Jessie Bobinski	**00:11:** Welcome. Thank you for joining me today. My name is Jessie Bobinski, and I am an Investment Counsellor here in Burgundy's new Vancouver office. Joining me today is Stephen Shuttleworth as we're doing a deep dive into Burgundy's Partners' Canadian Income Fund. Welcome, Stephen.
Stephen Shuttleworth	**00:28:** Thanks for having me, Jessie.
Jessie Bobinski	**00:30:** Our conversation is very timely today as many are reflecting on income needs for the year 2021. With interest rates at historic lows, GICs [Guaranteed Investment Certificates] and bonds certainly not doing the job they once were with delivering cash flow to clients' bank accounts, we're here today to learn a little bit more about an opportunity that Burgundy has created. Stephen, you joined Burgundy in the year 2006 and since that time you have spent time with our fixed income team and our Canadian equity team. Tell us a little bit about how that experience has shaped your crafting of this new fund.
Stephen Shuttleworth	**01:08:** Thanks for that, Jessie. Both of those experiences have been wonderful as it relates to this fund. As you mentioned, I started off working with Vince Hunt on our fixed income team for five years, and that's really a great proving ground and training ground for a young analyst because everything you do is focused on capital preservation. And I've tried to bring that to bear in this fund as well. I've also had the opportunity to work with David Vanderwood on the Canadian equity team here at Burgundy. And, again, that's given me a great breadth of understanding, having a chance to look at large parts of the Canadian market and really develop my investment skills investing in a market like Canada.
Jessie Bobinski	**01:51:** Now, this fund was launched in October 2019. Please tell us a little bit about the objective of the fund.
Stephen Shuttleworth	**01:58:** If I boil it all down, the primary objective of this fund is to earn a sustainable and growing dividend yield that can be paid out in the form of cash to our unit holders. And on top of that, participate in some capital appreciation as the underlying companies grow their dividends over time.
Jessie Bobinski	**02:15:** Interesting, what led to this fund's creation in 2019?
Stephen Shuttleworth	**02:21:** Certainly, this is a type of fund we've thought about having at Burgundy for some period of time. It's certainly a type of fund that our clients have asked for over time. And thanks to a lot of hard work from our accounting team and our back-office team and our administration team, we now have the capabilities to distribute income out to unit holders in the form of cash. So that's been one of the big drivers behind launching this fund for clients. Now, on top of that, I mean, I think there were a couple of

	other important things that have helped push a fund like this and this idea along over time, the benefits of owning Canadian eligible dividends relative to fixed income securities and bonds. **03:05:** The other big thing, which you mentioned, is the interest rate environment that we're living in right now. You look across the developed world and interest rates are near all-time lows. That's certainly the case in Canada. If you look at the 10-year Government of Canada bond, it's yielding 0.7% right now, and that's moved up fairly dramatically off of the bottom of what we saw during, really, the heart of COVID earlier in 2020. So, there's an opportunity in the form of dividend yield for unit holders that are looking for yield in a yield-starved world. So that's certainly been a tailwind behind this fund as well.
Jessie Bobinski	**03:47:** Can you take us through the composition of the fund today?
Stephen Shuttleworth	**03:51:** Right now, 80% of the fund is invested in Canadian common equities, and that also includes some real estate income trusts. I think it's an important distinction. And the balance, or the 20%, that's remaining right now is invested in Canadian preferred shares.
Jessie Bobinski	**04:07:** Interesting, can we take a deeper dive into the preferred share market here in Canada and what led to your decision in including this in the fund?
Stephen Shuttleworth	**04:17:** The preferred share market is very unique. It's a market that we've looked at before at Burgundy, but we've never invested in it with any real scale. We've had some small investments on the fixed income side, but certainly we think it's a fairly unique opportunity as it stands right now. Now, there are a couple of reasons why we think that it's a good opportunity and makes up a part of this income fund. Now, number one, I think probably the most important thing that we'll talk about as it relates to preferred shares is that most of the issuers in this market are very high-quality companies. These are the types of companies that we already own in our Canadian equity strategies at Burgundy. We also own them on the fixed income side. So when you've done the work on a business from an equity perspective, and you've done the work on a business from the fixed income perspective, you're leveraging those capabilities and knowledge towards the preferred market. **05:13:** So, we think that there's an opportunity from a quality perspective in this market. There are a couple of other things that we think about as well. It tends to be a fairly inefficient market. It's small relative to most other common equity markets. We think that positions us well. This is a smaller, more nimble fund. And with the character that Burgundy employs in our investment side, we can take a bit of a longer-term and contrarian approach

to this market. So, we think that there are some opportunities as you look at those types of things. There are a couple of other things I would also add. Historically, the preferred share market has had a low correlation with the broader equity markets here in Canada. And in terms of correlation with the bond markets, it actually negatively correlated. So historically, when the bond markets have gone up and bonds have gone up in price as interest rates have come down, preferred shares tend to do worse.

06:13: And conversely, in a rising rate environment, given the structure of this market, preferred shares tend to do well. So, it gives you a bit of a hedge with the broader fixed income market and bond holdings a client may have. And then just the final thing I would add, Jessie, to that is the yields are very attractive in this market right now. And that's an important consideration. If you look at the preferred shares in the [Burgundy] Partners' Canadian Income Fund right now, the average yield on those preferred shares is about 5.2%. So that's pretty attractive within the landscape of what you're looking at from a fixed income perspective, more broadly.

Jessie Bobinski

06:50: Makes sense. And preferred shares do pay a dividend and that dividend is treated in a tax favourable way, similar to dividends that we would receive off a common equity. Now, what about the Canadian equity strategy? What can you share with us?

Stephen Shuttleworth

07:08: As I mentioned earlier, that makes up the bulk of the portfolio. And the point I'd really like to make to start off with would be that we're investing in the very best companies here in Canada on the common equity side. These are the types of businesses that you would expect us to invest in in a Burgundy portfolio: with a focus on capital preservation. And the investment process and philosophy is the same in this fund as it is in all the other funds we manage at Burgundy. At the end of the day, we're trying to find the best businesses and those businesses generally have sustainable and durable competitive advantages that allow them to earn high returns over time and generate excess cash flow that they can pay out to shareholders.

07:52: We're also looking for businesses that are run by capable and honest management teams. So that whole process is exactly like it is in all the other mandates that we manage at Burgundy. The one place where this fund would differ slightly is when you get down to the dividend payment. So obviously as an income fund, the dividend component is an important thing that we're looking at from a company-specific perspective. So, again, we're looking for companies that are able to generate a sustainable and growing dividend stream out of the excess cash flow that they generate from their business.

Jessie Bobinski

08:27: So certainly, still utilizing Burgundy's investment approach, but looking under maybe a different lens to ensure that there is sustainable cash flow as well. Would you say that there's much overlap with our other Canadian equity mandates here at Burgundy?

Stephen Shuttleworth

08:45: Certainly, there's a bit of overlap. It's about 50% in terms of the number of holdings in the [Burgundy] Partners' Income Fund compared to the broader Canadian equity strategy. So there is a fair degree of overlap. Having said that, there's also a fair bit of differences and some of that comes back to the desire to earn dividends. And so that ultimately leads you to certain other parts of the market, different sectors in some cases. The [Burgundy] Partners' Income Fund has a sizable weight in utilities and utility-like companies. A great example of that from the portfolio would be Hydro One. This is the monopoly electrical transmission and distribution business here in Ontario.

09:31: It's a wonderful business, very stable and predictable, as you would imagine for a company like that in a regulated industry. In a similar way, we have a sizable allocation in this portfolio in telecommunication companies. Two of the bigger positions would be Rogers Communications, which is the largest wireless services provider here in Canada, and Telus Communications, which is one of Roger's main competitors. So, again, those two businesses operate in a very stable, predictable industry. They tend to generate cash in excess of what they need to run their business and invest in their business over the longer term. And they're able to take that excess cash flow and distribute that to shareholders.

Jessie Bobinski

10:16: So very much applying Burgundy's equity analysis and even fixed income analysis to all of the positions inside the [Burgundy] Partners' Canadian Income Fund. Can we talk about return expectations?

Stephen Shuttleworth

10:30: The simplest way to think about return expectations is to start with the current yield on the fund. So, we look at that 80% of the fund that's invested in common equities right now, those equities in total yield about 4.2%. The balance, the 20% that's invested in preferred shares, yields about 5% on average. If you put that 80% and 20% together, you end up with a current yield of about 4.4% in the fund right now. So, this is what you earn as a shareholder and a unit holder in this fund, which can be distributed out in cash. Now, the nice thing about owning common equities is that over time those dividends are also growing. So, there is some opportunity to benefit in that capital appreciation over time as those companies grow their dividends. So, you put that all together and you should be able to earn, over time, under reasonable circumstances, a mid-single digit return over the course of an investment cycle in a fund like this.

Jessie Bobinski	**11:34:** With the greater proportion of it coming from the dividend stream and, over time, achieving a reasonable growth rate that should hopefully offset the impact of inflation. Now, if we were to put some numbers to that, if you were to make an initial investment of C$1 million, that would generate, today, a dividend income of approximately C$44,000 a year, and hopefully keeping the underlying value of the fund still C$1 million. But, of course, that's subject to volatility over time. This sounds like potentially a great fit for an investor who's looking for a steady income stream, dependable, and definitely tax advantageous relative to interest income. But who has to be certainly comfortable with some volatility in the underlying value? Is it fair to say that this is a uniquely Canadian opportunity?
Stephen Shuttleworth	**12:29:** I think that's a good way to look at it, Jessie. You highlighted some of the benefits of owning these types of securities. Certainly, the tax advantage nature of Canadian dividends relative to both interest income as well as foreign dividends is a unique thing that we enjoy as Canadians in a fund like this. If I take a step back, I think there's another important thing to consider as well, and that's the structural nature of the Canadian market that lends itself to higher dividend yields. And the best comparable to a market like Canada is probably the S&P 500 [Index]. And when you look at the dividend yield in Canada on the S&P/TSX [Composite Index] right now, it's about 3%. And if you compare that to what's on offer on the S&P 500 [Index], which is the benchmark in the U.S., the dividend yield is about 1.6%. So, there's a fairly large gap between the two of those. Now, that 3% dividend yield on the S&P/TSX [Composite Index] right now also includes companies that pay zero dividends. So, what that leads you to understand is that there are some very attractive dividend yields on offer in a market like Canada.
Jessie Bobinski	**13:38:** Thank you very much, Stephen, for your time today. We certainly learned a lot about Burgundy's new Partners' Canadian Income Fund. And you at home, if you're interested in learning more, please reach out to your Investment Counsellor for additional information. Thank you again.

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