Vanessa McNabb, BComm I Wendy Booker-Urban, BA

QV Investors Inc.

Whose ball is in play?

I am what one would consider to be a hack golfer. So you can imagine my excitement when I played in my first Texas Scramble, where more than four of my balls were used early in the game. For a moment, I figured I had an untapped talent. Unfortunately, the plight of beginner's luck became apparent as every other one of my balls landed either in the water or someone's backyard! As further holes were played, the balls of only the disciplined, skilled players were being used. My short-lived relative out-performance among my fellow golfers garnered their attention and respect at least for a few rounds, but it did not do much towards helping our team win the tournament.

QV's recent weak absolute performance may have crossed the minds of some of our clients. Clients invested in QV's Balanced Fund have lost, before fees, around 1% year-to-date. Having exposure to QV's Small Cap Fund would have furthered that negative return, while having exposure to QV's Global Fund would have muted the negative return slightly. Despite the fact that most of our Funds have posted better relative returns than that of their broad market indices, it is still hard to digest a negative return. QV's style of investing is indeed out of favour when compared to our peers practicing a growth/momentum strategy. We have been here before. Looking back to the 1997 to 1999 period, QV's strategies underperformed their benchmarks for the most part, as our style of investing was not in favour. Tech was winning the best ball game at that time. Albeit tempting as it was to join the bandwagon, QV was driven towards the undervalued resource area. QV's style came back in vogue following the tech crisis and then lost popularity again leading up to the financial crisis. In 2008, QV was able to protect capital much better than the market, but still posted negative returns. Although it took a while to see relative out-performance again, we have enjoyed significant returns over the past several years in most of our mandates. Can you guess what might follow?

The most important take away from analyzing our historical track record is although we may be in or out of favour at any given time, we typically earn respectable absolute returns commensurate with the risks taken in doing so. This approach has culminated in what we believe to be a healthy value add over longer periods as the following table of gross annualized returns shows.

QV Pooled Funds to Aug 31'15	3 yr (%)	5 yr (%)	10 yr (%)	15 yr (%)
Canadian Balanced	9.9	8.7	7.1	9.5
Canadian Equity	13.1	10.6	8.8^	14.0^
Canadian Small Cap	15.6	15.0	10.4	15.3
Global Equity	20.7	15.4	9.5*	n/a

^Represents return of Canadian equity carve-out of QV Canadian Balanced Fund;
**Represents 8 year annualized return*

And yes, there have been periods where QV's strategies have underperformed in a negative market. Those periods are few and far between. In our history, we have underperformed in a negative market several months out of a calendar year. This could certainly happen again. Unfortunately, markets tend to march to the beat of their own drum in the short-term, but reward quality and value in the long-run.

In order to have fared better over the recent period, one might have been tempted to abandon our investment style. We could instead hold on to our beloved companies trading at record valuations as they continue their price appreciation, thereby increasing downside risk. We could add exposure to the companies that have performed the best over the past year due to their ability to access cheap debt, thereby increasing balance sheet risk. Given the cloud of negative sentiment that has been hovering over Canada, particularly the western region, we could advocate for higher exposure to our Global Equity Fund, thereby increasing currency risk at a time when the Loonie has already lost 17% of its value against the US Dollar over the past year alone. What I have just described is essentially the antithesis of what QV has practiced since it opened its doors. Through not managing the risks detailed above, we would be failing our clients in protecting their capital. It would also be unlikely that we would be able to post the types of longer term returns cited above.

Unfortunately, we may be in this type of environment for some time. We were not helped by the US Federal Reserve's announcement yesterday. Their reluctance to raise rates stems from their discomfort surrounding weak global growth and domestic labour markets, both pressures on inflation. Inaction from the Fed could further fuel those high flying, high ROE companies that use debt to fund their growth, allowing them to reach new levels. However, there are many rounds left to play and we believe QV's ball will again be used to help win this long-term tournament, as we try to steer away from the sand traps.

Copyright © 2015 QV Investors Inc. Readers may forward electronic versions of this Update. All views and projections are the expressed opinion of QV Investors Inc. and are subject to change without notice. This Update is provided for informational purposes only. QV Investors takes no legal responsibility from any losses resulting from investment decisions based on the content of this Update.