lower the price compared to intrinsic value, the higher the margin of safety; conversely, the higher the price compared to intrinsic value, the lower the margin of safety.

Market Capitalization

Determines the financial "size" of a company. It is calculated by multiplying a company's stock price by the number of shares outstanding. Companies are often then categorized into small market capitalization (small cap), small/mid-market capitalization (small/mid cap) and large market capitalization (large cap).

Moat (Economic Moat)

Likened to a physical moat around a castle, an economic moat is used to describe the advantages a company possesses over its competitors. The more competitive advantages, the wider the moat.

Quality-Value Investing

Value investing encompasses a spectrum of styles. At one end, "deep value" (associated with Ben Graham) focuses on the companies that are significantly undervalued with less focus on the quality of these companies.

Watch List

A list of companies that do not yet meet the criteria to be deemed high quality but are worth monitoring for any changes that strengthen the business. If any companies are deemed at some point to be of high quality, we will invest (if the price is right) or move them to the Dream Team.

DISCLAIMER

This transcript of the Burgundy Forum 2022 is provided for information purposes only and is not to be taken as investment advice, a recommendation, or an offer of solicitation. Commentary, opinions and answers are provided by the speakers and authors as at May 17, 2022. Burgundy assumes no obligation to revise or update any information to reflect new events or circumstances, although content may be updated from time to time without notice. Any numerical references are approximations only. Forward looking statements are based on historical events and trends and may differ from actual results.

Investors should seek financial investment advice regarding the appropriateness of investing in specific markets, specific securities or financial instruments before implementing any investment strategies discussed. Under no circumstances does any commentary provided suggest that you should time the market in any way. Readers should be aware that there are risks associated with investing including, but not limited to, market risk, capitalization risk, liquidity risk, exchange rate risk, foreign and emerging market risk, political risk, investment style risk, concentration risk, credit risk, interest rate risk, derivative risk, large purchase risks, and redemption risks. Investors are advised that their investments are not guaranteed, their values may change frequently, and past performance may not be repeated.

Please note that the information provided via this transcript is not necessarily a balanced demonstration. As a result, the data relayed here may not necessarily be reflective of the corresponding data for the entire Burgundy strategy in question. Furthermore, any holdings described here do not represent all securities purchased, sold, or recommended for advisory clients. Please note that the information included herein does not entail profitability, and that this transcript does not provide the average weight of the holdings during the measurement period nor the contribution these holdings made to a representative account's return. Because Burgundy's portfolios make concentrated investments in a limited number of companies, a change in one security's value may have a more significant effect on the portfolio's value. A full list of securities is available upon request.

Securities of the Canadian pooled funds managed by Burgundy will not be sold to any person residing outside Canada unless such sales are permitted under the laws of their jurisdiction. Burgundy provides investment advisory services on a discretionary basis to non-Canadian persons and investors (including U.S. persons) where permitted by law. Prospective investors who are not residents of Canada should consult with Burgundy to determine if these securities may lawfully be sold in their jurisdiction.

Select securities may be used as examples to illustrate Burgundy's investment philosophy. Burgundy may hold, buy, sell, or have an interest in these securities for the benefit of its clients. Specific portfolio characteristics are for educational and information purposes only and may exclude certain financial sector companies, companies with negative earnings, and any outliers, as determined by Burgundy. Any views of select securities are the general views of the Investment team.

The Burgundy Forum is a private event hosted in Toronto, Canada for the firm's clients. This is not intended as an offer to invest in any investment strategy presented by Burgundy. Burgundy funds are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. For more information, please contact Burgundy Asset Management Ltd. directly.

Regarding distribution in the United Kingdom (UK), the content of this transcript has not been approved by an authorised person within the meaning of the UK Financial Services and Markets Act 2000. This transcript is provided only for and is directed only at persons in the UK reasonably believed to be of a kind to whom such promotions may be communicated by an unauthorized person pursuant to an exemption under article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. Such persons include (a) bodies corporate, partnerships and unincorporated associations that have net assets of at least £5 million, and (b) trustees of a trust that has gross assets (i.e. total assets held before deduction of any liabilities) of at least £10 million or has had gross assets of at least £10 million at any time within the year preceding this communication.

This communication is not intended for, nor available to, any organization that does not meet this criteria, or to whom it may not be lawfully communicated. Any such organization must not rely on this communication, whatsoever.

BURGUNDY

ASSET MANAGEMENT LTD.

TORONTO

Bay Wellington Tower, Brookfield Place
181 Bay Street, Suite 4510
PO Box 778, Toronto ON M5J 2T3

Main: (416) 869-3222
Toll Free: 1 (888) 480-1790
Fax: (416) 869-1700

VANCOUVER

999 West Hastings Street,
Suite 1810, PO Box 33
Vancouver, BC V6C 2W2

Main: (604) 638-0897
Toll Free: 1 (833) 646-6807

MONTREAL

1501 McGill College Avenue
Suite 2090, Montreal QC H3A 3M8

Main: (514) 844-8091
Toll Free: 1 (877) 844-8091
Fax: (514) 844-7797

CONTACT

info@burgundyasset.com
burgundyasset.com