

Global Equity SRI Strategy

Top 10 Holdings

May 2024



Copart, Inc. (NASDAQ: CPRT)



Copart operates salvage yards and online auction sites for buyers and sellers of used auto parts. Since its founding in 1982 it has grown to over 10,000 acres of wholly-owned land across 200+ salvage yards. It sells ~3 million vehicles each year (~80% are from insurance companies where the car has been deemed a total loss) to buyers from 190+ countries, effectively reducing the lifetime carbon footprint of a vehicle. Like stock exchanges, auction sites operate under a flywheel effect, whereby the sites with the most liquidity (i.e., sellers) attracts the most buyers, which in turn attracts more sellers and so on. Since Copart owns the most yards and the longest running online sites, it has attracted the most sellers, giving it a major advantage and a dominant share (~45%) of the North American market.



Investment Thesis

ESG	Circular economy (reselling recycled parts); eliminated >11 million metric tons of CO2e in automotive manufacturing emissions in 2023
Industry attractiveness	Duopoly ¹ with a long runway to grow internationally
Competitive advantage	Land scarcity and NIMBYism around salvage yards + network effects (most bidders → more sellers → more bidders...)
Management assessment	Exceptional management team with family roots (Co-CEO, Jay Adair, started in 1989 and is son-in-law of the founder and receives 100% of his compensation in shares); high insider ownership (founder ~6%, Jay Adair ~3.5%)

Key Financial Metrics

Revenue growth (10-YR)	14% p.a.	FCF/share growth (10-YR)	17% p.a.
Gross margin	~50%	FCF conversion	~70%
Operating margin	~40%	Leverage (Net Debt/EBITDA)	-1.3x
ROIC	>30%	Total shareholder return (10-YR)	27% p.a.

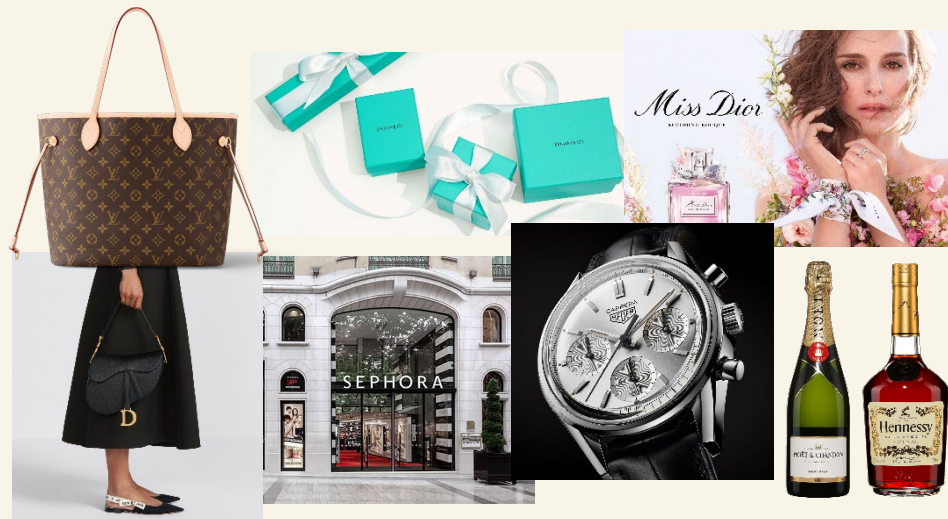
Source: Bloomberg

1. Copart and its main competitor IAA represent 80%+ of the North American market.

LVMH Moët Hennessy Louis Vuitton SE (EPA: MC)

LVMH

LVMH is the world's leading luxury products conglomerate, boasting 75 prestigious brands (or "houses" as they like to refer to them). Its most iconic brands include Louis Vuitton, Christian Dior, Fendi, Bulgari, Tiffany & Co, Dom Perignon, Hennessy, Moët & Chandon, and Sephora. The core of the business is driven by the Fashion & Leather Goods segment, which accounts for just under 50% of sales but makes up ~75% of operating income. LVMH also has strong presence in Watches & Jewelry, Perfumes & Cosmetics, Wines & Spirits and Selective Retailing.



Investment Thesis

ESG

Industry leading sustainability practices; SBTi aligned targets; extensive product lifecycle assessments & supply chain audits

Industry attractiveness

Limited competition due to high barriers to entry (lasting luxury brands can take decades or even centuries to develop); long growth runway supported by growing global upper middle class

Competitive advantage

Strong portfolio of powerful luxury brands with rich history resulting in high margins and pricing power

Management assessment

Founder-led with high insider ownership (~50%); successful track record in building LVMH into a luxury conglomerate powerhouse

Key Financial Metrics

Revenue growth (10-YR)	11% p.a.	FCF/share growth (10-YR)	14% p.a.
Gross margin	68%	FCF conversion	~90-100%
Operating margin	26%	Leverage (Net Debt/EBITDA)	<1x
ROIC	>20%	Total shareholder return (10-YR)	22% p.a.

Source: Bloomberg

Danaher (NYSE: DHR)



Danaher is a global healthcare and sciences equipment firm with leadership positions in diagnostics, biotechnology, and life sciences. It produces mission critical equipment used by customers to accelerate innovation and technology with a goal of improving human health. Most of its products and services are sold on a recurring basis, creating a predictable and stable source of cash. Danaher was one of the first US companies to successfully integrate Japanese “Kaizen” manufacturing principles (Danaher Business System or DBS). Danaher has evolved through acquisitions and divestitures, but the core focus has remained on long-term value creation driven by a culture of continuous improvement and operational excellence.



Molecular Devices
Cellular imaging



Cytiva
Bioprocess filtration



Beckman Coulter
Hematology analysis



Radiometer
Blood gas testing



Sciex
Mass spectrometers



Cepheid
Molecular diagnostics

Investment Thesis

ESG

Core businesses focused on improving quality of life; carbon intensity 63% lower than industry average; formal talent pipeline development strategy to harness employee loyalty

Industry attractiveness

Attractive secular growth tailwinds, including shift in medicine towards biologics and increasing focus on genomic medicine (study of DNA)

Competitive advantage

Differentiated technology protected by patents and copyrights; mission critical applications leading to high switching costs, pricing power, and a sticky customer base

Management assessment

Long, successful track record of acquisitions and divestiture activities; strong execution of the DBS culture

Key Financial Metrics

Revenue growth (10-YR)	3% p.a. ¹	FCF/share growth (10-YR)	8% p.a.
Gross margin	59%	FCF conversion	>100%
Operating margin	22%	Leverage (Net Debt/EBITDA)	~1.5x
ROIC	13%	Total shareholder return (10-YR)	16% p.a.

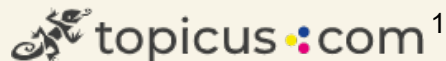
Source: Bloomberg

1. Overall revenue growth was impacted by M&A and divestiture activities.

Constellation Software (TSE: CSU)



Constellation Software is a serial acquirer that owns more than 500 niche vertical market software (VMS) companies across six, decentralized operating groups (see below). VMS companies each focus exclusively on one industry (e.g., software for golf courses), addressing essential operations, which leads to high retention rates while typically representing a small portion of a company's costs. These are often mature businesses, generating low-single-digit organic growth but have high returns on capital, which Constellation then reinvests in further VMS acquisitions driving significant overall growth. The Company is led by founder, Mark Leonard, who is one of the most well-regarded capital allocators in North America.



Investment Thesis

ESG	Strong governance procedures relative to industry peers; commitment to improve ESG and climate-related disclosure approach and reporting
Industry attractiveness	Long runway for management to reinvest cash flows (~40,000 potential targets)
Competitive advantage	Businesses offer mission-critical software to customers, leading to recurring cash flows with low single-digit organic growth; decentralized organizational structure allows for capital to be deployed more efficiently
Management assessment	Founder-led with high insider share ownership (Leonard is the 7 th largest shareholder); strong track record of acquiring VMS businesses at attractive returns

Key Financial Metrics

Revenue growth (10-YR)	25% p.a.	FCF/share growth (10-YR)	27% p.a.
Gross margin	88%	FCF conversion	>200%
Operating margin	12%	Leverage (Net Debt/EBITDA)	0.4x
ROIC	>20%	Total shareholder return (10-YR)	32% p.a.

Source: Bloomberg

1. Constellation Software has retained an ownership stake in Topicus.com post spin-off (~48% of shares outstanding).

Apple Inc. (NASDAQ: AAPL)



Apple Inc. designs, manufactures, and markets mobile communication, media devices, personal computers, and related service offerings. The company sells products, including iPhones, iPads, MacBooks, Apple Watches, Air Pods, Apple TVs, through direct and indirect channels including Apple retail stores, official websites, authorized resellers, carrier stores, and third-party retailers. In total, the company has >2.2 billion active devices globally. Its company-owned stores also consistently rank amongst the highest performing stores in the U.S at over US\$6,000 sales per sq ft.



Investment Thesis

ESG	Exemplary management of ESG risks with extensive visibility into policies and programs; building increasingly powerful and energy efficient products
Industry attractiveness	High barriers to entry as competitors would require significant investments in technology, R&D, and marketing
Competitive advantage	Powerful ecosystem, continuous innovation, and strong brand identity resulting in customer loyalty, pricing power, and attractive margins across all product categories
Management assessment	Strong investments in products and technology; long track record in generating strong free cash flows and shareholder returns

Key Financial Metrics

Revenue growth (10-YR)	8% p.a.	FCF/share growth (10-YR)	15% p.a.
Gross margin	45%	FCF conversion	>100%
Operating margin	30%	Leverage (Net Debt/EBITDA)	-0.5x
ROIC	>50%	Total shareholder return (10-YR)	27% p.a.

Source: Bloomberg

Microsoft Corp. (NASDAQ: MSFT)



Microsoft is a worldwide leader in software, services, devices and solutions for both consumers and businesses. The Company operates three business segments: Intelligent Cloud, Productivity and Business Processes, and More Personal Computing. Microsoft has played a central role in shaping the landscape of both software and technological development. Its Windows operating system and Office productivity software dominate their markets and its cloud computing platform, Azure, is a leader in cloud computing and data management infrastructure. Additionally, Microsoft makes Surface tablets, Xbox game consoles, laptop computers and owns both Skype and LinkedIn.



Investment Thesis

ESG	Strong environmental objectives focused on: Preserving ecosystems by protecting more land than they use by 2025; replenishing more water than they use by 2030; becoming carbon negative by 2030; and becoming zero waste by 2030
Industry attractiveness	Demand for enterprise software and cloud computing are growing at healthy rates with cloud growing 20%+
Competitive advantage	Dominant market position in key products including enterprise software, namely its Office suite, resulting in a very sticky customer base with high switching costs and pricing power
Management assessment	Since current CEO took over in 2014, Microsoft has been one of the top performing companies in the US by moving into new verticals and creating a subscription-based revenue model

Key Financial Metrics

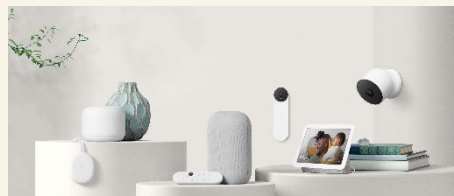
Revenue growth (10-YR)	19% p.a.	FCF/share growth (10-YR)	21% p.a.
Gross margin	70%	FCF conversion	>80%
Operating margin	44%	Leverage (Net Debt/EBITDA)	0.25x
ROIC	>30%	Total shareholder return (10-YR)	28% p.a.

Source: Bloomberg

Alphabet Inc. (NASDAQ: GOOG)

Alphabet

Alphabet Inc., the parent company of Google, is a global technology company focused on improving the way people connect with information. The crown-jewel remains its ubiquitous Google search engine, which has ~90% market share. Alphabet also operates a variety of well-known services such as YouTube, Chrome operating system, Gmail, Google Play, etc. that generate advertising and fee revenue. It also designs and sells devices such as Google Nest products and the Google Pixel phone. Alphabet is also one of the core global cloud computing infrastructure providers via Google Cloud.



Google Cloud

Investment Thesis

ESG	First major company to be carbon neutral and first tech company to purchase renewable energy at scale; rigorous code of conduct in place and responsible supply chain
Industry attractiveness	Beneficiary of secular growth in technology use and AI and shift to a digital world
Competitive advantage	Scale and tremendous network effects as the largest search engine in the world (~90% market share); culture of innovation supported by top talent
Management assessment	Long history of innovation and execution, leading to high free cash flow generation and allowing company to reinvest in other high growth areas such as YouTube and Google Cloud

Key Financial Metrics

Revenue growth (10-YR)	19% p.a.	FCF/share growth (10-YR)	20% p.a.
Gross margin	56%	FCF conversion	~100%
Operating margin	27%	Leverage (Net Debt/EBITDA)	-0.8x
ROIC	>25%	Total shareholder return (10-YR)	20% p.a.

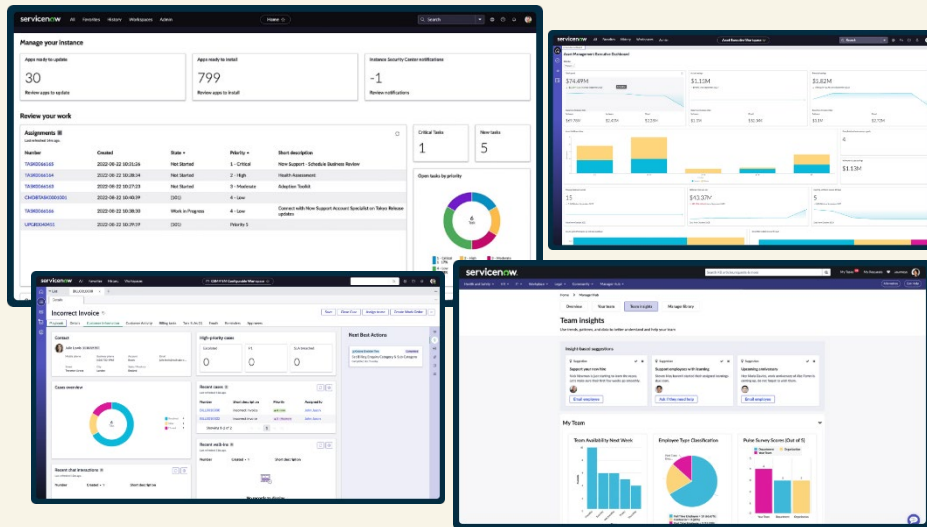
Source: Bloomberg

1. Based on start date October 2, 2015, after the completion of corporate restructuring of Google Inc., which resulted in the formation of Alphabet Inc.

ServiceNow Inc. (NYSE: NOW)

servicenow

ServiceNow Inc. is a leading software solutions company that specializes in delivering IT Service Management (ITSM) and IT Operations Management applications for enterprise via the cloud. Its customers include IT departments and other back-office functions in large enterprises of all types. In simple terms, ITSM software helps organizations automate and streamline IT workflows and problems at large companies. ServiceNow has leveraged its strong ITSM market position to expand into a broader suite of back-office management solutions, becoming one of the few companies with a true platform to enable “digital transformation” at enterprises.



Investment Thesis

ESG

Strong commitment to equity (has a multi-year diversity and inclusion plan and includes continued education for all staff); prioritizes environment and climate change

Industry attractiveness

Benefits from digital transformation, increasing adoption of cloud computing, and growing importance of data analytics and automation

Competitive advantage

Market leader in ITSM supported by innovative culture; its comprehensive platform is entrenched in critical operations, leading to high customer retention rates (~98-99%)

Management assessment

Management places strong emphasis on organic growth with focus on customer needs and priorities when developing new products and features

Key Financial Metrics

Revenue growth (10-YR)	35% p.a.	FCF/share growth (10-YR)	53% p.a.
Gross margin	78%	FCF conversion	>100%
Operating margin	8%	Leverage (Net Debt/EBITDA)	-1.7x
ROIC	9%	Total shareholder return (10-YR)	28% p.a.

Source: Bloomberg

Nintendo Co Ltd. (TYO: 7974)



Nintendo develops, manufactures and sells video game hardware and software. Originally founded over 100 years ago as a trading card company, it entered the video game industry in the 1970s and has since developed some of the most iconic videogame characters of all time including Mario, Luigi, Princess Peach, and Zelda. Its current console, Nintendo Switch, has sold almost 140 million units, becoming the third best selling console of all-time. The company has been expanding its reach with the opening of a Mario-themed amusement park and release of the Super Mario movie in 2023 which is the highest grossing video game film adaptation ever.



Investment Thesis

ESG	Publishes some of the most family friendly, non-violent games in the industry and is amongst the best for its Privacy and Data Security practices
Industry attractiveness	Spending on video games continues to increase while the demand for popular IP for use in movies, amusement parks, tv shows etc. has increased dramatically recently
Competitive advantage	Its most popular characters are decades old and amongst the most globally recognizable, allowing Nintendo to create a consistent line-up of top video-game sellers
Management assessment	Nintendo's focus has been to produce the highest quality games which has resulted in multiple gaming franchises and is allowing it to push into other industries

Key Financial Metrics

Revenue growth (10-YR)	17% p.a.	FCF/share growth (10-YR)	N/A
Gross margin	57%	FCF conversion	~70%
Operating margin	33%	Leverage (Net Debt/EBITDA)	-3.3x
ROIC	>23%	Total shareholder return (10-YR)	20% p.a.

Source: Bloomberg

Visa Inc. (NYSE: V)



Visa Inc. is the largest payment processor in the world, processing ~\$15 trillion in digital payments, connecting consumers, businesses, banks and governments in more than 200 countries. Visa's "payment rails" function like a complex web of secure connections, processing millions of customer transactions daily through a global network that connects issuing banks (who provide cards), acquiring banks (who process payments for merchants), and retailers. Visa itself doesn't hold customer funds but acts as a facilitator, ensuring smooth transactions and fast settlements and benefits from a significant network effect (universal acceptance in most developed markets).



Investment Thesis

ESG	Achieved gender pay equity, 64% board diversity for gender, race, and ethnicity dimensions, and has won numerous awards for being an ethical company
Industry attractiveness	Global transition to cashless payments; extensive processing network is difficult to replicate, creating very high barriers to entry
Competitive advantage	Dominant market share; brand power; focus on innovation; high operating leverage allows the company to earn operating margins >60%, significantly above the average business
Management assessment	Experienced management team with impressive track record of growth with consistent increase in total volume and transactions

Key Financial Metrics

Revenue growth (10-YR)	11%	FCF/share growth (10-YR)	25% p.a.
Gross margin	N/A	FCF conversion	>100%
Operating margin	65%	Leverage (Net Debt/EBITDA)	-0.2x
ROIC	>30%	Total shareholder return (10-YR)	17% p.a.

Source: Bloomberg

Appendix



Checklist approach to investing.



ESG ANALYSIS

Industry Attractiveness

- Positive long-term outlook
- Barriers to entry
- Attractive competitive dynamics

Competitive Advantage

- Moat source
- Moat strength and sustainability
- Growth runway

Quality of Management

- Capital allocation
- Firm culture
- Shareholder alignment
- Positive track record
- High integrity/honesty

Valuation

- Discounted cash flow
- FCF yield + growth
- Relative to peers and historical
- Sum of the parts

What is a competitive advantage?

Competitive advantage is a range of characteristics that provides a company with a competitive edge, enabling it to attract a larger customer base and expand its market share, thus resulting in higher earnings potential. These distinguishing factors are often challenging for competitors to replicate and play a crucial role in a company's ability to withstand economic downturns. However, companies must remain vigilant and responsive to evolving market conditions as changes in consumer trends, technology, or regulatory landscapes can erode a company's competitive edge if not preemptively identified and managed.

Below are some examples of a competitive advantage:

- **Network effect** refers to the concept that the value of a product or service increases as more people use it. The *internet* is a quintessential example – the more people and devices are connected to the internet, the more opportunities for interaction and collaboration, resulting in more content, information, and services. Networks that have already achieved critical mass benefit from barriers to entry for potential competitors as it may be challenging for new entrants to attract users away from an established network.
- **Brand equity** is the value of a brand that is determined by the consumer's perception of its reputation, quality and desirability. A strong brand, which has a loyal customer base, can serve as a powerful differentiator in a crowded marketplace. Building brand equity takes time, investment, and sustained

commitment, and companies who have successfully developed strong brand equity may benefit from barriers to entry. Consumers may also be willing to pay a premium for the perceived quality or prestige associated with the brand, giving the company pricing power.

- **Economies of scale** refers to the cost advantages that a business can achieve when it produces goods or services on a larger scale. Producing goods or service in large quantities often allows companies to spread their fixed costs over a great number of units, resulting in lower average costs per unit and higher profit margins. This can make the company more cost competitive compared to smaller peers. Achieving economies of scale may require significant investments in technology and infrastructure and can create barriers to entry for competitors trying to replicate their cost advantages.
- **Technology** can be a significant competitive advantage across various industries. Companies that offer products with superior benefits to customers over long periods of time can differentiate themselves from competitors, potentially leading to above-average economic returns. Proprietary technology can also provide companies with a period of exclusivity in the market, during which they can capitalize on their unique offerings without direct competition, capture market share and establish themselves as industry leaders.

Signs of a competitive advantage.

Identifying competitive advantages in a company through key financial terms involves analyzing financial statement and performance metrics. Here are some signs of competitive advantages:

- **Superior gross and profit margins:** A sustained high margin relative to industry peers suggests that a company has pricing power or cost advantages in its operations. It may also be indicative of a differentiated product or service offering.
- **Consistent revenue growth:** Continued revenue growth, especially when outperforming competitors, can signal that the company's products or services are in demand, and the company is effectively capturing market share.
- **Strong return on invested capital (ROIC):** ROIC assesses a company's efficiency and profitability in employing its capital investments. A high ROIC indicates that a company is generating significant returns from its investments. This involves investing in projects or assets that generate attractive returns and could be a result of efficient use of resources, robust or innovative business strategies, or competitive positioning within the market.
- **Healthy free cash flow (FCF):** Positive and consistent free cash flow is a sign of financial health and operating efficiency. Companies with competitive advantages typically generate strong cash flows from their operations, providing flexibility for investments, dividends, debt repayment, or share repurchases to drive long-term shareholder returns.
- **Low debt level:** Companies with durable competitive advantages often carry little or no debt. Low debt levels reduce financial risk and interest expenses, providing stability and flexibility in managing operations and pursuing growth opportunities.
- **Increasing market share:** Companies with competitive advantages often gain market share over time. Monitoring market share trends relative to competitors can provide insights into the effectiveness of a company's strategies and its competitive positioning within the industry.
- **High customer retention rates:** Strong customer retention rates or net promoter scores (NPS) indicate that a company has built a loyal customer base. Additionally, repeat business and reduced customer churn often point to customer satisfaction and the company's ability to deliver value over the long term.

Glossary

Free cash flow (FCF) is a measure of a company's financial performance that shows how much cash it generates after accounting for cash outflows to support its operations and maintain/upgrade its physical or fixed assets such as equipment, land, or a building. A positive FCF implies a company is generating enough cash to cover its ongoing expenses and investments, which may reflect strong financial health and/or financial flexibility.

FCF conversion refers to the process of a company converting its net income into FCF. It is an important metric because it reflects a company's ability to generate cash that can be used for reinvestment in the business, share buybacks, debt repayments, or dividends. It helps investors to assess a company's financial health and its capacity to generate value for shareholders.

Return on invested capital (ROIC) assesses a company's efficiency and profitability in employing its capital investments. A high ROIC indicates that a company is generating significant returns from its investments. This involves investing in projects or assets that generate attractive returns and could be a result of efficient use of resources, robust or innovative business strategies, or competitive positioning within the market.

Gross margin represents the percentage of revenue a company retains after subtracting the direct costs associated with producing or delivering its products or services such as raw materials, manufacturing overhead, or labour (also known as cost of goods sold or COGS). This financial metric provides insights into a company's financial health, production and business efficiency, pricing strategy, or competitive position within its industry.

Operating margin is expressed as a percentage of revenue that remains after subtracting both the cost of goods sold and operating expenses. This metric can be used to compare the performance of similar companies within the same industry and assess a company's ability to generate profits from its business activities over time.

Operating leverage refers to the degree to which a company's variable and fixed costs affects its operating income in response to changes in revenue. A company with higher operating leverage has a significant proportion of fixed costs relative to its variable costs, therefore its operating income would increase at a faster rate than its revenue (the company is covering its fixed costs with more sales). By contrast, the company's profitability may decline rapidly since fixed costs remain unchanged while revenue falls.

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The top 10 holdings are as of the date indicated and are subject to change. These holdings may also be different across the IA Clarington Inhance Global Equity SRI Corporate Class, IA Clarington Inhance Global Equity SRI Fund, and VCIM Global Equity Fund. All other information are as of December 31, 2023, or as of the company's most recent fiscal year-end where appropriate.

