Market Commentary
Third Quarter 2018

QV Investors Inc.

CI Can-Am Small Cap Corporate Class

In the quarter ended September 30, 2018, the fund (Class F) generated a total return of -1.8%**.** The fund's energy holdings provided the largest contribution over the period. However, this was more than offset by stock-specific pressure within utilities and industrials, resulting in underperformance.

The largest detractors from fund performance were AltaGas and Maxar Technologies. Shares of AltaGas have been under significant pressure since the company's acquisition of WGL Holdings earlier this year. Increased leverage and uncertainty regarding asset sales have weighed heavily on investor sentiment. While the current performance of the shares is disappointing, we believe the company has several options that will allow it to maintain a strong balance sheet while demonstrating the cash-generating capabilities of its quality asset base. Shares of Maxar Technologies responded negatively to a short report released in August. While we disagree with the short seller's thesis, Maxar has put itself in a vulnerable position with record levels of debt during a trough in the satellite market. Today, the shares are trading at a wide discount to comparable companies, while providing services with strong competitive barriers. Combined, these two companies detracted 2.2% in the quarter. The strongest individual contributors to fund performance over the quarter were Parkland Fuel, Secure Energy Services, and Alleghany.

At quarter end, Canadian holdings represented 76.6% of the portfolio, American holdings 13.9%, and cash 9.5%. The fund consisted of 34 investments, of which 26 are Canadian domiciled and 8 are U.S. based.

During the quarter, we initiated investments in ARC Resources, Element Fleet Management, and Linamar. ARC Resources is an oil and gas producer focused in Western Canada. The company has a strong asset base and record for growing production per share without excessive use of leverage. Weak natural gas prices and transportation constraints allowed us to purchase the company at an attractive valuation. Element Fleet Management is North America's largest fleet leasing company. Following a period of significant challenges, the company recently appointed a new CEO with a solid record of sound execution and cost management. With its strong cash flow as a foundation and new leadership in place to improve the business's operations and capital allocation decisions, we believe this is a sound investment for long-term shareholders. Uncertainty surrounding ongoing trade negotiations has pressured shares of auto parts manufacturer Linamar this year. The company has a long track record of double-digit returns on invested capital and book value per share growth.

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The fund exited its positions in New York Community Bancorp, NOW, and Wabtec. New York Community Bancorp did not live up to expectations in managing its business. While the shares offered an attractive dividend yield, management has been less than effective at growing earnings, so we decided to look for better opportunities. Recent share price strength in NOW allowed us to reduce our overall exposure to oil and gas related equities. Shares of Wabtec were sold on strength following the announcement of a large proposed acquisition.

Stocks exhibiting growth and momentum continue to perform well, often to the detriment of value investments. In this environment, we remain focused on businesses with solid underlying fundamentals and adequate margins of safety. Although some of these businesses are currently out of favour, continued improvement of these franchises should benefit the strategy over time. While sentiment on Canadian markets has generally been negative, recent developments on major infrastructure projects and trade negotiations may ease investor uncertainty and spur incremental business investment.

The strategy provides better valuation characteristics, a higher yield, and stronger balance sheet metrics than the average Canadian small/mid cap company, which should all limit downside in a more challenging market environment. Continued growth in dividends supported by earnings growth should also help to offset potential negative implications from inflationary pressures and higher interest rates.

Class F Returns (in %) as at September 30, 2018	**Year-to-date**	**1 year**	**3 year**	**5 year**	**10 year**
CI Can-Am Small Cap Corporate Class	-1.1	2.4	7.4	6.2	9.2

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Published October 2018.