

## Responsible investing at EdgePoint

What does “ESG” (Environmental, Social, Governance) mean to you? We ask because we find ESG means something different to each person we talk to. Some think the E is the most important. Even within the E itself, there are things that seem more important to some people than to others. Meanwhile, others may focus on the S or on the G. All tend to believe that the E, S and G are important, but may weigh these elements differently in their investment decision-making process (even though they might not admit it). At the same time, many just see it as a box-checking exercise.

Investment firms now need to pay rating agencies to rate companies based on E, S and G. Somehow that rating from a third party tells them something about their businesses that they didn't already know? Somehow these ratings from third parties are now dictating where that investment firm should invest? Somehow different ESG rating agencies have different ratings on the same securities? If that's not odd enough, somehow these ratings seem to be more about what the company has done in the past than about what the company will be doing tomorrow.

Just like we believe the ratings on bonds from Moody's or S&P are useless information to anyone who knows how to analyze credit risk, the ESG ratings we see today have little value for those who already have a well-defined view of what ESG means to them.

When we think of ESG, **we think about how a company is making the world a better place.** Making the world a better place means the future, not the past. The companies that are going to do the best for the world are those that are making improvements to the state of the world.

Throughout our due diligence process, we look for any issues that pose material long-term risks to our potential investment (e.g., exploitation of workers, management character, environmental contagion, unsafe working conditions, excessive remuneration, allocation of capital, conflicts of interest, etc.). There were many times we decided not to invest in a business due to issues that would be defined today as “ESG issues”.

We use this information to shape our investment decisions and hold the businesses we own accountable for upholding their corporate ESG principles. We also encourage management teams to enhance their procedures and policies as required. We believe that this ongoing engagement with company leadership is an effective way to maintain and improve corporate responsibility in the businesses we own. After all, improving corporate responsibility is good business.

We do the corporate box-ticking today that's more officially required and we've certainly improved on our ability to document the process and engagement that we've always had on ESG matters. For example, these recent developments highlight our continuing commitment to this matter:

- In 2019, we implemented an ESG monitoring tool offered by RepRisk. RepRisk is a data science company specializing in ESG and business conduct research. ESG-related news on each company we invest in is actively collected by RepRisk and sent to the Investment team for their ongoing due diligence of businesses in the Portfolios, and also prior to making an investment.
- In January 2020, we became signatories of the United Nations-supported Principles for Responsible Investment (PRI). The PRI lays out a series of principles with the goal of setting a global standard for responsible investing. As signatories, we're committing to review ESG issues in our investment analysis and publicly reporting on our progress.
- In 2020, we started incorporating ESG monitoring as part of our quarterly governance and oversight committee meetings.

We also always defend our investors' interests. This includes voting proxies to reflect our views on management compensation and board composition, as well as ensuring responsible capital allocation.

We've found that we've been engaging more each year and believe this growth will continue. Again, we believe this because it's good business for a company to make the world a better place. It's not good business to pollute more. It's not good business to ignore the benefits of a diverse workforce or diverse leadership.

It's important to highlight the simple fact that sustainability is interlinked with financial results. We see this evidence in the businesses we own, and in the ones we avoid. A company's efforts to increase their positive impact environmentally, socially and economically are undeniably positive for the owners of the business – and for the world.

### Little Things

Sometimes it's the little things that make the world a better place. These are examples of initiatives put in place since the acquisition of our pest control business in Cymbria:

- Launched a new service to treat for bed bugs using a biopesticide which is more environmentally friendly than conventional pesticides
- Provided pro-bono disinfecting services to a local food bank during the hardest months of the pandemic and supported local food banks across Ontario with a monetary donation
- Implemented electronic service reports and billing to save paper and courier footprints
- Installed GPS units in the vehicle fleet to optimize vehicle usage reducing gas consumption and vehicle idle times