

QV UPDATE

Weekly Commentary | February 1, 2019
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Just Keep Swimming

During the winter months I find myself daydreaming of the warm days of summer. I find my mind wanders the most as I sit in my “pain cave” on my bike trainer or treadmill, preparing for the upcoming summer of racing triathlons. To pass the time, I recently decided to watch the Women’s Triathlon from the 2016 Rio Olympics. As the camera panned across the athletes waiting to sprint down to the waters of the Atlantic, my eyes were drawn to Andrea Hewitt, a New Zealander, who was one of a few athletes who chose not to wear goggles. While the casual observer may have thought she forgot this basic piece of equipment, this was an intentional move by a seasoned competitor, veteran Olympian, and World Cup medalist.

Hewitt, a native of Christchurch, grew up competing in surf lifesaving, a sport that encompasses the various skills and tasks performed by lifeguards in a variety of weather and ocean conditions while not wearing goggles. She ventured into triathlon as a teenager and has become a top competitor for many years, relying on her strong swimming abilities. On that day in Rio, her background of surf lifesaving gave her the knowledge and experience to maneuver through the swim conditions and be one of the first women out of the water.

Being able to properly execute a strategy requires the right preparation, training and experience. Gaining meaningful experience involves constantly processing new information, learning new techniques, developing new tools, and learning from past outcomes. The goal is to be able to apply the experience to navigate new and uncharted territory.

This past year in the market presented its own unique challenges, including significant changes in volatility (see chart), multiple increases in interest rates in both Canada and the US, trade disputes, Brexit, and uncertainty over pipeline approvals in Canada, to mention a few.

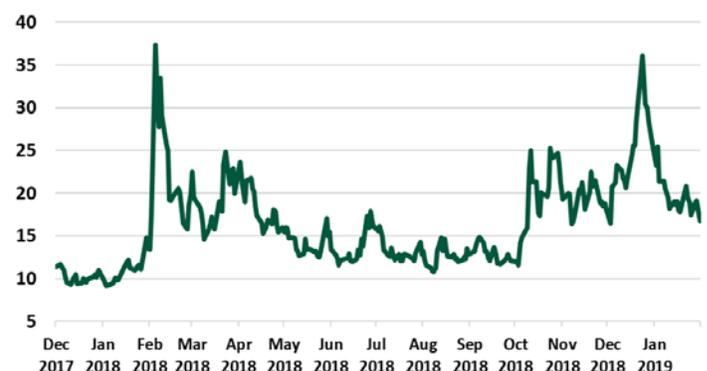
The Investment Committee at QV constantly looks to refine our process to ensure we comprehend the impacts that macro and company-specific issues have on our strategies. For example, the balance sheets of certain holdings have become stretched due to recent

acquisitions. The committee felt that, while our analysis was robust, we needed a tool that would further focus our discussion and research. Ultimately, a scorecard was developed that has tested our conclusions and highlighted areas for further consideration.

The scorecard builds off of our seven investment tests as they specifically relate to acquisitions. Ultimately, we need to understand what role acquisitions have played in the past growth of the company and determine if and how the acquisition would add value to the franchise. We are guided by past acquisitions to understand how management has previously digested transactions of different sizes and how they delivered on synergies. We also need to gain comfort in how the balance sheet is impacted after a deal, how the acquisition will be funded, the trending direction of balance sheet risks, and determine the company’s capacity to de-risk the balance sheet under various scenarios. The scorecard has also added an additional layer of skepticism on management’s assertions and other reports available in the market. Given that no two acquisitions are alike, formally structuring our thoughts allows us to view the landscape of possible outcomes.

Thoughtful refinements like the acquisition scorecard enhance our steadfast philosophy and process, ensuring we have the right tools to make thoughtful, informed, and timely decisions as we navigate the ongoing swells of the market, with or without goggles.

CBOE* Volatility Index



Source: Bloomberg
*Chicago Board Options Exchange