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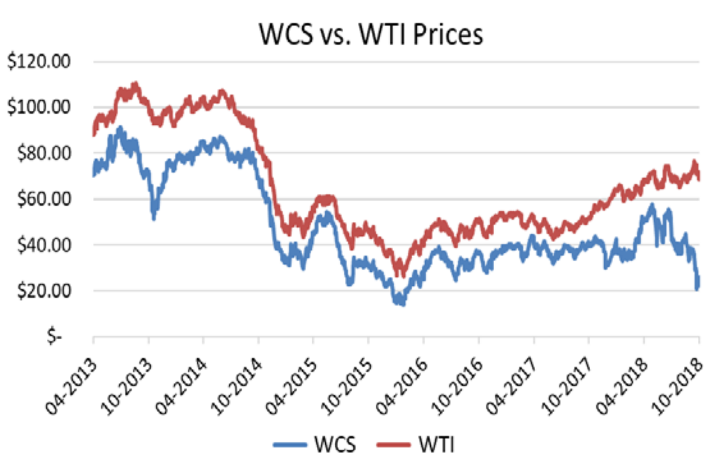
Weak Oil Spreads

One topic getting a lot of news coverage is the increasing difference between West Texas Intermediate Oil (WTI) versus Western Canadian Select (WCS). WCS is an oil product sold by Western Canadian oil sands producers. WCS has dropped back to 2016 levels even as WTI has risen back to its highest level since 2014. The reason is lower demand for WCS, which is due to a heavier than normal refinery maintenance schedule in the United States and one of Suncor's oil sands projects ramping up production faster than expected. However, one detail which is rarely brought up is not only does Canada mostly sell to one country, but 50% of Canadian crude goes to only eight US refineries (RBC Capital Markets). Furthermore, some of these eight refineries have reduced demand because of the maintenance. No wonder oil producers have a strong desire for pipelines to Canada's west coast, which would allow for export to countries other than the United States.

QV initiated a position in Cenovus, an oil sands producer, within the large cap and balanced strategies in January 2018 as discussed in QV's <u>March 2, 2018 weekly QV Update</u>. We have continued to add to the position when we have seen weakness. Even though the WCS price is lower than it was in March 2018 as shown in the chart below, the share price of Cenovus has not traded down to the same level in that period. We believe this is a result of CP Rail recently announcing contracts for shipping Crude by Rail (CBR) as well as Enbridge's Line 3 replacement project receiving an important approval in June 2018. We recognize these issues have created short-term volatility within our energy holdings, but we believe this has created an opportunity for patient investors.



Source: Bloomberg and QV Investors

Executives are People Too

If you regularly read business articles on various newspaper or magazine websites, it becomes obvious how CEOs of companies can take on a celebrity status. Let's look at Elon Musk as an example. The company he runs, Tesla, has transformed the car business, not only by producing in 2008 the longest-range electric car at that time, but by being the CEO of a company that has changed how cars in North America are sold. Buying a Tesla is more akin to buying an iPhone than going into a traditional car dealership. Elon Musk also happens to run SpaceX, which was the first organization to reuse a rocket that had sent a satellite into space.

Suffice to say, Mr. Musk is a very smart man with incredible creativity. However, sometimes what is forgotten with CEOs such as Mr. Musk is they are only people like everyone else. Elon Musk recently settled a case with the US Securities and Exchange Commission because of a tweet he sent on August 7th, 2018. His 22 million followers received this message: "Am considering taking Tesla private at $420. Funding secured." This type of information is typically reviewed by a company's advisors and when confirmed, press released by the company. The result of the SEC case has been a 25% stock price decline, the removal of Musk as Chairman of Tesla and a $20 million fine. Possibly this situation was a result of an executive being stretched by managing SpaceX with 7,000 employees, Tesla with over 35,000 employees, and raising his five sons. This is a lot for anyone to handle.

This is an extreme case but illustrates that as investors we must look at our companies to determine if the executives are stretched. These are the people making the decisions on business strategy and the allocation of shareholders' capital. We want to ensure they have the capacity to deal with the constant changes within their business. Recently, we met with a CEO of a large Canadian company who stated for the first five years he didn't sit on any company boards. Why? No time, especially if something goes wrong in that business or the one where he is CEO. He said after he got settled as CEO he did take a board seat at another company. He found it helped to study another company's business practices and use his learnings to help improve the one he leads. We have full faith in the intelligence and drive of the executives that run our companies, but we also recognize that they, like us, are only human, and we want to ensure the focus is always on protecting our investment.