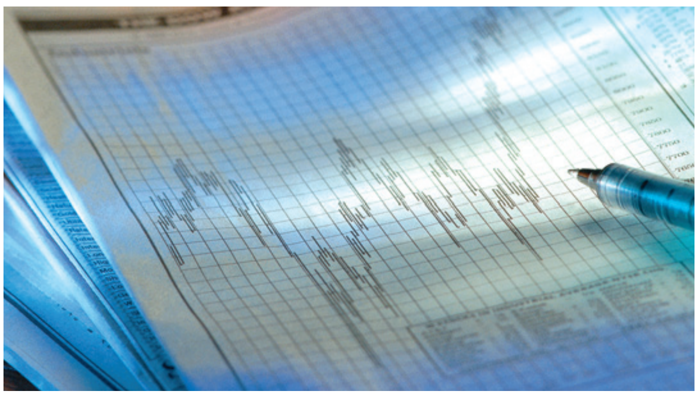
GFI Investment Counsel Ltd.

Preserving and growing family capital™

GoodQuarter Q1'17



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"Our country's businesses will continue to efficiently deliver goods and services wanted by our citizens. Metaphorically, these commercial 'cows' will live for centuries and give ever-greater quantities of 'milk' to boot. Their value will be determined not by the medium of exchange, but rather by their capacity to deliver milk. Proceeds from the sale of the milk will compound for the owners of the cows, just as they did during the 20th century when the Dow increased from 66 to 11,497 (and paid loads of dividends as well)."

— Warren Buffett, 2011 Letter to Berkshire's Shareholders

Dear Valued Client,

The first quarter of 2017 was a period of strong results for client-held equities and bonds. We sold one business out of our portfolio and introduced a new investment, SiteOne Landscape Supply, Inc. ("SiteOne"). SiteOne distributes landscape supplies in North America, primarily to residential and commercial landscape professionals. The business should benefit from significant growth opportunities and SiteOne is expected to only be mildly impacted by technological change. We are excited to be owners in this business for years to come.

In this issue, we rewind the clock and revisit an article we wrote at the beginning of 2013, reminding clients that equities are a good option to achieve better long-term rates of return, even if they do introduce some volatility to portfolios.

We sincerely thank you for your continued support, and we ask that you reach out to us to discuss anything at all. We are also here for any tax queries or documentation that you or your tax professional may require.

Daniel Goodman, CFA
President and
Chief Executive Officer

Effie Wolle, CFA, MBA
Chief Investment Officer

Revisiting the case against equities

Recency bias with respect to the credit crisis of 2008/09

Written in January 2013, four short years ago, the article below highlighted our decision to own quality equities in a low interest rate environment. Interestingly, Heinz and Tim Hortons, both mentioned in the piece, were acquired in subsequent years by a group of investors that include Berkshire Hathaway, the Warren Buffett-controlled conglomerate.

For investors who wish to reduce volatility, an allocation to high-quality fixed income can act as an effective counter to equity volatility.

January 2013

Equities – The New Alternative Asset Class

Do you know how stocks have really done over the past decade?

Since the credit crisis of 2008-2009, there is no doubt that equities have become an out-of-favour asset class. In fact, given the diminished role equities are today playing within institutional portfolios, equities have become the modern-day equivalent of an alternative asset class. If one were to read the writings of many investment managers or the media, they would quickly be convinced that equities have done very poorly over the past few years. The data, however, paints a different picture.

Reviewing the past decade – a period that included a significant number of challenging macroeconomic events – for stock returns illustrates that this period was actually one of very reasonable results. Since December 31, 2002, the S&P 500 Index has gained 7.1% *per year* (including dividends). The TSX Composite Index has increased by 9.2% *per year* (including dividends) over the same period.

While there has been heightened equity market volatility over the past 10 years, those who have chosen to buy and hold high-quality businesses have earned reasonable returns. It is against this backdrop that many investors, both professional and individual, have chosen to reduce their equity holdings. This emotional response to recent events hurt these investors' long-term returns.

Given today's low interest rates, abandoning stocks is a poor long-term investment decision. Strong businesses are able to pass the cost of inflation onto their customers through increased prices, and tend to generate incrementally higher profits over time. Little by little, their profits, dividends and stock prices increase; albeit in a sometimes erratic fashion.

Depending on each client's unique requirements, we strongly recommend an allocation to a small basket of well-researched stocks. While we cannot predict future tax levels, interest rates or other macroeconomic factors, we do know that both Heinz Ketchup and Tim Horton's coffee will be more expensive in a decade, and we choose to participate in that growth rather than simply be consumers of their products.

Why doing our own research pays in any market

Highlighting the importance of looking under the hood when making key investment decisions

On March 21st, Sears released its annual report, which contained this sentence:

"Our historical operating results indicate substantial doubt exists related to the Company's ability to continue as a going concern."

In reaction to that sentence and sentiment, Sears' stock dropped 11%. Watching the continuous deterioration of Sears specifically – and retail in general – over the last half decade, this rapid sell-off came as something of a surprise to us. Who were the shareholders selling the stock because they just then realized that Sears was at risk of serious distress? For clarity, we do not own Sears' stock.

The company released its third-quarter report three months earlier that highlighted a 14% decrease in sales compared to the previous year, as well as a continued trend of sales deterioration. From previously released public information and other filings, a shareholder should have known the following:

- The retailer had $4.3 billion of debt — $1.2 billion of which was coming due in 2017
- Total cash on the balance sheet was only $258 million
- The company had burned through approximately $5 billion of cash in the last three years as a result of operating losses and having to sell assets to fund a significantly troubled pension plan (which is still underfunded by $2 billion)
- Sears' controlling shareholder had lent the company approximately $500 million in 2016 to keep it afloat
- Sears was on track to burn at least $1 billion dollars a year indefinitely, with no prospect for profitability in sight*

*All figures in US$.

Basic math suggests the company will be restructured shortly. This situation confirms two of GFI's investment beliefs. Firstly, the events of March 21st and 22nd illustrate that the market is not efficient. We hope to continue to take advantage of these inefficiencies.

Secondly, GFI continues to believe in the importance of doing one's own homework. Do not rely on the U.S. Securities and Exchange Commission, auditors, other investors or third-party analysts to perform due diligence on your behalf. In order for us to invest with conviction, we must do all our analysis in-house. We analyze financial statements, read and listen to management interviews, speak to customers, and attempt to read all available information to try to paint a full picture of the health of a business. As in most pursuits, it is critical not to blindly follow other investors (regardless of their reputation) into popular stocks when our own research is telling us a different story.

GFI Investment Counsel

GFI Investment Counsel ("GFI") provides tailored investment portfolios to families, foundations, trusts and corporations. We work closely with our clients to customize investment accounts that coincide with our clients' unique requirements. GFI focuses on preserving and growing client capital through intense due diligence, focus, and discipline.

In January 2008, GFI launched Good Opportunities Fund ("the Fund"), an alternative investment fund available to accredited investors. The Fund focuses on a select group of investment opportunities that provide an attractive risk/reward dynamic regardless of asset class or market capitalization. The Fund is managed with a focus on understanding the businesses, their capital structure, and risks and opportunities.

For more information about GFI Investment Counsel or the Good Opportunities Fund,
please call **416.488.8825** or **email info@gfiic.com**.

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