

## PORTFOLIO ACTIVITY

During October, we made several rebalancing trades, most notably reducing our weight in the rapidly recovering MTY Food Group, and adding to our positions in both Bank of Nova Scotia and Roper Technologies Inc.

## FEATURE STOCK

### TFI International Inc. (TFII)

Despite - or perhaps because of - an extremely challenging business environment, transportation and logistic provider TFII has been very busy on the M&A front in recent months. Just since June, the company has announced acquisitions that will add \$900m in annual revenue and the continued strength of its balance sheet leaves plenty of room for additional accretive activity, should opportunities arise. The most significant addition during this stretch was US third-party logistics provider, DLS Worldwide, which will accelerate TFII's move into "asset-light" sources of revenue generation. As CEO Alain Beaudard said following the purchase, "TFI's US logistics segment represents one of the diamonds that's going to be shined, with the potential for major growth by capitalizing on growing e-commerce volumes." While the more capital intensive trucking business remains the company's largest top-line contributor, the expansion of logistics and similar services should boost aggregate margins. In late October, TFII reported strong Q3 earnings, helped by disciplined cost control, while its stock has gained more than 45% so far this year.

## WHAT WILL THE PANDEMIC MEAN FOR ESG?

The widespread inclusion of environmental, social, and governance (ESG) factors in analytical models has been one of the most significant developments in investment management over the past decade and the current crisis may actually accelerate this push. Within the broad economy, a sharper focus on workplace safety and best practices, propelled by a vivid reminder of the connection between our health and our environment, could provide a positive legacy from an otherwise grueling year. At the same time, money managers will be increasingly asked to support and encourage this positive corporate behaviour.

In DM's analytical process, ESG considerations play an important part in our qualitative evaluation of investment candidates and we act on our assessments across three core pillars:

1. **Engagement** – ongoing dialogue with companies to understand and influence their fulfillment of ESG related improvements;
2. **Election** – using our proxy voting strength to endorse initiatives that are ESG-positive and reject those which are not;
3. **Allocation** – including ESG scoring in our determination of individual position weights within portfolios.

We populate our models with material from ESG-focused data providers, relevant sell-side research, disclosures made in company reports and filings, and information gathered during meetings with corporate management teams. Once assembled, company information is entered into a scoring matrix which grades each holding against up to 30 different ESG metrics, including Greenhouse Gas Emissions, Employee Health & Safety, Board Composition, and Indigenous Relations. Through this analysis, a unique ESG score is tabulated for each portfolio holding, which contributes to our position weighting calculation and may result in the avoidance of a particular security altogether. This work is directed by DM's core ESG guiding principles:

**ESG conviction** – the nature & sincerity of a company's response to ESG issues can reveal much about its culture and how it will handle other important issues;

**Disclosure level** – greater openness signals an appreciation for transparency and a willingness/ability to adapt to changing business conditions;

**Diversity commitment** – a wider range of perspectives in the decision-making process inevitably leads to better outcomes, both for business and for community;

**Indigenous respect** – companies should forge trust-based relationships with Indigenous groups and provide employment and community support when possible;

**Governance record** – superior management and effective oversight are critical both to a company's ESG success and to its long-term operating and financial performance.