

QV UPDATE

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What Matters

Twitter feeds, blogs, Reddit, email pop ups, CNBC, Jim Cramer. In a world awash with information, it can be difficult to discern the relevant from the irrelevant. This is problematic when it comes to organizing one's time and making decisions, as studies have shown that too much information can actually impair a person's ability to make smart choices. In investing, this issue is particularly acute. The media often sensationalizes events to appear more significant than they truly are; sell-side broker emails bombard inboxes with buy, sell or hold recommendations daily; and the red and green flashes of stock market quotations offer to constantly validate or invalidate your investment decisions with price volatility.

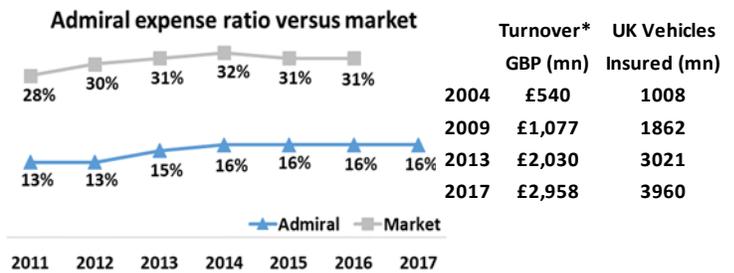
Long-term investment success requires the relentless disentanglement of the significant from the insignificant. A good barometer for determining relevance can be asking whether the information in question will still be meaningful at a future time beyond the short-term. It's a simple test, but it is ruthlessly effective in cutting out distracting information that can dilute meaningful focus.

A good investment thesis can generally be distilled into a few sentences. When the key drivers of a thesis are identified, it becomes much clearer which incremental information is relevant and whether it deserves serious attention. While there are many considerations for any investment, this filter allows investors to devote their effort towards gauging whether the primary factors that support an investment thesis are strengthening or weakening, and ultimately whether the long-term return profile remains reasonable.

For example, Admiral PLC is a British auto insurer that has been owned in the QV Global Equity Strategy since 2015. Auto insurance is a classically cyclical industry which exhibits many characteristics of a commodity market. With low cost headquarters and direct to consumer distribution, Admiral is structurally advantaged in an industry where efficiency is all-important. Along with a track record of shrewd underwriting, Admiral's above-average profitability allows it to set policy premiums below that of its peers. As a result, Admiral is able to consistently gain market

share and grow. It also helps that management is well aligned with shareholders and have a strong track record of value creation and financial prudence.

Admiral's competitive advantage can be demonstrated by comparing its expense ratio relative to peers and the translation to growth over time:



	Turnover* GBP (mn)	UK Vehicles Insured (mn)
2004	£540	1008
2009	£1,077	1862
2013	£2,030	3021
2017	£2,958	3960

Source: Company reports, QV Investors

*Turnover = total premiums written + other revenue

While the above does not tell us much about near-term fluctuations in Admiral's stock price or variations in quarterly earnings estimates, it focuses our attention on what is important to the long-term equity story rather than over-emphasizing short-term or cyclical factors that are difficult to predict and generally transitory. Over time, it seems likely that Admiral will continue to build share in UK autos at high levels of profitability as long as its low cost position remains intact. In addition, Admiral's future profits will probably be driven by more than just UK autos, as the business model is proving to be successful in other markets. For example, the company's Italian segment, Conte, grew customers by 20% to 500,000 in 2017. As this business continues to scale, Conte is well positioned to become a significant contributor to Admiral's earnings power.

From a portfolio perspective, focusing on what really matters versus what is transitory is critical to long-term success. This is why QV habitually emphasizes our seven tests for investment, how individual securities fit into this framework and how risk management drives our overall strategies. We believe that our strategies' long-term track records and future prospects are best measured by evaluating the consistency and repeatability of our investment process. Much like Admiral's low cost position, this doesn't provide much insight into narrow windows of short-term performance, but it should provide a good barometer for what really matters, which is long-term results.