

Standing the Test of Time Letko Brosseau's Investment Principles

OCTOBER 31, 2020



**FUNDAMENTAL
APPROACH**



**ESG
INTEGRATION**



**PRICE
SENSITIVITY**



**LONG INVESTMENT
HORIZON**



**INTERNATIONAL
PERSPECTIVE**



**PUBLIC
MARKETS**

This month, on the 33rd anniversary of the founding of our firm, we take the opportunity to share with you our guiding investment principles. Each of the six principles has a key role in our investment decision-making, and is applied consistently across all asset classes, for all clients.

1. Fundamental Approach

In-house research drives all of our investment decisions

We believe that the success of our investments ultimately depends on the success of the companies we invest in. A business-minded, fundamental research approach is, thus, key to investment success. This work combines macro-economic forecasts of global economies with an analysis of trends in major industries and a detailed evaluation of companies.

The work we do is very granular. We want to understand the business as though we were to run it ourselves.

Rohit Khuller, MBA, CFA
VP Investment Management, Partner



The investment team performs extensive independent field research. They regularly engage and speak with management, customers, and suppliers in order to validate industry and company dynamics. They review strategies, examine plans, and analyze future challenges and opportunities.

The aim is to create a full picture of the company and its environment. We prepare detailed multi-year financial forecasts and draft an investment proposal for each investment candidate. These must then pass peer review and gain consensus. Regardless of years of experience or seniority, our portfolio managers must explain the reasons for their recommendations to their peers. This ensures adherence to our investment principles, enables an exchange of knowledge, and helps mentoring.

Finally, each investment must be confirmed through continuous monitoring and validation. We adjust our views and long-term outlook as the economy, industries, companies and markets change.

2. ESG Integration

ESG factors are seamlessly integrated into our investment process and portfolio decisions

We believe that sound business practices, including strong corporate governance and responsible management of material environmental and social issues, help companies achieve greater success and financial performance over time. Conversely, companies that have poor ESG practices present risks that hinder their performance.

Each analyst is responsible for investigating the environmental, social and governance risks – and the opportunities – companies in their coverage face. Most of the investment team has obtained the Fundamentals of Sustainability Accounting (FSA) credential from the Sustainability Accounting Standards Board (SASB), the industry leading accreditation for ESG investing. In addition, a senior portfolio manager has been designated as ESG Lead and is responsible for conducting an



Through ongoing, active engagement, we hope to contribute toward positive change. We believe we can do good while doing well.

Terry Howard, MBA, CFA, SASB FSA credential holder
Senior Portfolio Manager and ESG Lead, Partner



independent verification of each investment. The Lead presents third-party ESG research to the investment committee as each investment is made and follows up with an annual review of all companies in our portfolio.

We are a member and active voice of the Canadian Coalition for Good Governance (CCGG) and are a signatory of the United Nations' Principles for Responsible Investment (PRI), a global framework for incorporating ESG issues into investment practice. We actively engage with our investee companies in our quest for sustainability, promoting effective corporate governance and business practices.

3. Price Sensitivity

Distinguishing the difference between a great company and a great investment depends on understanding the difference between price and value



We are trying to invest in the best opportunities, at the best prices. That is the core of what we do.

Charmaine Uy, MBA, CFA, SASB FSA credential holder
Senior Portfolio Manager, Partner

Price has meaning when compared to the underlying economic value of a company's activities. Once the value of the company has been assessed by our investment research team, we then look at the price we need to pay for the company in the market. We are interested in the relationship between value and price and our objective is to invest at a justifiable price.

We do not react solely to share price changes, rather, we react to changes in the price-to-value ratio. Thus, the evolution of a company's prospects and its intrinsic value also play an essential role. The economic value of an investment is determined by building forward-looking, multi-year financial models of revenues, costs, cash-flows, profits and dividends.

We tend to avoid securities with a lot of valuation risk, or those that are too dependent on achieving extraordinary future growth. Our portfolios typically have lower price/earnings ratios than the overall market. They also have higher current yields, trade at lower price-to-cash-flow and have higher margins based on true market value.

4. Long Investment Horizon

While timing is always a challenge in investing, value is created over the long term

Economic forces often become more predictable when viewed over longer periods. As such, setting a long-term horizon allows investors to better understand and fully

Our portfolios are positioned for a 3 to 5 year horizon. We analyze economic cycles and the impact of secular forces, while trying to avoid being distracted by market noise.

Joel Kaczor, MSc, CFA, SASB FSA credential holder
Senior Portfolio Manager, Partner



benefit from a company's growth. Notions of high returns over the shorter term often do not consider the time it takes for a commercial strategy to be formulated, put in place, measured, refined, and exploited.

Achieving results depends on fundamental changes that can only occur over several years. A credible plan, capital investment, experienced management – and time – will deliver the return. The transformations required to deliver great returns are not always linear. Patience is a key ingredient in our investment process.

5. International Perspective

The depth and breadth of our research effort is international in scope

We believe that a research team organized along global sector lines is best positioned to evaluate and select investment opportunities and effectively diversify a portfolio. In our globalized world, financial markets are seamless and highly integrated. Economies are linked not only through trade, interest rates and growth, but also by international companies and



Our team includes engineers, scientists, health and technical professionals – individuals with deep sector expertise and relentless curiosity – and we ask them to apply that expertise on a global scale.

Mila Krassiouk, MBA, CFA
Senior Portfolio Manager, Partner

investors. An investment strategy that is only focused on Canada, the U.S., or a given region stands to be blindsided and is untenable.

As such, our research team has cultivated and developed deep international sector expertise. We pursue knowledge and appreciation of global industry-shaping trends. We promote engagement with business managers to better understand corporate strategies and challenges.

Our research team comprises professionals who are specialized by industry to ensure thorough knowledge of the sectors and economic regions they cover. Collectively, they speak a total of thirteen languages. They travel abroad to visit investee companies, meeting with management and touring facilities, with the goal of making the best portfolio investments wherever a security may trade.

6. Public Markets

The characteristics of public markets – diversification, liquidity, transparency, low costs, and strong governance – reduce risk

When you buy shares listed on an exchange, the issuing company has met the financial requirements and is bound to report audited earnings on a regular basis according to strict standards. This may not necessarily guarantee good governance, but it does make it a public and visible issue. You know what you are investing in, and what it costs at any given time. You always have the flexibility to buy or sell your investment.

Private markets, by contrast, are mostly opaque. Private equity investments are sometimes shrouded by unknown risks, long capital lock-in periods and infrequent (and subjective) pricing.

Choice is limited and opportunities are not always available for purchase. Problems cannot always be disposed of.

Transparency, known regulatory environments, and liquidity are key requirements. Therefore, we only invest in publicly-traded securities.

We trade only in public markets because they provide liquidity and transparency.

Stephane Lebrun, MSc., CFA, SASB FSA credential holder
VP Investment Management, Partner



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