Market Commentary
Digital Roadshow

QV Investors Inc.

Summary of a presentation by QV Investors
January 20, 2016

With today's very volatile markets, investors are best served by focusing on quality companies that have strong balance sheets to help weather the storm, Joe Jugovic, Chief Investment Officer at QV Investors, told the CI Digital Roadshow.

"Great companies will get through tough times and we will see which management teams did a good job managing their balance sheets as we go through the next year or two," Joe said. "Volatility opens up opportunities to buy quality businesses when they are on sale and we plan to take advantage."

The downturn in commodities has hit the Canadian market hard, he said, but our market will probably be one of the first to benefit when the global economy improves.

Performance of economies around the world remains mixed and Joe believes it is now less likely that the U.S. Federal Reserve will proceed with three or four interest rate hikes this year. He said a slowdown in the Chinese economy could become a debt problem with global implications.

Joe and Portfolio Manager Darren Dansereau outlined the firm's value-style equity investment philosophy. QV manages several mandates for CI Investments, including CI Can-Am Small Cap Corporate Class and portions of Portfolio Select Series.

"Our objective is to create a portfolio of companies to provide consistent growth with below-average risk," said Darren. "We buy enduring businesses run by capable, committed, and candid people. We select equities on good value, which is the price we pay for a company's assets and its return on equity."

Darren said the interests of QV's portfolio managers are aligned with investors because they have their own money in the funds they manage. Similarly, QV expects the management of each company in which it invests to have significant personal assets invested in its company.

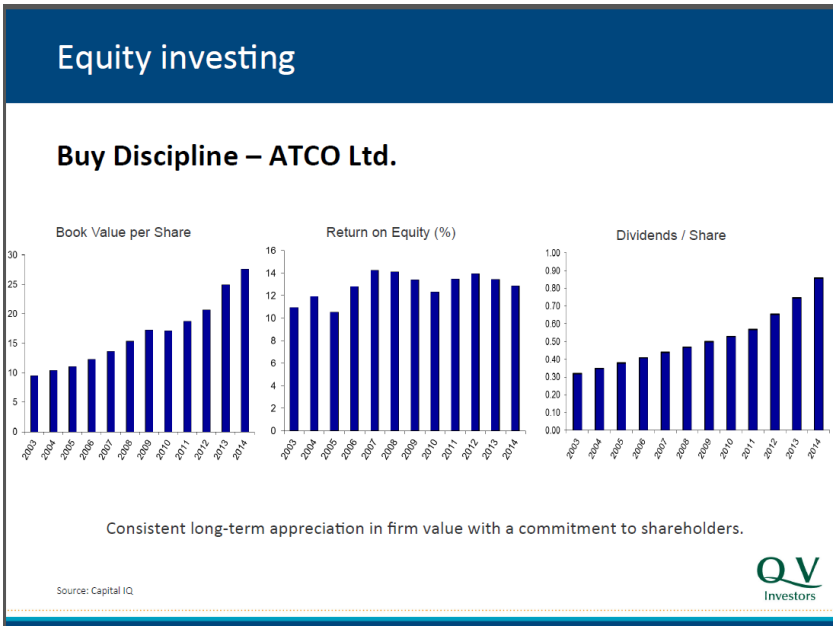
QV changes securities and weightings from time to time to enhance the portfolios, Darren said. "For us, it's a case of buy, hold and review, not buy, hold and forget."

Stocks that pay growing dividends are a feature of QV portfolios.

Joe said QV's diversification and risk management strategies are reflected in the fact that its Canadian equity funds are quite different than the very concentrated S&P/TSX Composite Index. While Canadian banks make up a quarter of the index weighting, they represent about 10% of QV's portfolios.

Darren said Canadian banks, though they are strong franchises, face some risk through their exposure to the housing market, even though most of their mortgage business is insured.

Darren said Atco Ltd., a utilities-focused company based in Alberta, is a holding that typifies QV's approach. Atco has generated a market-beating return on equity, along with growing book value per share and dividends. It's a well-managed business and the family that runs it has much of its wealth invested in the company.



ATCO's metrics show why the company is an attractive holding for QV.

Darren said selecting companies for the portfolio is important, but knowing when to sell is equally critical to successful investing. A stock may be sold if a better alternative presents itself.

Other reasons why QV may sell:

- Management turnover/material change in company direction.
- Breakdown in profit/cash flow consistency.
- Erosion of competitive position/negative future outlook.
- Increasing financial leverage.
- Excessive valuation/cut in dividend.

Joe concluded with these thoughts on QV's philosophy and approach to investing:

- Strong companies provide more stability.
- Great businesses provide growing income.
- Risk management protects capital.