Mike Elkins, CPA, CA, CFA
VP, Director of Research,
Deputy Portfolio Manager,
European equities

Andrew Iu, CFA
VP, Portfolio Manager,
Canadian small-cap equities

Dimitar Shapov, CFA
VP, Portfolio Manager,
Emerging Markets equities

Sarah MacNicol, CFA
HOST
Investment Counsellor,
Private Client Group

Beyond the Desk:

WHY WE TRAVEL

Watch the recording here

Whether walking the factory floor in India, meeting with management teams in Amsterdam, or observing local consumers in Red Deer, some insights cannot be captured from just reading an annual report.

In this virtual panel discussion, members of our Toronto-based Investment Team share insights from years spent on the road, connecting directly with companies and their management. Joining us live, on the road from the UK, India, and Canada, Portfolio Managers Mike Elkins, Dimitar Shapov, and Andrew Iu discuss how even ordinary in-person interactions such as picking up on body language cues, noticing who pours the coffee, or chatting with employees on the factory floor can reveal valuable insights when evaluating a company.

KEY POINTS:

- In-person meetings with management teams can reveal more about their leadership style and decision-making process.
- Travel gives us important insight into local context and helps us build relationships with management and industry experts.
- Site visits can sometimes be more informative than weeks of desk research.
- In an era of information overload, we think our boots-on-the-ground approach is more important than ever.

Sarah MacNicol (SM): Hello everyone. Welcome to our webcast Beyond the Desk: Why We Travel. I'm Sarah MacNicol, an Investment Counsellor on Burgundy's Private Client Team.

Joining me today are three members of our Investment Team. We have Mike Elkins, Director of Research and Deputy Portfolio Manager of our European Equity strategy. Mike has been at Burgundy since 2013 and is joining us from a research trip in London, England. Second up is Andrew Iu, Portfolio Manager of our Canadian Small Cap strategy. Andrew has also been with Burgundy since 2013 and is joining us from our head office here in Toronto. And last is Dimitar Shapov, Portfolio Manager of our Emerging Markets strategy. Dimitar has been with Burgundy since 2017 and is joining us from a research trip in Mumbai, India.

Turning to today's topic of discussion. Whether walking the factory floor in India, meeting with management teams in Amsterdam, or observing local consumers in Red Deer, some insights cannot be captured from reading an annual report. Today, we'll discuss why meeting with management and being on the road enhances our research process and how it impacts your Burgundy portfolio.

As a reminder, Burgundy's Investment Team has a regional structure with Portfolio Managers and analysts specializing in specific geographies. Unlike other firms with sector specialists, this approach allows us to identify the best businesses within each regional market. Our geographical focus gives us deeper insight into market dynamics and cultural nuances, which benefits our decision-making.

Our Investment Team is made up of over 30 investment professionals, speaking 14 languages, and holding passports from seven countries beyond Canada. The team is based in our head office here in Toronto, but as expected, given today's topic, they travel extensively. After each research trip, findings are shared with the entire Investment Team, allowing for broader team collaboration and discussion.

As a private, employee-owned company, we have the ability to allocate our budget where we see the most value. With that, travel is our largest research expense as we believe it is one of the most crucial parts of analyzing and truly understanding a company. Over the past year, we've met with nearly 1,200 companies across 15 countries, and over the past decade, our team has met with over 9,000 companies across 28 countries. With this context in mind, let's begin our discussion.

CHAPTER 1 (0:06): IMPACT ON THE DECISION-MAKING & RESEARCH PROCESS

SM: How does travel factor into your decision-making process? Can you give an example of a site visit that influenced your decision to buy or not buy a company? Let's start with Mike, followed by Dimitar, and then Andrew.

Mike Elkins (ME): I would start off by saying that travel is a substantial part of our investment process in Europe. We travel to Europe four, maybe five times a year, typically staying for a week at a time and visiting around 20 companies while we're there. So, we visit around 80 to 100 companies a year while travelling to Europe. It's deeply ingrained in our investment process. It often provides us with perspective on the culture of the companies that we are meeting, the economic conditions there, and sometimes gives us unique insights into their operations. Maybe we can touch on this later, but it also forms a huge part of our Dream Team and Watch Lists, which is where most of our portfolio ideas come from.

In terms of investment decisions that were directly driven by travel, there have been several. I'll give an example of a relatively recent one. **Novartis** is a Swiss pharma company based in Basel – very successful, earns great economics. We've owned the company, it's been a successful investment for us, since 2008 or 2009.

In 2018, the company got a new CEO, and we were travelling to Switzerland at the time. We passed by Basel and were able to get a meeting with him about two months after he started. So, I was in the meeting and my boss Ken Broekaert, who has managed the European portfolio for 20 years, was in the meeting. I've been visiting with company management for almost 20 years. For the past eight years, I've been doing it in Europe. For three years prior to that, I did in the United States. And then for seven years prior to that, I did it in Canada. Ken's been meeting with management teams in Europe for over 20 years.

So, we had that meeting with the new CEO, and both of us said right after it was probably among the top five most impressive meetings of our career, and those would span thousands of meetings. Close after that, we did a little bit more research, and we made it the largest or second-largest position in the portfolio. And it worked out really well for us. I don't think we would have been able to get that meeting if we weren't travelling, and we just wouldn't have had – When you meet companies at their offices, they tend to view you as guests. It's more relaxed and informal. It's more of a conversation than it is a meeting or an interview. And I think you get a unique perspective and see management in a different environment than you would meeting them otherwise. So, I don't think we would've had that insight without travelling, and it worked out really well for us.

SM: Thanks, Mike. Dimitar, do you want to follow up on that?

Dimitar Shapov (DS): For us in emerging markets, I think it's critical. It's much more complicated in a diverse universe. Information is more limited compared to the more developed markets that Mike and Andrew cover. And sometimes it's also less trustworthy. So, for us, it's really, important to understand the local politics, the consumer preferences, the culture, to build that deep local context, and have relationships. And it's more important to avoid mistakes, but also to uncover hidden gems. So, we spend around a quarter to a third of our time over a year travelling in our respective markets. And our approach is to trust but verify. We do a lot of work before we go on the ground, but research allows us to validate the story behind the numbers, verify what management is saying firsthand, observe the operations, meet with customers, meet with competitors, and try and figure out the discrepancies between what is written, what is said, and what is actually happening on the ground. And also identify hidden strengths. Many times, you find things that you couldn't find while being based in Toronto. I'll give an example for each. One thing that helped us to avoid a mistake and an aspect that helped us uncover something hidden.

> "We do a lot of work before we go on the ground, but research allows us to validate the story behind the numbers, verify what management is saying firsthand, observe the operations, meet with customers, meet with competitors, and try and figure out the discrepancies between what is written, what is said, and what is actually happening on the ground."

In late 2023, our CIO Anne Mette and I went to Vietnam, and it was a bit of an exploratory research trip, because we were attracted by the long-term macroeconomic story in Vietnam and what appeared to be potentially quite attractive opportunities at good prices, at least on paper. But the reality on the ground was a bit different, and I think that's where it helps to be there, meeting with people on the ground. There are significant corporate governance issues, which you can't see in the filings, significant involvement by the government in the economy in certain companies, and also a lack of disclosure. So, you just need to be there. For example, we met with several public real estate developers, and they were kind of open during the meetings about having three sets of books. They have a public book for the shareholders, they have a book for the government, and then they have the "real book" that was internal for them. So, as you can imagine, we decided to avoid that sector and that investment as a whole.

And then, on a positive aspect, I'll talk about finding the hidden gems, getting to less exposed, lesser-known niche companies that have good growth potential, but are also overlooked by traditional research — the ones where when you just run a screen, you miss. One example is **AIA Engineering** in Ahmedabad, India, and this has been a long-term holding of ours that was uncovered many, many years ago by our current CIO Anne Mette. This company is a niche supplier of engineering components that are primarily used in cement and mining industries. And one of the biggest advantages of the company that you can easily figure out from far away is that they're a low-cost operator relative to their competitors. But I think where it really made a difference is once you go in there and you meet with management, you meet with the middle management, you meet with the people on the floor, you see the focus that the company and the family has on winning against the competition and sharing those benefits of the low cost with the customers. You see that the goal is not necessarily to have a higher margin or to sell more. It is like, oh, this is the new client we want, and they celebrate it. When you see that… it is kind of hard because you can't see it on paper, you can't value it, you can't put a multiple on it, but I think meeting with people and seeing that, that explains to you why they've been so successful. I think that's a unique aspect.

SM: Thanks, Dimitar. With so much discussion around friendshoring in Vietnam, it's interesting that we went to view it and then made the decision to stay out of it.

DS: For now.

SM: Andrew?

Andrew Iu (AI): One thing that's a bit different about Canada compared to covering Europe, or emerging markets, or other markets is that we can do much shorter research trips. So, we're typically popping out to one city for a few days as opposed to going for a week or two like Mike or Dimitar would.

Sometimes what that enables us to do is take a business issue that, as Dimitar was sort of alluding to, is hard to understand if you're just reading the filings, but you understand it much better if you see it in real life. I'll give you an example of that.

Two years ago, supply chain issues were very topical. Coming out of COVID-19, there were all kinds of issues around getting components through ports. There was congestion in freight and logistics. There were all kinds of problems in supply chain. There's one company on our Watch List that went through a supply chain crisis called **New Flyer**. They make transit buses, so think like TTC buses, public buses, they make those buses. They're the number-one player in the industry. There are some good parts about the industry, some parts that are more challenging. But they were going through a big supply chain crisis as were their competitors. And so, I said, "Well, I should just go see what this looks like." So, I got on a flight, and I flew out to Winnipeg, which is where their head office is, and their biggest manufacturing facility is. The CEO gave me a tour, and we're walking around the manufacturing facility and the production lines and there are half-finished buses everywhere. There's a bus over here, and he says, "Well, this one's missing a mirror, and we can't quite finish it." And there's a bus over here and he says, "This one's missing the seats, and our seat supplier is late." And there's bus over here. And he says, "Well, the wire harnesses are missing, and we're just missing this one part and then we can finish it." And I think the most important thing for me was that this inventory is money good. They're going to finish these buses and deliver them. They have a deal with TTC or whoever the transit agency is, and it's just that they're held up by some of their suppliers. And so, we thought, this inventory is valuable; they're going to get through this eventually. So, when the financial results started to show that, the market didn't really react at first, but because I'd flown out to see it and understand it, I was able to buy a position with some conviction.

SM: The next question I'm going to ask to Dimitar and Mike. What type of information have you gathered from travel that you could not obtain from your desk? How important was that to your research process?

DS: Again, I think it's the soft aspects I would say. It's being able to get an unfiltered view of the workplace dynamics, to feel the office environment. Sometimes when you visit the headquarters, you get to understand a lot more about the company culture than formal presentations and reading the filings. And, again, one example would be from India. **KEI Industries**, another holding of ours, a recent one, is the second-largest manufacturer of cables and wires in India. They're a pretty big beneficiary of the recent increase in power capital expenditures (capex) driven by rising per capita power consumption in India. Again, from the filings, it was quite easy to understand that there's a significant demand. They're close to 100% utilization. But meeting the plant managers, seeing what operating close to 100% utilization means, seeing it with your own eyes, seeing how they try to keep the cost down, keep productivity up, prioritize safety. That was quite important for us.

But also, when we were walking around the floor, we met with the founder, the senior management, but also with some of the lower senior and middle management members. And here was the key. I would randomly ask people on the floor, and I didn't meet a single person who was not there for at least 20 years. So, you kind of get a sense of the attrition in an industry that has high attrition. So that gives you comfort for the investment and the continuity of the management, and that they can deliver. And the fact that this is a very cyclical industry, which is something we technically avoid, but these people have gone through a few cycles and being able to retain those people gives us comfort that they'll make the right choices.

SM: Thanks, Dimitar. Mike?

ME: So, I alluded to this before. There are two core pieces of information that we get while travelling. This is more nuanced, but, over time, I think we get perspectives and insights into the culture of the countries that we visit, the economic conditions, and sometimes insights into their operations. And I have a couple of interesting examples there. But I would say from my perspective, the biggest benefit that we get from travel, or one of the biggest anyway, is that we get way better access to management, and we get much higher-quality and more informative meetings with them than we would otherwise. I'll just elaborate on that quickly. So, in Toronto, there are three ways that you can see European management teams.

> **"...the biggest benefit that we get from travel, or one of the biggest anyway, is that we get way better access to management."**

The first one would be you could do a video call. Anyone can do a video call. It doesn't take a lot of effort. As a result, management teams are not really inclined to give you a meeting when you do one. And when you do have those meetings, they can be productive and useful sometimes, but they tend to be lower-quality meetings. They're not very personal and management can kind of have their guard up.

The second way that you can meet European management teams is when they're on a road show in Toronto. So, European management teams, depending on the size of the company, would probably come to North America once, maybe twice a year. They'll typically make Toronto a stop on that tour. And during those road shows, they'll meet with probably eight investors a day. So that's 40 a week. Those tend to be low-quality meetings.

They're meeting with a wide variety of investors. They'll be meeting with hedge funds, short sellers, ones that are just concerned about the short term. So, you're one of 40 meetings there. They tend to really be guarded, and they kind of stick to their script when you're meeting them in that form. And then the third way that you can meet a European management team, and the way that we like to do it, is go travel and see them in their offices and on their home turf. So, the advantage of this is, number one, you get really good access to management we find. So, when you travel 6,000 kilometers for a meeting, the management teams tend to be kind of flattered by that. So, they're inclined to give you a meeting rather than requesting a video call. And I would say second and more important, the quality of the meetings tend to be really, really good. So, when you go and you visit a management team and you travel 6,000 kilometers and you're visiting from another country, they tend to view you as a guest, not only at their company, but almost a guest in their country. And it just leads to these, I would say, very collegial, frank, open, and really productive conversations with management. I think you tend to get better insights that way than meeting them without travelling to go see them.

> "...when you go and you visit a management team [...] it just leads to these, I would say, very collegial, frank, open, and really productive conversations..."

I'll just give one quick example of an insight that we got into the culture of a company while travelling. A year or two ago, we were travelling to Sweden. We were in Stockholm, and we had a meeting with the CEO of a company called Lifco, a very successful company. They're a serial acquirer based in Stockholm. So, what they do is they acquire small and medium-sized businesses and then they improve the performance and profitability of them, and that's how they create value for shareholders. So how these meetings work is we put together an itinerary and it has the address of where we're going to meet management. So, anyway, we put the address in our GPS, and we travel there. And it takes us to the eighth floor of this nondescript office building. So, we get up there and all there is a door with the unit number on it. And this is a relatively big company, Lifco. So, we thought, Jeez, we must be in the wrong place. But we said, oh, you know what, let's knock anyway and see. So, we knock on the door and this guy answers. He's just dressed casually. And we say, "We're looking for Mr. Waldemarson, are we in the right place?" He's like, "Yeah, yeah, that's me. Come on in guys." So, he points us to a boardroom and then he says, "Could I get you some coffee?" And we typically always take coffee if we're offered on the road. We'll be jetlagged, we'll be tired, and typically, the company will have someone make it and we'll start the meeting. So, we said, "Yeah." But anyway, then he proceeds to go and make the coffees for us. So, it just impressed upon us that this is the type of company without fancy offices, that has a very shareholder-oriented culture. And when you have the CEO making coffee for you, it felt like a humble culture, a culture without a lot of layers and bureaucracy that can be destructive to shareholder value. So, that was our introduction to the company, and then we did a lot of work to kind of substantiate those perspectives afterwards. But it is just the kind of insight into a company that you just can't get without travelling to see them, I don't think.

DS: When Mike was speaking, it reminded me of a story about opening doors when we went to Kolkata. Mind you, almost nobody goes to Kolkata, especially from Canada, for investments. We went to meet a paints company there, though we didn't end up investing in it. They met with us because we went there. Usually, they don't meet with people online. When we went there, it started in the most hostile manner ever because they were just kind of like, "Why are you here? Are you a hedge fund? Are you going to short us? I don't understand it. Why would you come to Kolkata to meet us? Are you interested in our competitors? Have you invested in our competitors?" Then it completely switched. So, from what Mike says, you'll get meetings that you otherwise wouldn't and it just creates a relationship for the long term, and that makes a pretty big difference. So, it opens doors.

CHAPTER 2 (22:28): ASSESSING COMPANY CULTURE THROUGH IN-PERSON MEETINGS

SM: I know culture is such an important part of finding a great business because you need to make sure that the company morale is behind the mission. And culture is a very important part of us all working here at Burgundy too. That leads into my next question. We'll start with Andrew. Dimitar, you touched on this already but please feel free to jump in afterwards. How are in-person and virtual meetings with management teams different, and how do these differences impact your ability to assess the company's culture?

AI: I would just echo one of the things Mike said, which is that management teams, they're people. They appreciate when you get on a plane, and you fly out to see them. So, they're just willing to share a lot more with you when you do that. And whether that means flying out to Vancouver or flying out to Europe or India, I think that's true.

One thing about in-person meetings, which I think is also important that hasn't been touched on yet, is that in an in-person meeting, there's all the nonverbal cues that you can pick up from management teams which are much harder to pick up over Zoom. I'll just give you one example to bring this to life. One thing that's been really important to me in assessing management and in particular the CEO is I think it's important for the CEO to know the numbers. The CEO is the chief capital allocator of the business. That's the person who's primarily responsible for saying, we're going to invest in this project; we're going to put capital behind this division. So, I just think it's important that the CEO knows the numbers. And if you're in an in-person meeting and you're with the CEO and the CFO, you can direct the question based on your eye contact toward the CEO. So, you can sit down and say, "Mr. or Ms. CEO, what return on capital are you going to earn by investing in that project?" And if the person flinches or is uncomfortable and then looks at their CFO for the answer, they don't know. You know that they don't know the numbers. If you're doing that same thing on Zoom, you can't really direct the question with your gaze. You just ask the question and the CFO, often in a scripted way, gives you the answer.

And it's subtle things like that that you can get out of an in-person meeting that can make a really big difference. I'll give you an example. A few years ago, I was at an energy service conference, and I met an oilfield waste disposal company, and their big thing was they were going to invest in these mobile units that could clean up oilfield waste. And I asked the CEO some very simple numbers questions about this area that they were going to be investing a lot of their capital, and he didn't know any of the answers. And he kept looking at the CFO for the answer, deflecting. The company was bankrupt two years later. Not every example is that extreme, but if the person who's in charge of the company doesn't know the numbers, the odds you're going to have financial trouble are just a lot higher.

SM: Dimitar, anything to add there?

DS: I think virtual meetings are also useful. It can be quite beneficial. It's more efficient before we actually go on the ground. The one issue with it is that you get a more polished, more prepared picture of the company. And then in person, you get these off-the-cuff conversations. You're sitting down to have a coffee. Many times after the meeting, the CEO is going the same way we're going. Sometimes they've driven us to places. Seeing how they act on the floor, whether it's on the factory or whether it's a sales force, how they act with other employees, how the employees act with them.

Those things give you valuable insights into how open they are, their leadership style, transparency as well, how they answer questions, how they deflect, consistency. And those subtle cues, the facial expressions. When somebody's speaking, I try sometimes to look at their coworker to see how they're reacting to what they're saying. Sometimes that could be telling. It's difficult. We're not FBI members, but we try as much as we can to understand any cues.

> Burgundy's been doing it for 25 years. We've just built up a reputation over that time as very long-term, engaged shareholders. Management teams in Europe know that we know their businesses well. We're going to be well-prepared; we ask good questions.

CHAPTER 3 (26:50): ACCESS TO MANAGEMENT: LARGE-CAP VS. SMALL-CAP COMPANIES

SM: We've come a long way with technology, but there's nothing like those in-person interactions to truly understand someone. Mike, in the large-cap space, how does being a long-term shareholder affect your access to management teams?

ME: In Europe, we invest across the capitalization spectrum, but we have several investments in large-cap companies. Getting access to management for large-cap companies, understandably, is difficult. We always have had really, really good access to management at Burgundy. On a typical trip where we might visit 20 companies, we would generally meet with the CEO or CFO for 80% of those meetings. This is a function of two things. Number one, when you travel 6,000 kilometers to meet with a management team, they tend to be impressed by that, and they're more inclined to give you a meeting than they would be otherwise. And maybe more importantly… So, I've been travelling to Europe and doing meetings with Burgundy for the past eight years. Ken, my boss, and the Portfolio Manager of the European equities, has been doing it since 2003, going to Europe, visiting 80 to 100 companies a year. So, he's been doing it for over 20 years. And overall, Burgundy's been doing it for 25 years. We've just built up a reputation over that time as very long-term, engaged shareholders. Management teams in Europe know that we know their businesses well. We're going to be well-prepared; we ask good questions. And building up a reputation over time I think is what's helped get us great access to management. I'll just give two examples of that.

As mentioned, I'm in London right now, at a small conference where we're meeting with management teams from Monday to Wednesday, and then Thursday and Friday we're travelling to the Netherlands to meet with companies. We've got meetings with the CEOs of some of the biggest and most important companies in the Netherlands. We're meeting with the CEO of **Heineken**. We have a meeting with the CEO of **Ahold Delhaize**, one of the largest grocery store businesses in Europe, and actually the second-largest grocery store business in the United States – really fragmented industry. We are meeting with the CEO of IMCD. We are meeting with the CEO of **Prosus**. We're going to visit ASML, which is one of the most important companies in Europe and frankly one of the most important companies in the world, even from a geopolitical basis. We were going to have a meeting with management. They happened to not be there. But because we've developed this reputation as the kind of long-term, engaged shareholders that management teams want in their shareholder registry, we've set up a meeting with management in North America.

I'll just provide one more example of the benefit and the access that we have to management. During COVID-19, we were able to get either the CEO or the CFO to do a video call with us for almost every company in our portfolio where we were concerned about the situation. So, we were able to get them on the phone at really short notice to discuss how they were dealing with COVID-19 and what the impact was on liquidity. We just wouldn't have been able to get this without the relationships that we've built with them over time and our reputation as long-term, engaged shareholders.

SM: I'm sure being a long-term shareholder really makes us act like an owner of the company, and I am sure the management teams are passionate to talk to people that are investing similar to them. Andrew, kind of a similar but different question to you. As a small-cap manager, do you feel that your access to information differs from large cap?

AI: I think that in general, there's just less information available publicly on small caps. You look at **Microsoft**, it probably has two dozen brokerage analysts covering it. Our average company would have just a handful. Large-cap companies tend to have big investor relations (IR) teams that are responsible for augmenting statutory filings with ancillary material. A lot of small caps don't have an IR function. It's the CFO who does it part-time. So in general, there's less information out there on small caps. The flip side is that the management teams are much easier to access. So, you just have to hustle a bit harder to fill in that additional information by meeting the management teams. And similar to what Mike was saying, we have great access to management. I would say in Canada we have a very good reputation as being long-term oriented. On average, the time between reaching out to a management team and getting a meeting with either the CEO or the CFO is usually two weeks. It's quite easy for us to touch base with management. The other thing is just from a frequency perspective, it's a bit easier for us. I'll often meet my management teams three or four times a year for some of my positions, which is just a bit harder to do if you're covering a market that's farther away. And then the only other thing, and I don't think this is universally true – I know Mike and Dimitar both cover companies that are like this – but I do think in small caps you tend to get more first-generation management teams. You tend to get more founder CEOs, and that's a different meeting than being in a meeting with a hired professional CEO. It just feels different. How they think is different. They tend to think longer term. That type of meeting is different. And I think you just have a lot more of those types of meetings if you're covering small caps, because there are more companies that are on their first generation of management.

CHAPTER 4 (33:21): LOOKING BEYOND A COMPANY'S MANAGEMENT

SM: We've been spending a little bit of time talking about meeting CEOs and CFOs. So, why is it important to meet with employees across management positions and ranks? What differing information do you obtain from speaking with such a range of employees? Dimitar, let's start with you on that one, then Andrew.

DS: I think it provides us with a better understanding of the company's culture, their operations, and also the challenges than if we only spoke with senior management. Usually middle management is a lot less polished and experienced in dealing with investors. So, what happens is they can be more direct. They're more open to provide information. Another aspect is that they're kind of closer to the day-to-day operations. So, they have more insights into the actual realities of what the senior management is telling us and how the strategic plans that the senior management wants to achieve are implemented. And they're way more open to speak about potential issues, their capabilities, but also about competition, because they're the ones who are in the trenches.

It's like asking a General versus asking a guy who's in the trenches. You get a different point of view of what's happening, and both are important. Speaking with the middle management also helps us to identify issues because you want to make sure that there are not a lot of discrepancies between what we hear, what everybody else in the market hears, and what's actually happening.

AI: I completely agree with that. Not to belabour this point too much, but there's a script. When you meet a management team, there is a script. If you're the CEO or CFO of a publicly traded company, you're highly trained in the points to make to investors. And, of course, our job when we meet senior management, and it's much easier to do in real life, is to get them off the script – to ask questions that get them away from the scripted material and get the more substantive, more candid answers. But the people the level below, the guy who runs the factory, the person who runs the warehouse, they don't talk to investors regularly. They don't have the script, and they're not well practiced in the investor script. So, you're just much more likely to get the real substance. And as Dimitar said, you're trying to detect discrepancies between what the CEO and the CFO are telling you and what is actually happening in the operating business. And if there is consistency, it's a really good sign. I'll give you an example of that. I own this company called **Adentra**, which is a building product distribution business. And in building products distribution, probably the most important metric is inventory turnover. It just means how fast you turn your inventory. The faster you turn your inventory, the more shareholder value you can generate.

When you ask the management team, "Is inventory turnover important?" Of course they're going to say, "Yeah, it's very important. We're very focused on it." Who wouldn't say something like that? But I've been to three of their sites and I've talked to three of the people who run the warehouses, and all of them talk about it in detail: how they're improving it, what they're working on. So, there's actually substance, on the ground, to what the management team is telling you.

SM: Dimitar, I'm going to ask you this next question, given the vast amount of countries that fall under the emerging markets umbrella. How do you navigate cultural differences when meeting with management teams?

DS: I think it's important to mention that we're a team of five, so we have to deal with cultural differences even within our team. Four of us are Canadian. One is going to be Canadian soon. I am originally from Bulgaria, but I grew up in Greece, so I like to say I was born in an emerging country and grew up in a submerging country. Then you have Chirag, who's an analyst in the fund. He was born in India, but he grew up in China. David, another analyst, was born in China and grew up in Canada, and also Ching Chang, who has a Chinese background, but is Canadian. And then we have Gustavo, another analyst who is from Brazil and he of helps us with Latin America (Latam). So, we've learned to communicate and to do a good job navigating just even internally within our team. And, given all our backgrounds, we've learned over the years to adapt. But I think it's important to try and adapt to the local norms of different countries, and that comes with knowledge, with meeting more and more people, and with time.

For example, and this is my personal observation, when I'm in India, I know to adjust what is being said with a grain of salt, because everything has a positive spin. So, every problem has a solution. And I think it has to do with the culture here, which is there are so many difficulties in the country, and they are always trying to find a solution and have a positive spin for everything. And in many cases, it is the case, but sometimes it's not. And then you compare that to Eastern Europe, where I am from, which is very direct, very dark, and always has a negative connotation to it, even though things might not be that dark.

So, you have to adapt how you read what people tell you in that sense, and also how you communicate with the management. But it's just so different from place to place. And I think having this diverse background in the team helps.

And another aspect that I think is important is having team members who grew up in a different economic environment. In our team, we've had people who have grown up in hyperinflation, inflation, deflation, and depression. I think that's very rare. If you have people who have lived through it, people who know what it is to go to the store, see a price today and go tomorrow, and the price is different – trying to explain that to somebody who hasn't lived through it is different. So, I think that helps in having a diverse team.

CHAPTER 5 (40:10): SHARING INFORMATION ACROSS REGIONAL TEAMS

SM: As I noted during my introduction, Burgundy's Investment Team speaks 14 different languages and has seven passports outside of Canada, so there are a lot of diverse backgrounds there, which is great for approaching different management teams. This is going to be our last question for the formal part of the presentation. Mike, following your research trips, how does the team share information and what are the benefits of this collaborative process?

ME: This is so important to Burgundy and a function of our scale and our approach. As many of you know, we organize our research by geography. We have separate teams that cover Canada, the United States, Europe, China, Asia outside of China, and then our emerging markets, but we're all based on a half a floor in Toronto that I'm sure many of you have been to. And we travel extensively to the regions that we cover to meet with management teams and really conduct on-the-ground research. Every week, on Tuesday at 8:00 a.m., the entire investment department meets to share insights and perspectives from our research and from our insights that we've got on the ground in our regions.

> "Every week, on Tuesday at 8:00 a.m., the entire investment department meets to share insights and perspectives from our research and from our insights that we've got on the ground in our regions."

This allows us to develop a unique perspective on, number one, the state of the global economy – not at a high level, but from people who are genuinely on the ground in these places. And it gives us perspective on what business conditions are like worldwide. So, number one, it is incredibly powerful for evaluating demand and competitive dynamics for multinational companies where they're in several geographies to have people on the ground in those countries that can speak to the competitive dynamics and the business conditions. It's very, very helpful. It's also helpful for even domestic-oriented businesses. Business conditions and competitive dynamics in one region often migrate to another region. So, I just think it's a very, very powerful element of our approach that really gives us a unique and important perspective.

SM: Thank you Mike, Andrew, and Dimitar for your valuable insights. This concludes our panel discussion, and we're now going to open it up to the audience for questions.

CHAPTER 6 (43:13): Q&A PERIOD

SM: Andrew, with the rise at AI, will the importance of travel change?

AI: I think it makes it all the more valuable. It's useful to separate information and investment-decision making into two buckets. You've got desktop information and then you have information from the field, of which travel is a big component of that, as is speaking to experts and other people in an industry. I think artificial intelligence (AI) makes it even harder to get an edge out of the desktop information. A few weeks ago, two of my colleagues, Lucas and Kyle, did a workshop on how to use AI to improve research efficiency. One of the things you can do, which used to take forever, is you can take thousands of pages of filings and ask AI to summarize different things from those filings for you. You can load up the last 20 earnings transcripts and ask it to summarize the pricing dynamics in the industry, and it'll do it for you. And it's actually pretty good. So, that means all the stuff you can get off your desktop, the insights from it are getting easier and easier for people, for investors, to prune, which makes it all the more important to get information from the field that other people don't have. It makes insights like behavioural cues from the

CEO during a meeting or observations on culture from the person who works the factory floor all the more important and valuable because the insights you get from desktop information is increasingly priced in. It's just easier and easier to price in because of AI.

SM: Dimitar, I'm going to ask you this next one. I've heard about your team living in China for six months at a time; why don't we live in China permanently or in other locations?

DS: We tend to get that question quite a bit from clients. Like with most things in life, there are advantages and disadvantages to each option. What we're trying to do at Burgundy is strike the right balance between being headquartered here in Toronto, but also spending significant time on the ground on research trips. And as I said in EM – China was a special trip – but on average, we spend around a quarter to a third of our time on our respective markets and sometimes more. I think this is the right balance. It allows us to build that local context that I was talking about at the beginning, grow and maintain relationships, but also stay away from all the noise, and that's an important aspect. You don't want to be distracted by the daily noise, the news. You want to focus on the long-term and what matters. And an example that I like to give is that arguably the best investor in the U.S. is based in Omaha. He's not based in New York. He also wanted to be away from the noise. And being in Toronto also allows us to synthesize information and share it across our team internally, whether it's learnings from China that we can apply to India or us sharing information with other teams and learning from other teams at Burgundy. We can learn from Mike about what ASML is doing and that's relevant for us in many aspects in semiconductors. We can learn about the bus businesses from Andrew. There are some here in India.

We also have what I like to describe as a cultural advantage in a sense. It's a tough business and you need support when things are difficult. And that gives us a behavioural edge. I like to think about it like the monasteries and the monks. There's a reason the monks are by themselves in the monasteries. It's easier to make difficult choices when you're surrounded by people who have a similar approach to you. Instead of being in China where everybody's thinking about what's happening today, *we've got to trade today*. It's very short-term oriented. So, you want to be surrounded by people who think in a similar way and give you support. That culture plays a pretty big role, I think, and we've considered all the other options as well. If it were that easy, if it were just a matter of opening an office, we would've done it already, and we would be based there. We've looked at it, and we've found no correlation between having an office somewhere on the ground and long-term performance. If you find any study that says that there is, we're happy to read it, but we've thought about this a lot.

SM: Mike, do you have a sense of how your competitors appraoch meetings with management teams? Do you know if travel is a priority the way it is at Burgundy?

ME: We do get a bit of a sense of this, and it sometimes comes from the management teams that we meet. They'll often comment when we come to meet them that it's kind of rare and they don't see a lot of investors travel to meet them. They definitely don't see a lot of investors from Canada that travel to meet them. We are a bit unique in the degree that we travel to meet with management teams and do on-the-ground research.

AI: The last research trip I did was to Montreal, and I actually did a little survey. Each company I met, I just asked, "In the last year how many people have flown out to see you?" And the usual answers were like three or four, a shockingly low number of people. And the feedback I got was that things changed during COVID-19. During the pandemic, you had no choice. You had to do your meetings virtually. And then after the pandemic ended, some investors just didn't go back on the road. They just kept doing meetings entirely virtually. And, of course, we did not do that.

You also see this at conferences because at conferences, you are often put into group meetings with other investors because there are so many investors and there's not enough time for the executives to meet all of them one-on-one, so you end up in a group of three or four other investors. And it's striking how unprepared some people are. Not everyone. There are other bottom-up fundamental firms that do a lot of really good work, but there's some people who go to meetings and they've barely read the materials or they've flipped through the investor presentation for five minutes. They have not done the preparation, and it's shocking. Every time I'm in one of those meetings, I can't believe it.

DS: A lot of people go to conferences, but for Mike or for Andrew who have children, it's not easy to leave home, to disappear for one a week or two weeks. It requires a certain type of sacrifice.

ME: It's also a huge financial commitment for us at Burgundy to travel. It is one of our biggest expenses in the investment department. We invest a lot in it, and we spend a lot of money on it.

SM: Mike, I'll direct this to you, as Director of Research, how do you prepare for a research trip?

ME: One of the reasons that we get such good access to management is that we prepare a lot for those meetings. If you're going to meet with the CEO of **Nestlé**, you have to be prepared. Like I said, in Europe, research trips are typically a week at a time. We'll meet with 20 companies while we're there. We're a four-person team in Europe. Sometimes we'll go with two people like I am right now with Ken from our team, and sometimes we'll go with four people, but just for that trip, we'll usually prepare a week to two weeks full time. That includes getting up to speed on the company, going through the last few annual reports, going through the last few conference calls. We may do a few expert-network calls on the company. So we'll research a week or two ahead of time for the trip. And that's generally the preparation process. But it is really intense. Trips are a huge element of our research process at Burgundy, and it's not just the trip itself and meeting with management. It's preparing for that trip, and the insights that we get doing that, and then it's debriefing and digesting it when we get back. But we do a lot of preparation, and that's a big function of us getting really good access to management.

SM: I know that typically when you're away, your weeks are jam-packed with meetings and there's not a lot of downtime, so you need to be prepared for that.

ME: Yes, during research trips, our meetings typically start at 8:00 a.m. We'll do four or five meetings a day. We have to travel between meetings. Sometimes when we're in Europe, we'll do two or three cities a week. So, you finish your last meeting at four or five o'clock, then you go to the airport, then you're on, say, a two-hour flight to get to another city, and oftentimes you don't get in until after midnight, and then you're up getting ready for your next meeting, which will be at 8:00 a.m. So, it is pretty intense when we are away.

SM: Andrew, are there certain questions you find are better to ask during in-person meetings versus virtual meetings?

AI: It's hard to say. Generally, in an in-person meeting, the average length of the answer you're going to get is longer. Management teams are just more open. They appreciate that you've travelled there, so they're going to give you more time. This is very broad, but during an in-person meeting, you might want to ask more open-ended questions. And a virtual meeting may be a more useful opportunity for housekeeping–type questions, such as modelling questions and questions on the last financial statement. Those types of questions that are shorter and more discrete are probably better used on a Zoom call. That's what I do.

DS: My approach is I have warm-up questions at the beginning, where I just try to build rapport with the management, but I find it much easier to ask the tough questions in person. I's much easier to ask the difficult questions, and they can tell by your body language that you're not judging them. I'm not there to judge them. I'm there to understand what they're trying to do. And it's much easier to do that in person. And there is less room for misunderstanding because on video, you don't always see the cues or register facial expressions like a smile in the same way.

And people are more open in-person meetings. I don't want to be ageist, but some individuals in their late fifties or sixties, some very senior CEOs, are used to speaking in person with humans for most of their lives. They are going to be way more open, communicative, and transparent in person. The other thing is people are afraid that they might be recorded when they meet virtually. So, it's a lot more transparent and the conversation is more real in person, and you can ask more difficult questions and get better answers.

ME: When I was really young in this business and learning how to interview management, the Portfolio Manager I was working for at the time, said the key to a good interview – and you can't do this over Zoom or video, it's too difficult – is you just have to get them talking. Turn it from an interview into a conversation, get their guard down. Typically, we'll start off the meeting with really, really broad open-ended questions about the business that they love talking about.

We might say, over the past 10 years, what do you think has gone really, really well? What are you most proud of? And what's something that you wish had gone differently? And that'll typically open them up. It'll get them going. Most investors tend to ask specific questions on margins or something like that. So, they're put off guard a little bit. It causes them to think. So, I find broad, open-ended questions work really well in person, and you just can't do it to the same degree as you can over video. It's just not the same personal dynamic.

AI: The types of questions we ask are actually different from what a lot of investors ask. A lot of our peers model short term, they try to call quarters, and they're investing with a short time horizon. And the questions they ask reflect that. They ask about next quarter's margins. They'll ask, "How's revenue shaping up for the month of April?" Questions like that, which we would never ask a question like that. And especially during an in-person meeting, they're used to getting attacked with those types of questions. So, when we come and we ask more open-ended questions in an in-person meeting, we tend to get a lot back.

> "The types of questions we ask are actually different from what a lot of investors ask. A lot of our peers model short term."

SM: Dimitar, we'll start with you for this next question and then Mike. What challenges have you faced while travelling for research, and how have you navigated those situations?

DS: We're fairly organized. We prepare for our trips for weeks, sometimes months, in advance since the trips themselves can last two to three weeks. So, the most difficult part would be adapting to last-moment changes and keeping an open mind. You can get sick on the road, and that can be quite challenging. The air quality is different. You have to fly overnight. Traffic is crazy. But I'll give an example from this trip. As you mentioned at the beginning, we have a lot of passports at Burgundy, and I have two.

When I travel to India, I usually use my Bulgarian passport, because Canada and India had some issues a while ago. This time when I came to India, I used my Canadian passport. And although I had a Visa for the Canadian passport, when I landed, they asked me for my Bulgarian passport because I used my Bulgarian passport to come in last time. I didn't have it with me, so I got deported. Last Sunday night when I arrived here, I got deported. And they wanted to deport me back to Canada. So, I had to negotiate on the border because apparently the rule is you have to be deported back to your country of origin because when you're being deported from a country, no country wants you. So, you have to fly back 16 hours.

So, I was at the border trying to convince the border officer that I would really appreciate it if he deported me to a country close by so I can just get the passport that he wants from me, which I didn't know was a requirement. Air Canada didn't know it was a requirement as well. So that's why they allowed me on the flight. Anyway, thankfully UAE accepted me. So, I was deported to UAE, I got my passport, and I immediately came back. But that's an example of adapting to difficult travel conditions when you do research.

ME: Some investors, they'll travel, they'll go to a conference or something like that, but the reason that a lot of investors don't is because of the logistics. Logistics are the biggest challenge for us. We have a great administrative assistant team at Burgundy. Niamh is the administrative assistant on the European team, and she'll put together the itinerary for our trips. But sticking to the logistics is really difficult. So, we're typically trying to get in four or five meetings a day. And, like I said, they're not in one location at a conference. We're typically driving around different countries that we're in. And dealing with the challenges of missing flights, missing trains, things like that.

Like I said, it's not going to one location and doing a conference. We are really out there travelling the countries ourselves. So, we drive ourselves. I've been in two difficult situations. I got in a car accident once when I was in Germany. Someone rear-ended me; it wasn't my fault. But it makes you nervous when that happens. You like, "I'm in a foreign country. What's going to happen?" So, we rented the car and we got insurance, because you never know. So, I got rear-ended and the police come and sort that whole thing out. But the car is in bad shape. It's dented at the back, but it was still drivable.

So, we drove it back to the rental car place and we say, "Yeah, there's a problem with the car here." And we give them this clunker, and they just hand us the keys for a new car. So, that's one of the complications.

Another complication, again, had to do with driving. I think this was also in Germany. We got a flat tire, but we had a meeting that we had to make. I think it was two hours after we got the flat tire. So, we went into the meeting. There were three of us on the road. Two people went into the meeting, and the other stayed back to try to sort out the situation with the flat tire. We called the rental car company. They were going to bring us another car. There was only one issue. It was manual transmission. So, I learned to drive on manual transmission, but I hadn't done it since I was like 17 years old. I kind of assumed it was like riding a bike where you don't forget. It wasn't like riding a bike. So, I didn't get to practice. The first time I got out there, it was right into an intersection in Germany. I stalled it twice. I was stuck in the intersection. People were honking at me. I ultimately made it to the meeting, but I stalled it four or five times on the way there. So, those would be the biggest challenges, I guess, just dealing with the logistics. Like I said, we're not going to another country to hold meetings in hotel rooms or at a conference. We are out on the ground, on the road, meeting the companies where they are throughout the countries that we visit.

SM: Andrew, in what ways do meetings with family-run and controlled management differ from those with externally hired management?

AI: I do think you see a lot more of this in small cap. I own 30 companies, and 13 of them are run by CEO founders. So, you're in your first generation, and I think there are a couple of differences. One is frugality. You see these people's operations and oftentimes they're very humble, because they feel like it's their money, which it is. They're often very big shareholders or the biggest shareholder.

A great example of this is we own this company called **Mullen Group**. The founder's name is Murray Mullen. And it's a multi-billion-dollar revenue company. And I remember the first time I drove out to it, I thought it was a mistake, because it's in a strip mall. The office is just some little thing above a retail strip. I was like, "This can't be right. This is like a billion-dollar company." But it's founder run, and he's very hardnosed on costs, and you can see that. So, I think frugality's something you often see when you go visit a founder or family-run company.

I think the second thing is that the conversations tend to be even more long-term oriented than if you meet a professional management team. And it's no fault of the professional management, but if you hire a CEO, the way the incentive programs work is there is a short-term and a long-term incentive plan (STIP and LTIP). The STIP is based on one-year numbers typically. With the LTIP, you might have a three-year time horizon on your stock options or your restricted stock units, maybe five, but you almost never see an incentive plan that goes beyond that. So, the hired management is going to focus on those time horizons. When you ask them questions, they're going to focus on those types of things. That's just how they're incentivized. When you ask a founder, you tend to get answers that are even more long term. You get five, 10-year type horizons because that's how they think. They're not incentivized by options or the STIP. They're incentivized by their big shareholding in the company. So, those are two big differences. I don't know, Mike, if you have anything to add. You see a lot of family-run companies in Europe.

ME: You can have a lot of really good hired management teams. The way they're often motivated is through incentive programs. Some management compensation or incentive programs are better than others, but none are perfect. And none are as good as having a founder or family member with the majority of their wealth tied up in the business and aligned with you. They think about things differently. They're incredibly proud of the organization, and they just tend to speak big picture and long-term and really know what matters. And oftentimes they really know what's going on the ground in the organization. They just tend to be so passionate and have such an ownership perspective. A lot of investors don't like investing in family-controlled companies. It's a governance issue. You don't have control. Shareholders don't necessarily have a voice. It's our preferred method of investing in companies. We just think if you have an owner-managed company, they're aligned with you. It fixes a lot of the incentive problems, and they really do have a long-term perspective and are passionate and deeply care about the long-term outlook for the business.

DS: They have skin in the game, but also, when we speak to them about how our firm is structured and what the ownership is at our firm and that we're independent, that's another point that allows us to have a more open conversation as well, because they understand we're also aligned in a similar way. So that helps a lot with the conversations.

SM: I'm going to pose our last question to Dimitar. How do you build trust with local stakeholders and experts in different cultural environments? How has this benefitted your research process?

DS: I don't think it's different between cultures. I think time is what matters in building relationships. How you build trust is not different between cultures. It's about genuine effort, I would say, acting with integrity, keeping your word, being consistent, being there when other people are not there, providing feedback. It's also about attending the empty boardrooms. Going when nobody else is going, going when things are tough and sticking around when things are tough. I think that's how you build relationships with management. And not judging them, trying to understand what they're doing.

And specifically, for emerging markets, we've had some of our investments – for example in India, where I'm now – since the beginning of the portfolio back in 2009, and they were started and maintained by Anne Mette. And when we had the transition, I was introduced as the next generation, and we maintained that relationship. So, it's a very different dynamic where we've had some relationships for 15, 20 years. Or when Mike goes with Ken - Ken has had some relationships in Europe for 20 years. That's hard to replicate. I mean, there's no secret. The secret is time and being around and not giving up when things are difficult. That's how you build relationships.

SM: Thanks to the three of you and to everyone in the audience for your questions. We hope that you found this Beyond the Desk discussion informative and engaging. Thank you again for your participation and for your ongoing trust in Burgundy. B

Date of Publication: October 2, 2024

PICTURED TO THE RIGHT:

Members of the Burgundy Investment Team conducting on-the-ground research over the years.

DISCLAIMER

This communication does not consider unique objectives, constraints, or financial needs. The opinions expressed here are those of the speaker at the time of recording only. This event has been organized for information purposes only and is not intended to offer investment, legal, accounting, or tax advice; provide recommendations or offers of solicitation; serve recruitment purposes; and/or serve marketing purposes. 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. Content and links provided in this piece include proprietary information of Burgundy Asset Management Ltd. This content is not to be distributed without consent from Burgundy, and this is not intended as an offer to invest in any investment strategy offered by Burgundy. Viewers are advised that investments are not guaranteed, values change frequently, and past performance may not be repeated. Investing in foreign markets may involve certain risks relating to interest rates, currency exchange rates, and economic and political conditions. 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. Characteristics described are also for illustrative purposes only and may exclude companies in the financial sector or with negative earnings as well as any outliers, as determined by Burgundy. 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.

For more information, please see https://www.burgundyasset.com/legal/.

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