GFI Investment Counsel Ltd.

Preserving and growing family capital™

"You will find opportunity from time to time;
and the beautiful thing is that you don't need that many of them."

Charlie Munger (From GFI attendee's notes of Berkshire Hathaway Annual General Meeting, May 2010)

Fourth-Quarter 2012 Commentary

Good Opportunities Fund

Good Opportunities Fund gained 5.9% over the fourth quarter of 2012 and 17.0% over the 2012 calendar year. The last several years have seen the rise of "macro" and market-neutral investment strategies. While both strategies may have their merits, our Fund takes neither of these approaches. Our Fund is unique in that we own a concentrated portfolio of great businesses with little in the way of predictions regarding macroeconomic events and stock market movements. We also selectively invert this approach and short companies that do not possess the characteristics we look for on the long side of our portfolio. Often our short candidates are burdened with an unmanageable debt load.

This fundamental investment methodology is the only investment approach that we believe can provide superior returns over long periods of time. As managers of the Fund, we have chosen to minimize risk (not volatility) by only buying businesses with economics that we can understand, with balance sheets that are conservatively financed, and with revenue generation that is recurring or predictable. Through our due diligence process, we gain the necessary conviction to own and add to our investments through turbulent times in the stock market, while adhering to our limits for individual portfolio weightings.

When our holdings' stock prices approach a value we deem fair, we sell our shares in that holding. This is often the most difficult decision for us, as it is easy for investment managers to become enamoured with their successes. Through experience, however, we have learned that when a stock reaches its fair value, it's best to remove emotion, sell that holding and continue the search for the next mispriced investment opportunity. We have, in the past, made the mistake of not selling a stock at what we believed was its fair value and we will not repeat that mistake again.

In today's culture of instant gratification and excessive noise, we believe that a level-headed and patient approach is contrarian and, ultimately, part of a successful investment strategy. While similar words and descriptions are used by a number of our competitors, we believe our strict discipline distinguishes us from the rest.

To highlight our investment process, we have briefly included a review of a current (and former) holding below. We owned Stamps.com for four years, and sold the investment in early 2012 when the company's stock price reached what we believed to be fair value. Since our sale, the business has continued to grow, while the stock price decreased sufficiently enough to warrant a repurchase of the business for our portfolio.

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A redemption charge may be charged on units tendered for redemption within the first year following their purchase at the rate of 2.5% during the first 90 days. 2% during days 91–180 and 1% during days 181–365. See "Redeeming Units – Short Term Trading Fee" in the Fund's Offering Memorandum.

The above performance figures are net of management fees and performance fees. Please review the Good Opportunities Fund Offering Memorandum for detailed descriptions of strategies, objectives, and risk factors. The above is provided for informational purposes only and is qualified in its entirety by the Fund's Offering Memorandum. Past performance may not be indicative of future results and there is no assurance that any of the Fund's investment objectives will be met.

We have cited a common index used in Canada for general comparison with our fund. However, our fund may not necessarily be representative of the index used and the volatility of our portfolio may vary substantially compared to this index for reasons which include, but are not limited to: (i) our fund may hold or have held a larger percentage of small cap securities and a higher concentration in specific securities and industries; (ii) our fund may use short selling and leverage strategies and hold private investments.

The S&P 500 (CAD) Index measures the total Canadian Dollar return of the broader U.S. economy through changes in the aggregate market value of 500 stocks representing all major industries and assumes reinvestment of dividends.

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Stamps.com (Reprinted and updated from our third-quarter 2008 commentary)

Stamps.com ("Stamps") is one of the Fund's core investments. Stamps operates as one of only three companies licensed by the U.S. Postal Service ("USPS") to sell postage stamps online. Stamps merits being a core investment because:

1. The company has a pristine balance sheet, with zero debt and over US$51 million in net cash as of its last reported filing. The company has grown its cash flow by over 40% per year in the last two years due to an extremely scalable business model and growing revenues.
2. Stamps operates in a triopoly; competing only with Pitney Bowes and Endicia. To be licensed to sell postage online, the USPS approval takes over two years and is a very complex process. Additional competition is unlikely in the near term. Our research suggests that new licenses are not being issued but rather the USPS is encouraging partnerships with existing operators of online licenses.
3. The company is growing aggressively in the face of a slow-growth American economy. The company's service is cheaper than the traditional Pitney Bowes offering, and easier and cheaper to begin using than Endicia's competitive service. The service becomes embedded in customers' shipping and accounting software.
4. The company signs customers up to a monthly fixed service fee and compliments this revenue with additional income from its online postage store.
5. Given its cash position, Stamps does not require additional capital. Management has stated its intention to remain a simple, concentrated online stamp vendor.

Stamps.com is not without its risks. The USPS is facing severe budget issues and the structure of any reorganization could have a negative (or positive) impact on the company.

We remain convinced that a concentrated portfolio of superior businesses will provide our clients with the greatest return and minimal long-term risk. We will allow others to trade beta, volatility and place bets on macroeconomic events. We will stay true to what we strongly believe is a tried and true (and currently out of favour) process.

We thank you again for allowing us to manage your assets, and we ask that you please contact us with any questions, concerns, or recommendations you may have.

Sincerely,

Daniel Goodman, CFA
President and Chief Executive Officer

Effie Wolle, CFA
Vice President and Co-Chief Investment Officer

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