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RESEARCH. COMES. FIRST.

What does it mean to conduct investment research today? In an age when information is instant and readily available, you may ask how Burgundy manages to sift through the relentless clutter of this seemingly unfettered access.

In this educational video series, Andrew Iu, Chief Investment Officer and Portfolio Manager, attempts to answer this question and others as he explores what deep fundamental research looks like today. He shares how Burgundy's investment team thinks about research, benefits from a regional focus, relies on collaboration, and differentiates facts from opinions.

VIDEO #1: A RESEARCH-FIRST INVESTMENT TEAM

Andrew breaks down Burgundy's investment philosophy, shares the importance of being long-term oriented, and provides an organizational overview of the investment team.

VIDEO #2: A REGIONAL FOCUS WITH CONTINUOUS COLLABORATION

Andrew shares the benefits of applying a regional focus, which includes agility and accountability, and discusses how collaboration is imperative to success.

VIDEO #3: DIFFERENTIATING FACTS VS. OPINIONS

Andrew explains how questioning unconscious and implicit biases, following the numbers, and seeking out a variety of opinions are all crucial to differentiating facts from opinions.

VIDEO #1: A RESEARCH-FIRST INVESTMENT TEAM

WHAT IS BURGUNDY'S INVESTMENT PHILOSOPHY?

Andrew Lu (AI): Burgundy's investment philosophy is one of quality/value investing, and what that means is we're trying to find a handful of exceptional companies, own them for the long term, and buy them at reasonable prices.

Three Pillars to Quality



Business



Managerial



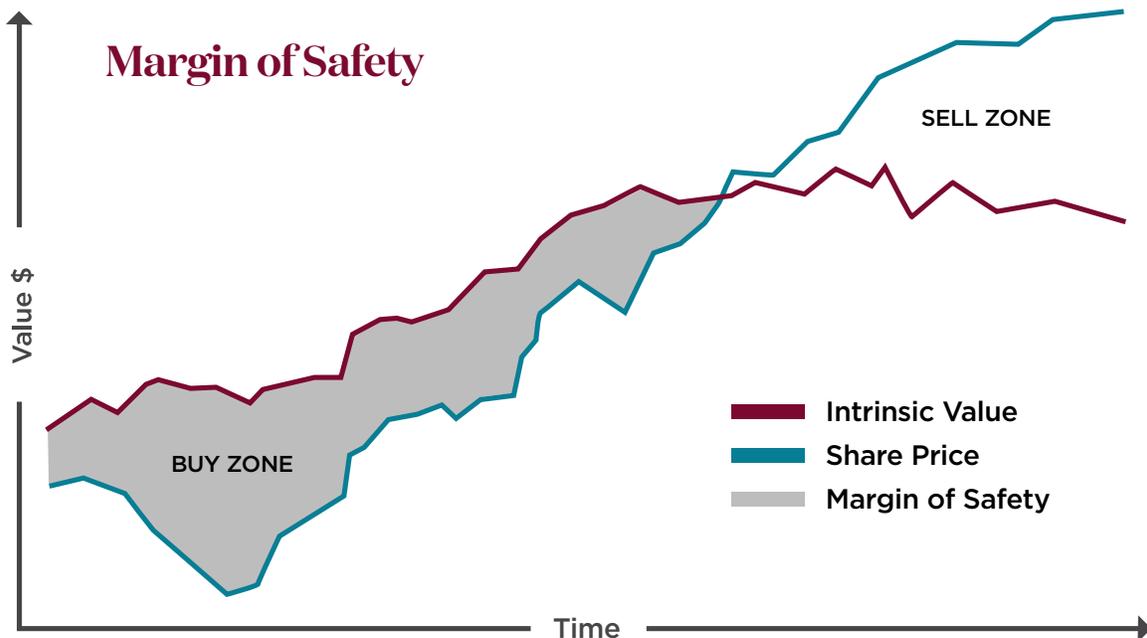
Financial

To us, quality's got three pillars: business, managerial, and financial. Within business, we're trying to find companies in attractive industries with strong competitive positions. Within managerial, we're trying to find companies led by honest

people with high integrity, high competence, and strong alignment with shareholders. And then within financial, we're looking for wealth-creating businesses. We're looking for companies that have strong returns on capital, wide margins, the kinds of things that reward shareholders.

So, what does it look like to put this into action? Each of our Portfolio Managers covers a universe of stocks. I'll just use myself as an example. My day job is covering **Canadian small cap**. There are 400 companies in that universe, and my first step is to try to rank those businesses in quality. So, what is the best business in the market? What is the 400th worst-quality business in the market? And everything in between. I'm oversimplifying it a little bit but that's what everyone's roughly trying to do. And then you take the top echelon of companies from a quality perspective, and you dive in and try to value them. You try to put what we call an intrinsic value estimate on all of those businesses. And the ones trading at a discount to intrinsic value give us what's called a **margin of safety**, which is our value approach. And that's how we select the top echelon of companies for our portfolio: Which ones give us the widest margin of safety?

The ones that we don't buy go on to our Dream Team. These are the companies that we think are high quality. We'd love to own them at the right price and when the market gives us an opportunity, we can add those to the portfolio.



As you can imagine, this is a never-ending process. Companies change, industries change, markets move up and down, so you're always re-evaluating: What are the best businesses, and what are the ones available at good prices?

HOW IS BURGUNDY'S TEAM ORGANIZED?

Burgundy's team is organized into small decision-making units. There's no committee to go through; there's no bureaucracy; it's a small decision-making team. Each team is headed by a Portfolio Manager supported by a handful of Analysts. Importantly, our Portfolio Managers are also Analysts. So, our Portfolio Managers (PMs) are doing all the things our Analysts are doing. They're reading filings; they're studying businesses; they're interviewing management teams; they're building financial models. So, they're acting as Analysts as well as managing the portfolio.

The fact that our PMs wear Analyst hats, we think, also gives us a number of advantages. One of those is that it keeps us squarely focused on our mission. We're trying to find a handful of really good businesses and own them for the long term, and because our PMs are also Analysts in the weeds studying companies, they're inherently focused on finding great businesses.

The other one is what we call the player-coach mentality. So, because each of our Portfolio Managers is also an Analyst, they're very well equipped to coach Analysts, to develop Analysts, and we think that enables us to have good long-term succession and develop Analysts into Portfolio Managers over time.

WHY IS IT IMPORTANT TO BE LONG TERM?

We think it's increasingly an advantage to be long term in an increasingly short-term-oriented world. Capital markets are incredibly competitive and because of that, you want to go where there is less competition. You want to go where other people are not and to stand apart from the herd.

Increasingly more and more investment firms are focused on shorter and shorter time horizons. They're focused on their companies' short-term earnings; their clients are focused on short-term results.

And because of that, there are less investors who are willing to hold good companies through difficult time periods. Every company goes through periods where it has a couple of poor earnings reports or goes through some kind of business interruption, and there are less and less funds who are willing to hold through that volatility. So, there's an advantage in acting long term. When a great company goes on sale because of a hiccup, we can act, whereas other investment firms may not be able to, because of our long-term time horizon.

It's hard to put together an investment firm that has a long-term time horizon. You need three interlocking long-term horizons. You need an investment philosophy, which is long term, which we have. You need investment professionals who are long tenured. It's no good to have a long-term investment philosophy if your investment professionals turn over every couple of years; they're not going to act long term. And then most importantly, you need long-term-oriented clients. It's no good to have a long-term philosophy and long-tenured investment professionals if clients are unwilling to ride with you through volatility.

1

Long-Term Investment Philosophy

Following the same approach for 30 years.

2

Long-Tenured Investment Professionals

14 Portfolio Managers with an average of 15 years at Burgundy.

3

Long-Term Oriented Clients

More than a quarter of our private clients have been with Burgundy for over 10 years.

Increasingly, there are fewer and fewer firms doing what we do, and that gives us an advantage. ■

VIDEO #2: A REGIONAL FOCUS

WHY DOES BURGUNDY TAKE A REGIONAL FOCUS?

Andrew lu (AI): Burgundy's been set up with a regional focus since our founding. Our prior Chief Investment Officer and co-founder **Richard Rooney** set us up with this structure, and we've compounded on it over the years, and it's worked really well for us.

In brief what that means is we're organized into regional pods. So, we have a regional team that covers Emerging Markets, for instance, a regional team that covers Asia, Europe, et cetera, et cetera.

We think this regional focus gives us two advantages.

Two Advantages to Burgundy's Regional Focus



Focus on the Best Businesses



Market Context

The first is that having a regional focus enables us to focus on the very best businesses in any given market. That stands in contrast to how a lot of investment firms are organized. Many firms are organized with sector specialists, with Analysts who cover metals and mining, and industrials, and so on and so forth, which has its advantages but to us the major drawback is that you're spending resources in sectors that may not have many or any really exceptional businesses.

Our sector-agnostic approach means that we can focus on the best businesses in any given market, regardless of the sector that they reside in. And our Analysts and Portfolio Managers, they live to find the next beautiful business model.

We've recruited many Analysts who come from other funds who are covering a specific sector, and intellectually they're

just so excited to be able to go wherever the best business models take them, regardless of the sector.

The other advantage is market context. If you've been investing in a market for decades, you have context that other people don't have and that enables you to make better investment decisions.

The best example I can give for this is my colleague, **Craig Pho**. He's been investing in Japan for over 20 years. In 2018, he reached his 20th anniversary covering Japan, so he hosted an investment off-site for our entire investment team to go to **Japan**. And while we were there, he introduced us to university professors; he introduced us to ex-executives; he introduced us to management teams; he introduced us to like-minded investors. I learned more in that week about Japan than I could ever have learned just reading about it. And I just think about the context Craig has, having spent over 20 years investing in that market, being a long-term investor there, the incremental context he has to make an investment decision when he decides to invest in a Japanese company versus someone who is just covering Japan peripherally.

WHAT DOES REGIONAL TEAM COLLABORATION LOOK LIKE IN AN INCREASINGLY GLOBAL WORLD?

One of Burgundy's great strengths is our regional team structure. It's nimble, it allows us to make quick investment decisions when there's an opportunity, and it allows for very clear accountability. There's a small team responsible for the results in any given market, so that's a great strength. However, increasingly, business is global. Companies are competing with each other across borders, so we have to make sure that our teams talk to one another so that we get the most out of what everyone is learning in their different markets. We go about that in a couple of different ways. The first one is our weekly investment meeting.

Forms of Regional Collaboration

- 1 **Weekly Investment Meetings**
- 2 **Business Model Discussions**
- 3 **Prolific Note-Takers**

And what you hear about is each team, what they're investing in, what they might be exiting, some business models they're studying, trends in those markets et cetera. It's very common to come to a Tuesday investment meeting and hear about someone buying a medical diagnostic company in China, and then to hear about someone buying a video game company in the U.S., and then to hear about somebody buying a food delivery company in Europe. So, you really get a really broad sample of different business models from all over the world every week.

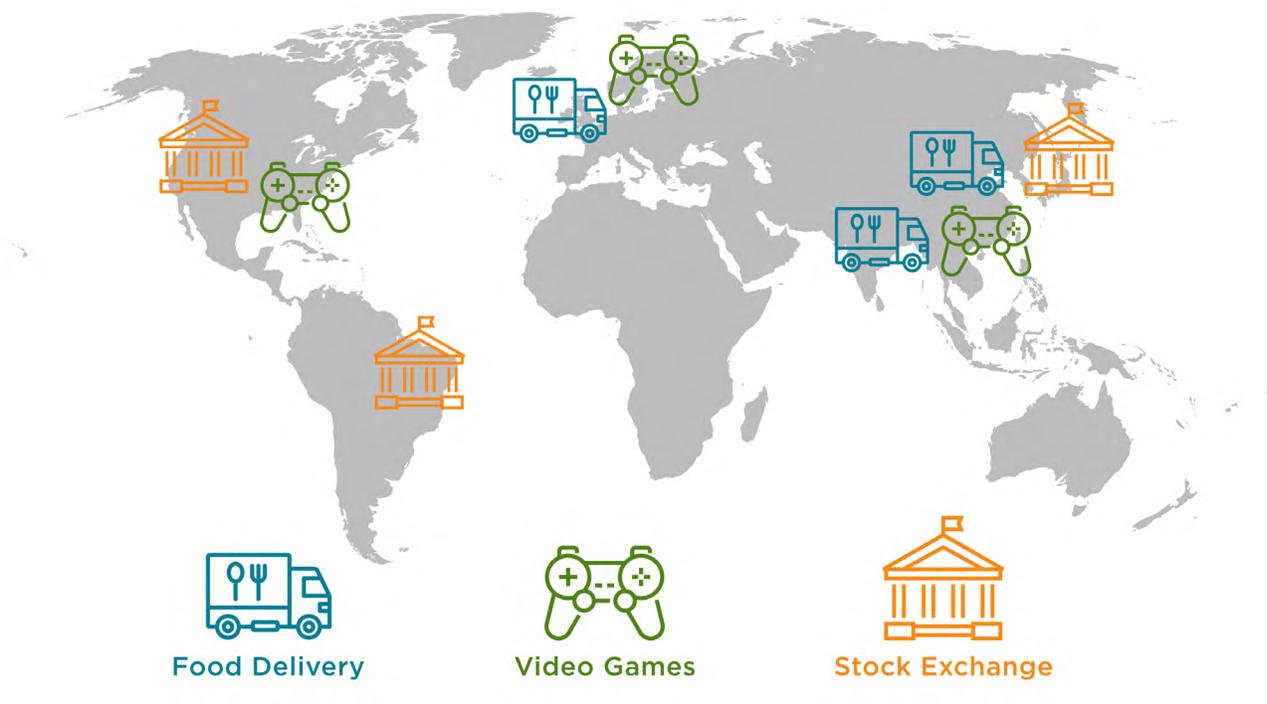
The other thing you get is trends in markets that might be ahead of your own market. A really good example of this is electric vehicles. So, China is far ahead of where North America is in electric vehicle penetration. We have two investment professionals who cover China, and they've spoken at length about how far advanced that trend is in China and what it means for the auto industry, which is very helpful if you're investing in North America and trying to see the future for the auto industry as an example.

To supplement that, we also have carve-outs where we take business models that recur across our geographies, bring

the Analysts together who cover those business models, and they do presentations for the broader team. So, for example, a few recent ones we did: We did one on food delivery companies where we own one in Europe and one in China, and we looked at an IPO in India. We did video game companies. We own one in Europe, one in China, and one in the U.S. We did stock exchanges where we own one in Brazil, one in the U.S., one in Japan. So, we find those very helpful because when you hear from three Analysts covering the same business model from different regions you tend to learn a lot.

The last thing I would say is that we've been doing this for a very long time, and our team is a prolific note-taker. We take notes on every management meeting we take; we take notes on every expert call we do.

So, if you reach out to somebody in a different geography who owns a company that is similar to the one you're studying and you ask them for their notes, sometimes you get back more than you bargained for. You get back, you know, half a dozen management call notes and four or five expert call transcripts, which is also very helpful for getting up the curve on studying that business model. ■



VIDEO #3: DIFFERENTIATING FACTS VS. OPINIONS

WHAT IS ONE OF THE BIGGEST CHALLENGES IN TODAY'S ENVIRONMENT?

Andrew Lu (AI): Separating fact from opinion is getting harder and harder. There is more disinformation out there in general, and the investment business is certainly no exception to that.

I think we're trying to manage that in a few ways. One of them is sticking to numbers in our investment decision-making process.

Numbers tell a story, and that story is usually closer to the truth. It's very common for our investment team to look at the last decade of financial and operating results for a company and study it. We'll go through it. We'll look for every major move. Why did revenue go up this year? Why was there bad free cash flow conversion this year? Why were margins down that year? And then when you step back and you look at that collage, it tells you a story and that story from the numbers is often closer to the truth. So that's one thing.

A second thing we're doing is to sanity check what we hear from management teams.

A big part of what we do is sitting down with management, having a conversation with them, and trying to learn: What are their strategic priorities, their business plans? And that's all good and well and very useful in its own right, but a really important step is to then take that business plan and sanity check it with third-party arm's-length experts. So, that includes talking to competitors, customers, ex-executives, suppliers – people in the ecosystem who are arm's length to the company who can tell us: Is this business plan realistic or not? That entire group is a service that we call our expert networks.

In 2021, Burgundy had 5 Expert Networks



More than 500 one-on-one calls



More than 1,000 expert call transcripts

More than 1,000 Company Meetings Across the Globe in 2021

-  Meetings with Regional Burgundy Portfolio Companies
-  Meetings with Regional Burgundy Portfolio Companies



“ It’s about making an investment decision that’s rooted in fact and not on biases or opinions. ”

It is our largest research expenditure. We do literally hundreds of these calls every year to try to decide: Is this management team telling us the truth, or are they telling us a fantasy?

Last and perhaps most importantly, we challenge each other. We all sit in one wing on one floor in [Brookfield Place](#) (in downtown Toronto).

If you come to our area, you’re going to see Analysts arguing with each other about their investment thesis. If you come to our Tuesday meeting, you’re going to see people challenging each other about their investment thesis, asking each other tough questions about why they’re investing in something.

And I think all of those things help keep us rooted in facts and help keep us out of risks that might be in our blind spots. I think ultimately, though, all of these things, they’re about evidence-based decision making.

It’s about making an investment decision that’s rooted in fact and not on biases or opinions. ■

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