Barometer's ESG Investment Principles

As investment managers, we stand firm in our belief that an effective, sustainable global economy is essential to the creation of long-term value. As such, it is worth noting that the topic of Environmental, Social and Governance (ESG) investing has grown in size and popularity throughout the investment industry. While ESG has the potential to be incorporated into the Investment process through several forms of applications, we at Barometer feel its worthwhile to share our principles with regards to ESG, and how it applies to our investment process.

At Barometer Capital, three factors impact portfolio returns: market, sector and security. Each of these factors have an impact on portfolio returns and are actively addressed in our investment process. We focus on identifying emerging and durable themes and taking the time to fully understand what's driving behaviour. As such, security selection means finding companies that are "good, getting better" and not "broken, getting fixed." ESG becomes a holistic factor that ties into our internal analysis and threads together an analysis that establishes the fundamentals of a company, and in which direction it is headed.

It is worth stressing that for Barometer, materiality matters. A fundamental to our ESG analysis is the relevance (the materiality) of sustainable efforts to directly effect bottom line operations. When corporations make ESG efforts that directly tackle issues of inefficiencies and mis-management, that do not make ESG claims for the sake of superfluous marketing, there is strong opportunity for upside potential. We believe that incorporating ESG considerations into the investment process has the potential to enhance what asset management can accomplish, and that ESG analysis is an important component to be applied to the screening process, across the full universe of global securities. We break down ESG as follows:

Environmental factors relate to a company's interactions with the physical environment. Barometer takes metrics of carbon emissions, climate impact, resource management, pollution prevention and environmental disclosures as key data that provides colour to a company. For example, a fossil fuel company, would need to be mindful of the potential impact of carbon taxes and the implications of climate change policies; doing so will improve efficiency. For a mining company, site rehabilitation liabilities on the balance sheet and adequate reserves act as note-worthy factors, which our research teams keep top of mind when accessing particular opportunities and vulnerabilities.

Social factors relate to the impact of a company on a community or society. Barometer takes metrics on worker health and safety, human rights and employment relations as key data that provides color to our screening process. For example, a manufacturing company would be required to evaluate its history of safety issues. For a retailer with a unionized workforce, we would assess its management of labour relations. These metrics aid in evaluating a company's potential to increase productivity, improve its reputation, and develop brand loyalty.

Governance factors relate to the way companies are governed at the executive and board level. Barometer considers metrics of executive compensation, board accountability and shareholder rights as relevant data points in determining the efficiency with which companies have to protect shareholders and retain company value. For example, a company's compensation program provides an insight into how management teams are paid, which metrics are used to determine bonuses and the overall efficiency of compensation. We evaluate the members of the board based on their degree of independence and their commitment to upholding shareholder and stakeholder interests.

When ESG factors are managed correctly, a company can reduce costs, improve profitability and lessen regulatory/litigation risk. Through our holistic evaluation, Barometer approaches ESG as a key gear in the clockwork of our evaluation process: a point of view that aids in unlocking potential investment questions, such as "what is the fair value of a security?" and "is now the right time to invest?". Without an integrated approach, one that accounts for all ways in which a firm operates, investors not only leave value on the table but risk investing in corporations which are built on faulty ground.