QV UPDATE

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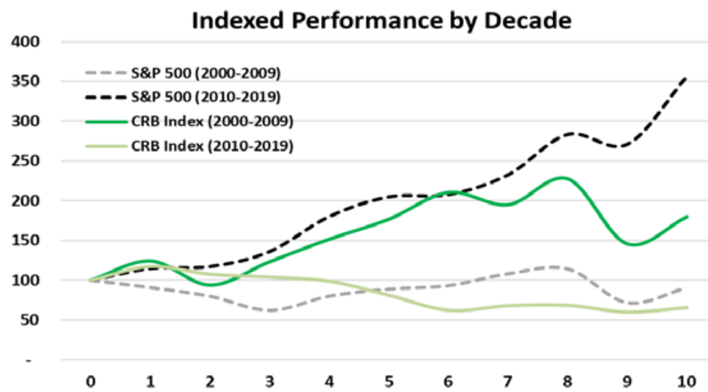
Ram Zilka, CFA | Mathew Hermary, CFA

Opportunity in the Decade Ahead

Stocks were the clear winner over the last decade, with the S&P 500 Index generating 13.4% per year versus a long-term average of 9.7% (from 1925-2019). US Treasury bonds also outdid their historical average, returning 7% per annum versus the long run average of 5.4%. Commodities, on the other hand, lagged significantly over the decade. The Reuters CRB futures index, a broad measure of commodity performance, declined 1.4% per annum from 2010-2019 compared to a long-term yearly increase of 2.4%.[1] The chart below highlights the divergence in performance among asset classes.

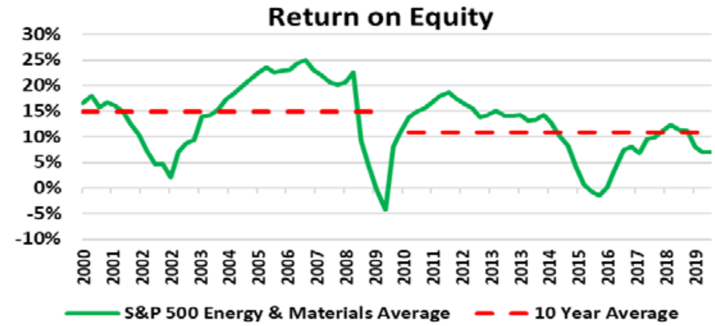


Source: Bloomberg

The graph also shows the drastically different results from the prior decade, which caused many investors to refer to the 2000-2009 period as the "lost decade for equities" and the "Supercycle" for commodities.

During the so-called Supercycle, strong economic growth across developed and emerging markets drove steady demand growth for a variety of commodities. Many investments in commodity-related areas of the market during this period turned to "gold" - SuperMajors and SuperMiners (the world's largest resource producers) became the go-to investments. This level of enthusiasm caused excess capital to flow into the sector. As record amounts were poured into additional supply, many of these investments generated lower than expected returns over the next 10 years (as shown in the chart at right.)

Over time, poor capital allocation decisions led to decreased investor interest in the resource sectors, driving their aggregate weight in the S&P 500 to shrink



Source: Bloomberg

from 15% in 2009 to just 7% in 2019. In recent years, heavy pressure from investors has urged management teams to improve returns on capital - but also return capital to shareholders - leaving only limited cash for the highest-quality reinvestment opportunities.

Investor apathy for these sectors has lead to pockets of opportunity for investors like us. We are consistently focused on areas of the market that have been beaten down by negative sentiment or largely ignored by investors - areas where expectations may be too low. Capital discipline remains a key theme amongst many of our resource investments. This focus from the industry should create a healthier environment in terms of both additional supply and future return prospects.

QV Global Equity Strategy holding EOG Resources, a leading North American exploration & production firm, is one company we believe will benefit from this theme. The company is expected to deliver above-average growth in the coming years due to a large portfolio of attractive reinvestment opportunities and continued execution of its efficiency & cost improvement strategy.

Rio Tinto is another example within the QV Global Equity Strategy. In an environment of limited supply growth, the company's low cost structure should allow it to continue generating healthy free cash flow. Rio Tinto's revised capital allocation framework has resulted in limited spending towards growth projects and record amounts of capital being returns to shareholders in recent years.

While opportunity is typically driven by a level of uncertainty, we believe partnering with industry leaders in these sectors will drive attractive-risk adjusted returns in the coming years.

[1]Returns sourced from Ned Davis Research