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QV Investors Inc.

Question Period

Occasionally we like to highlight some of the insightful questions that we hear from our clients. Given the market environment as of late, it is no surprise that the following questions have been top of mind.

What industry sectors do you like?

We defer to our bottom-up security selection process to reveal areas of opportunity. We further look to our risk management process to help us determine the appropriate weight for each company in the portfolio. From here our portfolio sector weights are born.

As an example, one area our research is pointing us towards is the Information Technology sector, where we are seeing companies with growing cash flows, strong balance sheets, and reasonable valuations. Other areas of potential opportunity are discussed below.

Given the weakness energy related companies have endured, will you be adding to your energy position?

It was hard for anyone to escape the wrath of the fall in oil prices, including QV. Even prior to the sell-off in the oil patch, we were seeing opportunities in well capitalized, cash flow rich, discounted companies such as Suncor and Canadian Natural Resources. As a result, we had been adding to these positions, among others, throughout the year and thus believe that we already had a decent exposure going into the weaker latter half of 2014. Given the uncertainty as to where the oil price will bottom, we will be patient in adding to our energy exposure at this time, but are looking to take advantage as opportunity unfolds.

What are your views on the inherent risks within the financials space?

The largest imminent risk to financial companies we believe is the rising debt burden of the Canadian consumer. A second magnifying factor would be weaker employment figures, especially in Western Canada. Together, these forces could mean slower loan growth, potentially higher loan losses, and more volatile prices. We may feel the effects of short-term volatility within the financial companies we own in our portfolios; however, we are underweight that of the broad market and believe we hold quality businesses that are well diversified and have proven track records of managing through difficult periods. We expect to see continued strong performance in the long-run from these companies.

Given the Bank of Canada's recent reduction in the overnight lending rate, has your asset mix strategy changed?

Mid-year 2014, we reigned in our equity exposure in our balanced mandates to 60%, down from 65%. This decision was on the heels of ever increasing equity valuations. Prior to the Bank's announcement last week, we decided to further reduce equity exposure closer to 55%. Even with severe declines in the energy space, we are still seeing high valuations, particularly in high quality and defensive businesses.

In truth, the rate cut indeed was a surprise to us. However, it speaks to the ramifications that prolonged and depressed oil prices may have on the Canadian economy. Our conviction to reduce equity exposure is stronger post announcement. This act of support, designed to soften the blow to Canadian investors and borrowers, will inevitably continue to fuel the equity market, as investors chase incremental return, further pushing valuations into higher territory. If this does continue, we will miss-out on potentially higher returns, but will have reduced overall risk should equity valuations normalize.

What role will cash play in the portfolios going forward?

For many of the same reasons we have elected to reduce equity exposure in our balanced portfolios, we have also been carrying higher cash levels than average. We simply are not finding enough compelling investment opportunities. Many of the businesses we have come across that meet our quality tests, are failing the valuation tests. We are comfortable sitting with higher cash levels at this time, as it provides a layer of defense against permanent capital loss and allows for greater flexibility when we do come across a good opportunity.

Who will win the Super Bowl this Sunday?

Teddy Bear the porcupine has predicted it will most certainly be the Seattle Seahawks. According to Huffington Post, Teddy is the newest animal Super Bowl forecaster. Teddy's enviable track record stems 3 years straight! I wonder if Teddy has considered a career in investment management?