

# ESG Case Study

## Canadian Equity



At Fiera Capital, we understand the importance of both investing for long-term sustainability and maximizing returns for our clients. We firmly believe these two basic tenets are not in conflict. Given the various investment teams and asset classes that Fiera Capital manages within our platform, in order to integrate each of these basic tenets, all of our investment teams have the flexibility to determine how each assesses the materiality of Environmental, Social, and Governance (ESG) risk factors, and how they integrate this assessment of risk into their investment processes. We believe this flexible approach creates a more meaningful framework that enhances engagement on ESG risk factors within each team and reinforces a culture of continuous learning about risk management and sustainability throughout the firm.

But while it's essential to explain our philosophy of ESG integration, we believe it's equally important to demonstrate exactly how our teams have incorporated their ESG philosophy into their investment decisions. To that end, what follows is a sample of one of our teams' recent investment process taken with a particular emphasis on ESG risk assessment.

### Thomson Reuters: Doing More with Less

As investors, we view energy consumption as a somewhat unproductive cost. In daily production or service-delivery, an enterprising owner, we surmise, would largely prefer to produce more with less. While energy consumption is a necessary cost, it is one we wish could be reduced and minimized over time.

In contrast, costs like research and development, human capital development, marketing expenses, product investments and the like are potentially far more productive uses of cash. These costs might provide a return to the company or benefit employee culture, shareholders, and the community. Importantly, an ongoing focus on efficiency can, in our view, positively influence the long-term health and value of a business.

For many companies, energy consumption adds little to the long-term growth in business value. As long-term owners, we would much rather a company reduce its energy consumption annually and invest those savings into people development, R&D, new products and/or sales-building activities. A material reduction in emissions intensity in parallel with an improvement in profitability and business value is something we observed at Thomson Reuters, one of the world's premier data and information companies.

### Reducing Unproductive Costs

More than 5 years ago, Thomson Reuters embarked on a business transformation<sup>1</sup> plan to improve the performance, profitability and strength of the business. Part of the plan was a meaningful reduction in its real estate footprint, which, for a software and information services business, is a meaningful

<sup>1</sup>The transformation plan has been a broad, ongoing initiative. The company has sold a number of divisions, including a major decision this year to divest a majority stake in its financial and risk businesses. Given the significant nature of this transaction, we have left our commentary to the period prior ending 2017.

contribution to expenses as well as energy consumption. The company spoke about setting a target of reducing its carbon footprint by 5% over five years. The reality was that as of the end of 2017, the company's carbon intensity had declined 35% in that timespan.

However, perhaps more important was the change in thinking around environmental efficiency and cost reductions. In our discussions with the company, we learned that as the transformation plan progressed, energy-related savings became an increasingly important part of efficiency discussions. Measurement and monitoring improved and the team responsible would ultimately report to the CFO, suggesting alignment between costs, efficiency and environmental footprint.

More broadly, we take away the following: as energy-related savings continue to surprise more and more management teams (and we expect they will), they potentially capture more mind-share at the executive level and increase in relevance to long-term investors.

#### Impact on Business Value

While we don't view the reduction of emissions intensity as the sole driver of profitability and share price improvement at Thomson, it remains important when evaluating the quality of a business. The reduction in emissions intensity occurred in parallel with a reduction of other costs (e.g. rent and resource duplication), which, on balance, sought to remove inefficiencies from the business, rationalize products and improve

competitive positioning. Today, profitability has improved, debt has declined, product development has re-emerged, and, importantly, the value of the business has grown.

In effect, Thomson is doing more today – and is competitively in a stronger position – with less. That's a win for the company, win for shareholders, and win for the environment. Going forward, the leaner, more productive organization that is spending less on unproductive costs should theoretically earn better returns on investment, have more capacity to invest in growth initiatives, and be better positioned to withstand new or existing competitive threats. These are all items we consider when evaluating the quality of a business.

Energy consumption is one of a number of unproductive costs an organization can reduce to eliminate inefficiencies, minimize environmental impact and increase profitability. And while it may not immediately boost quarterly results, a consistent approach to efficiency may benefit the organization and shareholders for many years to come.

We believe the longer one's investment horizon, the less quarterly results matter and the more business operations – such as efficiency initiative – do. As such, thinking about Environmental considerations in parallel with Efficiency helps link the "E" in ESG with long-term business value, suggesting increases in efficiency not only reduce a company's impact on the environment, it can contribute to shareholder value too.

— The Fiera Canadian Equity Team

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