

Agenda

- Background
- Being an Owner vs. a Lender
- What do we look for?
- Taking Advantage of Human Weakness
- Overcoming these human biases
- Summary

Long-Term Stock Returns Far Superior

Stocks, Bonds, Bills and Inflation: 1926-2010

Compound Annual Return (%)	
Small Stocks	12.1
Large Stocks	9.9
Government Bonds	5.5
Treasury Bills	3.6
Inflation	3.0

Source: Ibbotson SBBi 2011 Classic Yearbook,
Market Results for Stocks, Bonds, Bills and Inflation 1926-2010

Long-Term Stock Returns Far Superior

Stocks, Bonds, Bills and Inflation: 1926-2008



Source: Ibbotson SBBi 2009 Classic Yearbook,
Market Results for Stocks, Bonds, Bills and Inflation 1926-2008



Burgundy's Investment Philosophy

- Emphasize long-term absolute returns,
not short-term relative performance
- Focus on the quality and valuation of individual companies,
not macroeconomic events
- Concentrate on best investment opportunities,
not over-diversification due to lack of conviction
- Act opportunistically; *don't simply follow the crowd*
- Seek to protect capital and build wealth from there;
always invest with a margin of safety

Rigorous Research: Looking Deeper

- Financial analysis – 20+ years of key financials, in-depth review of Annuals
- Company meetings – phone interviews, face-to-face executive meetings
 - On-site company visits – over 500 annually, plus over 200 company visits to Burgundy
- Scuttlebutt – competitors/customers/suppliers, industry associations & experts
- Unique contacts – Burgundy private clients, senior staff network
- Valuation – conservative & thoughtful DCF, private market & “normal” multiples, margin of safety

Independent Research: Looking Deeper

- Comprehensive review and assessment of financial reports and regulatory filings
- Phone interviews with management
- On-site company visits – over 500 worldwide every year
- Network of business contacts
- Valuation – disciplined and conservative DCF, private market & “normal” multiples

Idea Generation

- “Dream Team” list – readiness to upgrade quality and value
- Reading, thinking – best undervalued moats, managements, economics
- Meeting management, conferences
- Entrepreneurial alertness – ideas from current holdings, keep eyes open for value in unexpected places, etc.
- Tapping into Burgundy’s global bench strength
- Unique screening – long-term and innovative metrics

The Burgundy Equity Investing Process

Step 1:
Quality

Business Characteristics

- Barriers to entry
- Limited competition
- Economic resilience
- Industry leadership

Managerial Characteristics

- Capable, honest management
- Excellent capital allocation record
- Equity ownership
- Good corporate governance

Financial Characteristics

- Growth in free cash flow
- Low capital requirements
- Good return on invested capital
- Strong balance sheet

Good companies grow intrinsic value over the long term

Valuation

Step 2:
Valuation

Step 3:
Buy Decision

Margin of Safety <30%
Dream Team

Margin of Safety ≥30%
Burgundy Investment



Example: McDonald's Corp.

- Long-standing competitive advantages include excellent brand recognition, market leadership and real estate holdings
- Volatile equity markets and temporary company-specific operational issues created a buying opportunity in early 2003
- Renewed focus on operational issues led to higher operating margins
- Used excess cash to buy back shares and to increase dividend three-fold

Valuation (as at March, 2003)

Intrinsic Value	\$22
Buy Price	\$15 or less
Margin of safety	32%
Final sale price	\$75



Burgundy Investment: Ritchie Bros. Auctioneers Inc., as at January 31, 2012

Fundamentals

- World's largest and only global auctioneer of heavy industrial equipment
- A deep moat: buyers attend auctions because sellers' equipment is there; sellers consign equipment to Ritchie because global buyers attend – a virtuous circle that is hard for competitors to penetrate
- Long term growth as market share expands from 4% of annual used equipment transactions
- Solid business attributes – revenue is a percentage of auction sales (c.12%), and margins are high (>30% EBIT)
- First class management team with almost no turnover

Financials

- Gross auction sales (2011) US\$3.7 billion
- 15-year growth in gross auction sales (CAGR) 10.8%
- Return on Equity (12-year average since 1998 IPO) 16.1%
- Debt to equity 0.27
- Dividend yield 1.9 %

Valuation

- Current price \$ 24
- Intrinsic value \$ 30
- Margin of safety 20 %
(discount to intrinsic)



Burgundy Investment: Heineken Holding, as at January 31, 2012

Fundamentals

- #1-2 in 59 of its 69 markets provides scale advantages in A&P and distribution and pricing power (+6-7% in '08)
- Heineken is leading international premium brand – generates >30% of profits and growing volumes in mid-5%'s
- Most diversified and least dependent on given country among brewers (i.e. 35% W.Eur., 25% Americas, 21% Africa & ME, 14% C&E Eur., 5% Asia)
- Emerging Markets across many regions generate 55% of profits and achieved organic revenue growth of >8% in 06-11
- Mid-teens operating margin has significant improvement potential
 - (e.g. SABMiller margin 40% higher, AB InBev margin double)
 - CEO since 2005 is operationally strong and is driving significant improvements in efficiency
- Not dependent upon debt markets for significant refinancing with net debt/free cash flow of 4-5x and 3.2 year average maturity. Effectively no covenants

Financials

- | | |
|---------------------------------------|--------|
| • Return on equity (current) | 18 % |
| • Return on equity (5-year average) | 17 % |
| • Growth in earnings (5-year average) | 10 % |
| • Price to earnings ('11) | 12.2 x |

Valuation

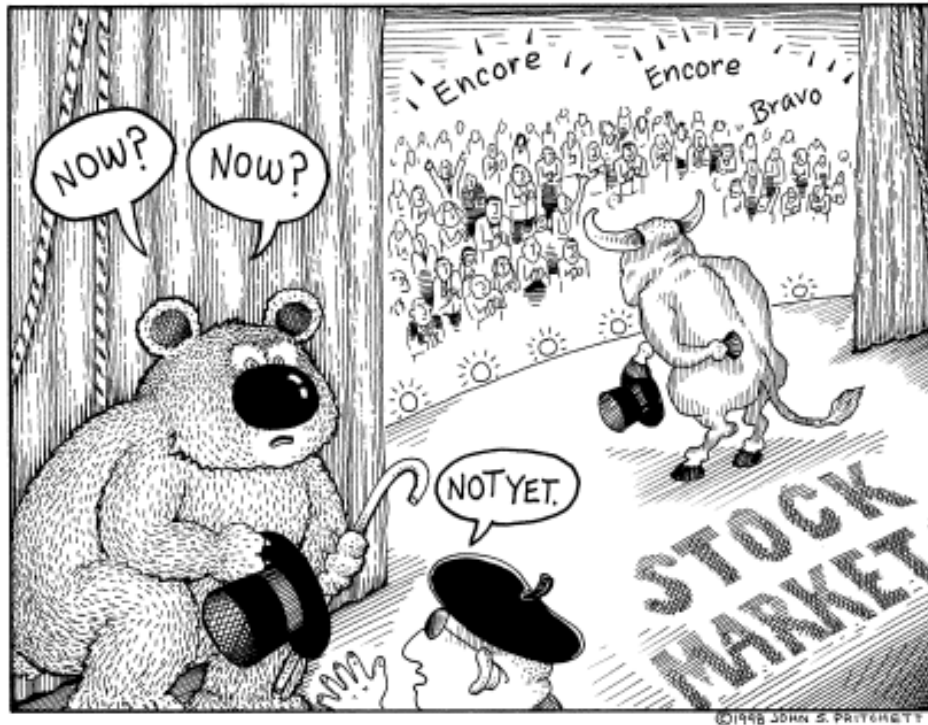
- Current price € 31
- Intrinsic value € 46
- Margin of safety 33%
(*discount to intrinsic*)



Taking Advantage Of Human Weakness

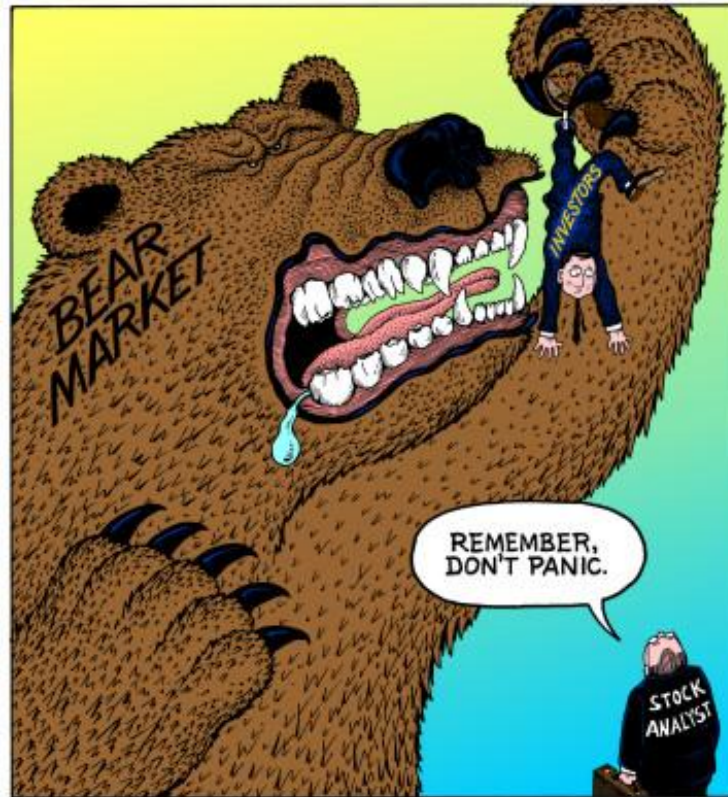
- The problem of emotions
- Standing apart from the crowd
- Behaviour at inflection points
- “The Intelligent Investor” by Ben Graham
- Taking advantage of human behaviour – Mr. Market

A Bear Market



Inflection points are key!

Don't Panic



Taking Advantage of Mr. Market



H612

“Well, thank you, Mr. Market!”

Overcoming These Human Biases

- Environment and culture
- Avoiding group think
- Discipline – the “Dream Team”
- Humility

Standing Apart from the Crowd

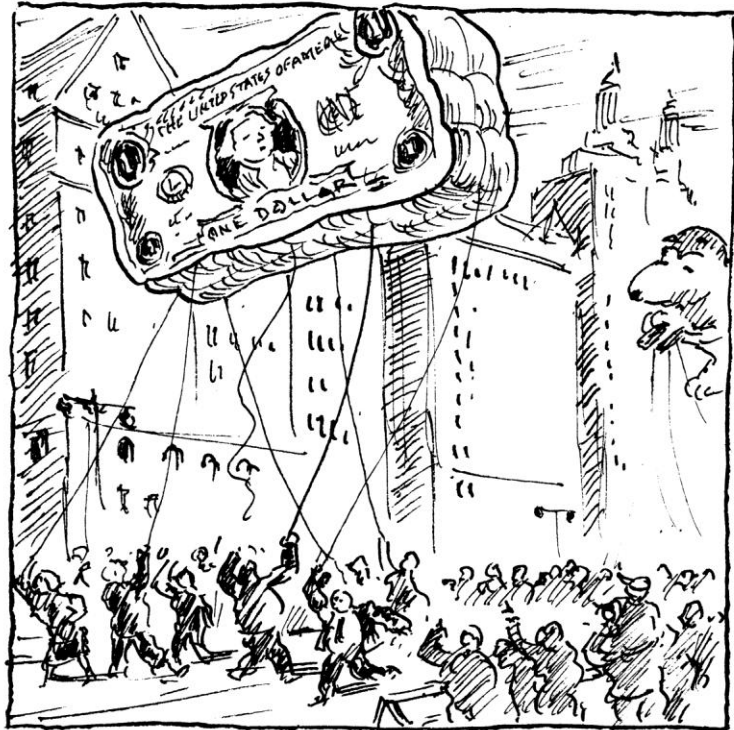


Decision by Committee



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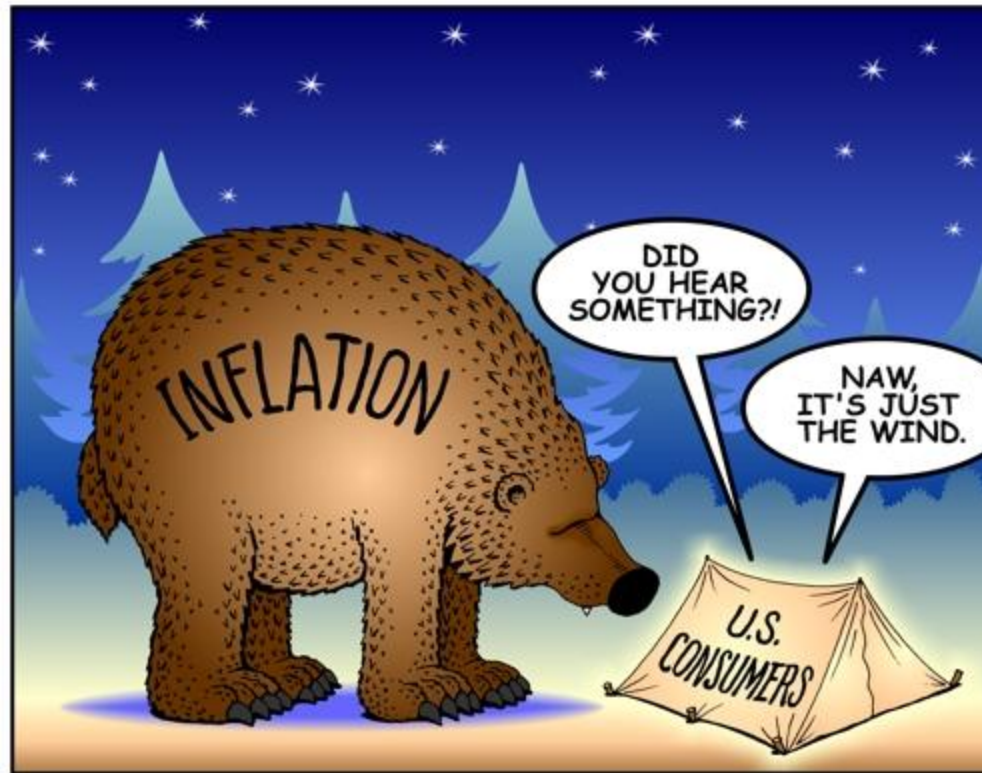


HB10

*Federal Reserve enonomists lead the
Macy's Thanksgiving Day Parade.*



U.S. Consumers in Denial of Inflation Threat





HB 11

“By God, I remember when interest rates were interest rates.”

