GFI Investment Counsel Ltd.

Preserving and growing family capital™

"We've done better by avoiding dragons rather than by slaying them."

Warren Buffett, 1991 Berkshire Annual Meeting

First-Quarter 2013 Commentary

Good Opportunities Fund

Good Opportunities Fund gained 5.2% over the first quarter of 2013. The Fund closed the quarter with long holdings of 71% in equities and 8% in convertible debentures. The Fund was also short two companies totaling 4% of Fund assets.

The two securities that increased in value most during the quarter were CGI Group and Guardian Capital. The lone detractor from performance (of the Fund's 10 holdings) over the quarter was the Fund's investment in Just Energy convertible debentures. While we do not expect to only have one investment decline in value per quarter, our primary goal is to avoid losses, and we are happy that our cautious approach continues to pay dividends.

At GFI, we believe the only way to rationally invest capital is through discounting the future cash flows that can reasonably be estimated from an asset. If practiced correctly, this investment approach instills discipline and provides a margin of safety. The following is a true story that illustrates our investment approach.

In the fall of 2007, we were researching an investment prospect in the gold sector. The gold producer we were exploring had several operating mines, and we determined the value of the company's common equity to be roughly $4. The stock was trading at approximately $6.50, and we simply could not wrap our heads around the difference between our math and the quoted stock price . We were used to seeing small discrepancies, but this big a difference did not add up.

At that point, we called a gold analyst at a leading investment bank on Bay Street – who had a price target of $8 on the stock – to learn how he had arrived at this figure. During our conversations with the analyst, we agreed on the value of the first mine, and then agreed on the value of the second mine. Finally, we agreed on the value of the third and final mine. Netting out some corporate overhead and summing, the total came out to roughly $4 per share.

"Then how is your price target $8?" we asked the gold analyst.

"Well, you haven't multiplied it by two yet," he answered.

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"Why would we do that?" we questioned the analyst.

"The Street always multiplies the equity value of gold companies by two. There's a scarcity and pure play premium," he explained.

He explained his reasoning and we understood. We understood that we would not own gold equities until this logic changed. We understood that we would rather own a scarce and pure-play railroad at a logical multiple of this railroad's cash flow. We understood that we would rather own a pure-play software company that is part of a duopoly in a government-licensed sector.

Gold equities have not performed well for some time, and we are convinced that this revaluation is permanent. A stock that goes down 35% is not necessarily cheap. It may be cheap relative to last week or last month, but it is not necessarily cheap relative to a reasonable estimate of future cash flows after required capital expenditures.

We continue to believe a portfolio of assets purchased at reasonable prices, with growing cash flows, remain the best investments over the long-term.

It is safe to say that you now have a good idea of the types of companies we do not own.

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

Sincerely,

Daniel Goodman, CFA
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Vice President and Co-Chief Investment Officer

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