



**GFI Investment Counsel Ltd.**

*Preserving and growing family capital™*

*"An investor cannot decide to think harder or put in overtime in order to achieve a higher return.  
All an investor can do is follow a consistently disciplined and rigorous approach; over time the returns will come."  
Seth Klarman, Margin of Safety (page 85)*

## First Quarter 2014 Commentary

# Good Opportunities Fund

Good Opportunities Fund lost 0.8% over the first quarter of 2014. The Fund closed the quarter with long holdings of 77% in equities and 5% in convertible debentures. The Fund is short one company that totals 3.0% of assets.

Since the Fund's launch in 2008, we have followed a methodical approach to managing your money. This stems from our belief that avoiding permanent capital impairment is of paramount importance to investment success. The volatility of stock prices is impossible to predict or control, but the quality of a business and its sustainability are areas that fall within our circle of competence. We prefer to focus on a potential investment's downside, as opposed to focusing on the question of: "How much can I make?"

Charlie Munger, Warren Buffett's long-time partner at Berkshire Hathaway, has suggested that to succeed in life, one need be a "learning machine." While trade activity at GFI is minimal relative to many of our competitors, reading, research and learning is a constant in our office. We hope that we are better investors today than we were when we launched the Fund and that we will be even better investors in the future. We thought we would review some of the portfolio changes, both good and bad, that we have made over the past five years to illustrate how we have continually attempted to learn and adapt and, as a result, become better allocators of capital.

We purchased Premier Exhibitions Inc. for the Fund in 2008. The company had two unique exhibits that it toured around the world and some potentially valuable assets that we felt were not being recognized by the market. The company's balance sheet had some cash and no debt. Additionally, we performed significant due diligence on the newly hired CEO and heard great things about his character and business acumen. After doing our research, we were excited about the opportunity and purchased the company's common equity.

A short time after being hired, the CEO quit the company. Additionally, the economy weakened and the company's once-strong balance sheet was quickly burning through cash. A necessary and dilutive financing was undertaken and a new CEO had to be found. Over the next year, the operational results of the business weakened and it became clear that the company's issues were greater than simply the economic climate. We sold our shares in Premier Exhibitions in 2009 at a significant loss.

This investment taught us two important lessons. Firstly, invert the situation and put yourself in the CEO's shoes. If the company had a future as bright as we thought, why would a CEO we had heard only good things about, especially one compensated with a large amount of stock, walk away from the opportunity? Secondly, a strong balance sheet should provide management with a few years to refocus a company experiencing short term issues – a margin of safety. Premier Exhibitions' cash was not sufficient for a long enough period of time and resulted in a dilutive financing. Lessons learned. (*continued*)

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.

Please contact us for more information at:

**GoodFunds**

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We purchased Dover Downs Gaming and Entertainment Inc. in 2008. Dover Downs is a casino operator in the state of Delaware. The company was available at what we believed to be a reasonable price, paid a handsome dividend and was well managed. Over time, however, we realized that legislation was being considered to allow gambling in the neighbouring states of Maryland and Pennsylvania. This, of course, would introduce increasing competition, limit growth and reduce customers and revenue, since many existing customers travelled from the aforementioned states to gamble in Delaware.

Over the coming months – and after continuing to “peel the onion” on our investment – we realized that competition was likely coming and Dover Downs would have fewer customers, have to pay higher incentives to draw customers and, thus, would suffer reduced profits and cash flow. We exited the investment at a loss and avoided further potential loss. Today, Dover Downs’ income is a fraction of what it was and the company faces the reality of a smaller customer base, limited pricing power and a smaller market capitalization.

Our final investment for review is Indigo Books and Music Inc. In 2008, Indigo had a near monopoly in Canada in selling books. The company also had a CEO who owned a large amount of stock and a pristine balance sheet. We bought shares and soon thereafter enjoyed modest capital appreciation. However, a few months later the onslaught of eReaders began and we realized that Indigo’s monopoly was quickly being eroded, along with its existing business model. Its balance sheet strength and leadership could not influence the coming tide. We believed the bookstore was becoming largely obsolete and sold our holding at a small profit. Since we sold our holdings, the company’s earnings have fallen significantly and the stock price has dropped accordingly. Management has since done its utmost to change the company’s products and business model and, to date, is having moderate success.

We use this experience to help us with short opportunities. Today when considering short positions, we look for businesses with products or models that are becoming obsolete and, preferably, with considerable debt. An example of this approach would be Cenveo Inc., a company we first shorted at \$16 and that currently trades at roughly \$3. The company is in the printing business and has an extremely indebted balance sheet.

Through both successes and failures, we have learned. We will continue to apply these lessons going forward, and trust that our performance should show continuously improving results.

Sincerely,



Daniel Goodman, CFA  
President and Chief Investment Officer



Effie Wolle, CFA  
VP and Co-Chief Investment Officer

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