

QV UPDATE

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The Path to Investment Conviction

This weekend, a number of QVers are traveling to Omaha for somewhat of an investor pilgrimage. They will be attending Berkshire Hathaway's Annual General Meeting, chaired by arguably the world's most successful investor, Warren Buffett.

Coincidentally, while members of the QV team make their way down to Omaha, Buffett has been busy up here in Alberta. Yesterday afternoon, Berkshire Hathaway Energy announced that it would purchase Alalink for \$3.2 billion. Alalink is Alberta's largest regulated electricity transmission company. It is a subsidiary of SNC-Lavalin, which is an investment in QV's large cap equity and balanced strategies. The price appears to be attractive for SNC shareholders, with the stock up close to 5% today. Our investment thesis for SNC over the past two years has been that the sum-of-the-parts are worth more than the stock price reflects. After the company made a number of serious stumbles, the market in our view lost sight of the value of a number of its investments, such as Alalink and its ownership stake in the 407 highway in Ontario.

Yesterday's announcement is not the first time in the past year that Berkshire has shown interest in assets which QV portfolios also happen to own. In August of last year, Berkshire announced that it had initiated an investment in Suncor Energy, which is QV's largest investment in the Canadian large cap and balanced strategies. We do not know Berkshire's thesis for owning Suncor, but we believe there are a number of striking features. These assets are not easy to emulate. They trade at a discount to other high quality assets, and they generate a tremendous amount of cash. In Suncor's most recent quarter reported earlier this week, the company generated a record \$2.88 billion in cash flow from operations over the three-month period. That equates to over \$22,000 in cash flow per minute! Although it is nice to feel validated in our investment thesis for both SNC and Suncor by having Berkshire attracted to the assets, we cannot rest on that.

In investing, regardless of the company one keeps, doing independent homework while keeping an open mind are

of utmost importance. In that vein, over the past year, there have also been a few times where we have had to take the other side of a prominent investor's view.

Nearly a year ago, Steve Eisman, the investor who rose to fame after his successful wager against subprime mortgages in the United States, zeroed in on QV holding Home Capital Group. He announced his short thesis at a US investor conference and created a splash of media headlines. The shares felt some pressure and the short interest increased. As part of our investment thesis in Home Capital, we had performed work on its credit experience in the tough part of the economic cycle. We had confidence in our thesis, and we bought more shares to take advantage of the share price weakness. The shares closed at an all-time high yesterday, up nearly 100% from that purchase.

We have also faced short selling pressure in relation to our investment in CGI Group. Jim Chanos is a well-known short seller in investment circles, most famous for profiting from the demise of Enron. He highlighted CGI as a short last year. We are not certain of his thesis, but believe it may be due to the discrepancy between earnings and cash flow as CGI integrates acquisitions. CGI reported quarterly results this week, generating a record amount of free cash flow and appears to be through the bulk of integration costs related to a recent large acquisition. The business is on track to generate over a billion dollars of excess cash over the next twelve months. With a market capitalization of approximately \$12 billion, our thesis is that the shares are attractively valued, especially in the context of CGI's long history of deploying capital effectively.

In building our conviction, we must be objective and strive to learn from the wisdom of others. However, when it comes to decision-making, relying on our own independent analysis allows us to improve the likelihood for investment success. In this regard, we will follow our own path, whether it leads to Omaha, Alberta or elsewhere.