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QV Investors Inc.

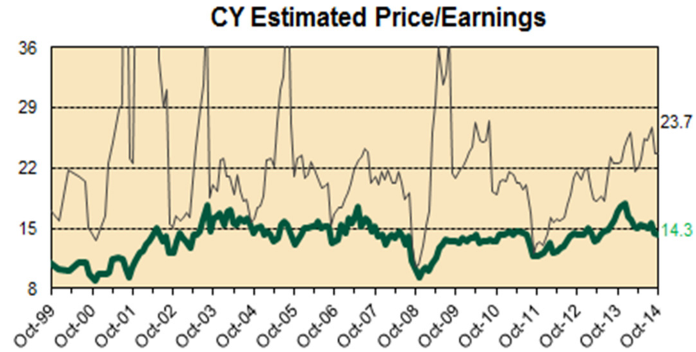
Discipline

In life being disciplined is usually somewhat difficult to do. It doesn't make for good stories or life long memories. When was the last time you were at a party and you hushed the crowd to tell them about a time that you were given an opportunity for adventure and you chose the boring and safe road? Nobody would likely be too impressed, but your repeated conservative behaviour should help you live to a ripe old age. Money management is not necessarily that different. It is usually extraordinary returns from individual stocks that create headlines and conversations at cocktail parties. Here at QV Investors we happen to come across such names on occasion, but it is not what we actively pursue.

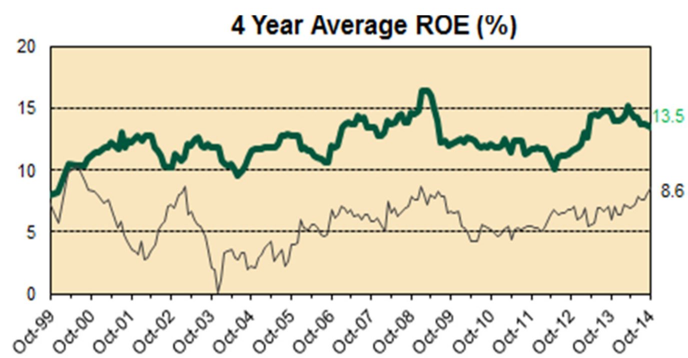
Our risk management process guides us towards well capitalized companies led by responsible management teams with promising outlooks trading at reasonable prices. Sometimes the companies that take the biggest risks reap the biggest rewards. Our portfolios are built with companies that are boring by contrast. We're looking for companies that will stand the test of time and add consistent value year after year.

Every month we slice and dice each investment mandate against appropriate benchmarks to confirm that we practice what we preach. We analyze our investments on roughly 30 metrics to ensure we create and maintain portfolios that have above average expected growth with below average risk and valuation. Every company that is introduced, eliminated, bolstered or trimmed is contemplated in relation to the outcome of our risk management process.

Unfortunately, outstanding short term results do not always coincide with our long term focus. Lately, expensive stocks have been getting more expensive. Our process has guided us to sell overvalued stocks in the last few months, and more often than not, their share prices have continued to rise. After returning over 40% in 2013, the estimated P/E of the QV Small Cap portfolio rose from 14.3x to 17.8x. This level has been reached by the QV Small Cap portfolio only twice before, over its 15+ year inception. We addressed this by selling more expensive names such as ATS Automation Tooling Systems (TSX:ATA) and bolstering positions in better valued names like Leon's Furniture Ltd. (TSX:LNF) to lower valuation risk. These moves probably hurt our relative short term performance but decreased valuation risk and potential downside in the future.



It is not just attractive valuation that we seek, but we also strive to have excellent growth metrics such as ROE (return on equity) to ensure the long term sustainability of our businesses.



It is often the case that companies that excel in one or more areas we value are weak in others. Building portfolios that maintain more attractive characteristics than the market on multiple levels can be challenging. This is especially true when the value of the market becomes elevated. Reasonably valued companies become scarce, shrinking our opportunity set of companies with appealing return profiles and desirable risk metrics. Our cash buffers have increased as a result. Our risk management keeps us disciplined to our investment philosophy, it is not exciting, but like that safe road travelled it gets you to your destination.