Market commentary
CI Digital Roadshow

Investors Inc.

Summary of a presentation by Joe Jugovic,
Chief Investment Officer, QV Investors
September 22, 2016

Company analysis and security selection

- Our investment philosophy focuses on buying a portfolio of high-quality and sustainable businesses that can get through not only the good years, but the difficult years.
- Our analysis and security selection discipline assesses factors such as management, financial record, franchise and business outlook, balance sheet strength, valuation, dividends and capital allocation and portfolio enhancement. At the core, we are trying to find businesses that can give us the most confidence in all these elements.
- Management is the first criteria because it has always been our belief that individuals create and destroy value within a firm. A lot of the companies in which we have invested have significant insider ownership.
- Financial record – we study how a business has gotten through previous cycles by looking at as much data as we can. It's one of the reasons we generally don't invest in new businesses – we don't know how they have behaved during an industry downturn.
- Franchise and outlook – this refers to understanding the innovation, service, product, and resource development of a company. It's about trying to understand the potential barriers to entry for that industry and what will allow that firm to be successful.
- Balance sheet strength – our focus is on companies with equity-financed balance sheets versus those that find growth by taking on debt through acquisitions.
- Valuation – we want to make sure we're not overpaying for a company. Assessment of the downside risk is important here, especially when we look at a new idea for our portfolios. The first question we ask is: "Can we protect the downside if we're wrong?" Usually, good businesses over time will either revert to the mean, or the market will give them a more reasonable multiple.
- Dividends and capital allocation – dividends are nice, but not at any price. Today's environment has often seen yield coming in at a premium. We look for companies that can grow dividends over time, but also those that reinvest in the business. In our view, in the long term we're winning from a total return perspective.
- Portfolio enhancement – this refers to quality, value, growth and mainly diversification. We hold about 40 companies in any one portfolio, so we've got to make sure any new name we're adding is contributing to the overall diversification of the portfolio.
- Atco Ltd., a utilities-focused company based in Alberta, is a holding that exemplifies QV's approach. Atco has generated a market-beating return on equity, along with growing book value per share and

2 Queen Street East, Twentieth Floor, Toronto, Ontario M5C 3G7 l **www.ci.com**

CI Investments

Head Office / Toronto	Calgary	Montreal	Vancouver	Client Services
416-364-1145	403-205-4396	514-875-0090	604-681-3346	English: 1-800-563-5181
1-800-268-9374	1-800-776-9027	1-800-268-1602	1-800-665-6994	French: 1-800-668-3528

dividends. It's a well-managed business and the family that runs it has much of its wealth invested in the company.

Risk management philosophy

- Risk management is not a mathematical number related to volatility in our view. Volatility can be our friend, as in, for example, the case of long-time holding ATCO and other industrials and energy-related holdings in the last year.
- We view risk as permanently losing the capital of our clients. We manage the valuation, growth, balance sheet and diversification risks of the portfolio.
- Today our balance sheets are as good as they were back in 2008-2009. We believe that today's more challenging environment is allowing us to test the strength of company balance sheets. We want to see a company's ability to survive a bad market, but also its ability to also get stronger by investing in products and/or reinvesting in the company. In the Canadian marketplace, some companies are not in a position to weather a more challenging environment, so we have to be more selective in this space.
- We may give up some return by not buying certain companies that are doing well in this environment because they are taking on debt to grow. We won't take on return potential at the expense of our downside protection strategy.

Current environment and outlook

- Our philosophy is rooted in a bottom-up approach. We are not trying to make a call on the world and then find a business that fits that assumption. It is important to discern what actually matters to the investment within the portfolio.
- That being said, businesses don't operate in vacuums. We have our views on how the markets impact different industries and what's driving business within that industry. For us, it is more important to understand what factors get priced into the actual businesses.
- The low-yield environment has become more challenging and the global economy has remained mixed. Continuous stimulus is the biggest driver of asset markets globally. What was supposed to be a fail-stop measure has turned into a way to try to manage economies and offer some perceived level of growth. If the markets are more highly valued, the impetus would be for that to cause a wealth effect that helps gets the economy back on track.
- There is a real disconnect between what happens in the actual markets, compared to what's happening in most underlying economies – and that gap is widening.

- Provinces in Western Canada dependent on natural resources have taken a hit but a lot of that has already been priced into company shares. This is not just a Canadian phenomenon. Globally, we are seeing that high-quality companies have taken on premium multiples. Our view is that to produce reasonable returns for clients over the next five to 10 years, we've got to be careful not to just sit with what are supposed to be high-quality companies, because these companies are priced for perfection in many cases.