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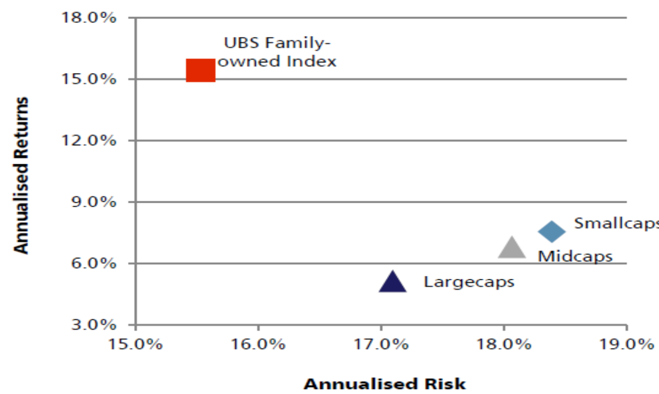
QV Investors Inc.

Family Values

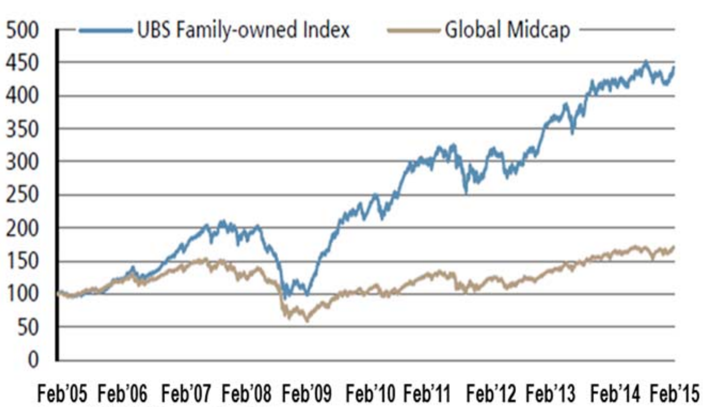
Family is a good thing. It provides a nurturing environment to start life and unconditional love through the growing pains. It provides guidance to misguided teens and young adults, and support for elderly members in need. Of course not all families are perfect and there are plenty of examples of dysfunction and undesirable characters to go around, but I stand by my original statement. Parallels can be drawn between families and family operated businesses. This update will address only public companies with strong family influence.



Source: UBS estimates

A recently released study from UBS, a Swiss based global bank, shows that family controlled public firms have significantly outperformed their benchmarks, with lower volatility, for the last ten years. UBS created a worldwide index of 250 family-owned small and mid-cap firms and tracked it against an appropriate benchmark. Large caps were omitted because significant family influence is rare in such big companies. They define a family business as having either more than 50% of the voting rights, or more than 20% of voting rights combined with top management or board influence.

UBS attributes higher than average profitability in family firms to strong corporate governance. Family firms tend to have similar attitudes toward debt, capital allocation and risk taking. UBS also stresses that a life cycle bias may exist as firms usually reach a somewhat stable, critical mass before issuing shares to the public. The family-owned index trades at a premium to its peers but UBS believes, based on their discounted cash flow analysis, that the current premium should be greater than it is.



Source: MSCI ESG Research Inc., UBS

Our portfolios at QV Investors have a relatively high concentration of family firms. About one third of the holdings in our Canadian Small Cap and SMID portfolios have significant family influence. We chose these firms, not because we knew that family firms have historically outperformed non-family firms, but because they contain many of the underlying qualities we look for in an investment.

Our values are aligned with those of family controlled firms in many respects. Maintaining a profitable firm over a long time horizon to support future generations is of utmost importance to family firms. Our favourite holdings are those that sit in our portfolios providing steady growth with managed risk for many years. We also aim to invest in companies where management has meaningful “skin in the game”. The rationale is that committed management will refrain from pursuing excessive risk taking merely for the sake of growth or popularity. Management that has its family name, wealth and reputation tied to the company defines “skin in the game”.

These qualitative aspects tend to breed the quantitative metrics we seek in our risk management process. The average Price to Earnings (P/E) ratio of QV’s family firms is 15.3 which is 5% below the QV portfolios they are part of and 25% below their benchmark, the TSX Completion Index. They attain this advantageous valuation while attaining a stellar four year average return on equity of 16.7%, which trumps 14.8% for the underlying portfolios and 11.8% for the TSX Completion Index.

We often find ourselves mixed up in family affairs, but we do our best to stay away from the black sheep!