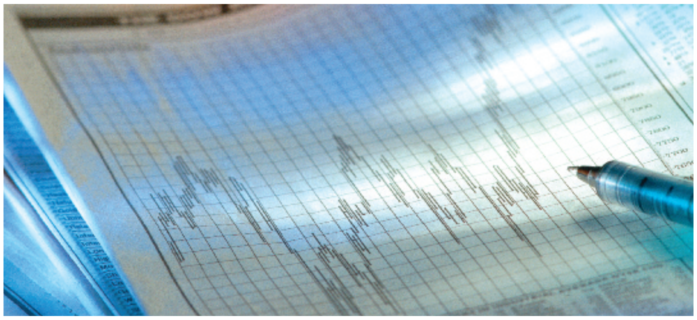
GoodFunds

GoodQuarter

SUMMER 2008



IN THIS ISSUE

Dear Valued Client,

Global markets were volatile during the second quarter of 2008 and continue this pattern through the first few weeks of July. We have officially entered a bear market in the U.S. full of challenges and opportunities. We continue to move forward with extreme caution, purchasing high quality conservatively financed companies at fair prices. Through the first six months of the year, we purchased global, dividend paying businesses that we believe will survive through difficult economic climates and thrive once economic conditions improve.

GFI remains cautious, investing in well financed businesses that operate at the centre of the world economy. The U.S. continues to weaken, as home price declines continue unabated, and US financial institutions continue to seek new equity capital to bolster their balance sheets, diluting existing shareholders' pro-rata share of earnings. As long as US financial institutions require new capital to improve their financial health, they will remain less apt to lend out capital and thus taper economic growth. Is the U.S. in economic pain? Yes, and for the moment it's hard to see what will make the situation reverse course. Will they be in pain forever? No, the U.S. is a platform for entrepreneurialism and innovation. This platform has helped the country bring a phenomenal amount of technological advancements to the western world over the past five decades. In time, as energy prices normalize and economically viable alternatives to fossil fuels gain traction, the U.S. will rebound.

We continue to favour the short end of the bond curve, or more simply put, we continue to lend your money for a period of less than five years. Given the lack of a sufficient real return for our funds in bonds of greater length, we will continue to purchase short-term bonds that offer greater comfort than the alternatives.

Things happening at GFI:

1. The GFI website is up and running and offers you the ability to access your account. Visit us online at www.goodfunds.ca. Please let us know what you think of the new site and if you have any suggestions for improvement.
2. Our hedge fund continues to perform nicely. The Good Opportunities Fund's total return since inception is 4.2% (as at June 30, 2008).
3. We are pleased to welcome Sasha Kraus to the GFI team. Sasha will be with us through the summer of 2008 to help us with all office matters.

As we mentioned last quarter, we are analyzing every GFI client account to ensure our clients' portfolios meet their target asset allocation.

As always, if you have any questions or concerns, please do not hesitate to call.

I thank you for putting your trust in the GFI team.

Warm regards.

Daniel Goodman, CFA
President and Chief Investment Officer

Taking Advantage of International Investment Opportunities

Much has been written about international diversification over the past few years. Along with sector (financial, energy, retail, etc.), style (i.e., growth and value), and market capitalization (small, mid, and large cap) diversification, global diversification is an important way to enhance the risk/return profile of your portfolio.

As the world becomes more connected, the correlation across international markets increases dramatically. Simply put, global markets have begun to move in unison. While there are still differences between countries and their respective economies, the general direction of equity markets and the wider economies of each region are now more interconnected than ever.

That said, investing in developing economies that are today growing at faster rates than more developed economies can offer many rewards, as well as certain risks. Rewards include the potential for higher rates of return. Risks include political issues, currency fluctuations, and the economic conditions of each region.

Given GFI Investment Counsel's mandate, which is to protect and build wealth, we strive to provide our clients with international diversification that comes with an acceptable level of risk. One way we have achieved this is by investing in companies that operate in both developed and developing economies, as well as through ownership in some strong international companies themselves.

Scotiabank, H.J. Heinz Company ("Heinz"), Brookfield Asset Management ("Brookfield"), and Wisdom Tree International Health Care Fund are examples of world-class holdings that generate a tremendous amount of income from their operations in developed nations, in conjunction with expanding businesses in the developing world.

Scotiabank, for example, has a wonderful franchise in Canada's oligopolistic banking environment. This is accompanied by an ever-growing presence in Mexico, the Dominican Republic, Chile, and other Latin American countries.

Heinz is a recent addition to the portfolio that earns almost 60% of its income from outside the U.S. As emerging economies continue to provide a higher standard of living for their citizens, Heinz's product distribution and earnings grow. Heinz has the ability to be an even more dominant global brand in the years to come.

Our goal is to own global franchises we can easily understand and attach a value to, while providing for capital preservation and an ongoing dividend.

Brookfield has a large presence in Canada, the U.S., Australia, and England, coupled with increasing investments in Chile, Brazil, and the Middle East. All these countries' economies are growing at a faster rate than those of more developed nations. And, **WisdomTree International Health Care Fund**, discussed in our previous quarterly report, offers tremendous exposure to the growing international health care sector.

Our goal is to own global franchises we can easily understand and attach a value to, while providing for capital preservation and an ongoing dividend. The companies highlighted in this article provide you with an idea of the strong, long-term growth opportunities we are looking for when investing your money.

Heinz – Growth Never Tasted Better

GFI Investment Counsel took a position in H.J. Heinz Company ("Heinz") in the second quarter of 2008. Heinz has several characteristics that we look for when investing your money, and some of the questions we asked before investing in Heinz included:

Q: Will Heinz still be in business in 10 years?

A: Heinz was founded in 1869. The company's brand is recognized all over the world and its products are consumed regardless of economic conditions. Furthermore, the rise of the emerging markets will increase demand as new markets for Heinz's products grow wealthier.

Q: Does the company have a competitive advantage?

A: Heinz's brand and distribution capabilities make it a company that is difficult to compete with. Many customers would choose to pay a premium to buy Heinz products over generic alternatives. This is an enviable position for a consumer products company to have.

Q: Is the company consistently profitable?

A: Heinz has a tremendous record of sustained profitability. In 2007, Heinz had a return on shareholder equity of over 40%. For every dollar of shareholder money used, the company generated over 40 cents of profit.

Q: Is the company conservatively financed?

A: Given Heinz's maturity, the company does have debt in its capital structure. Considering the company's profitability, however, Heinz's debt is reasonable and the company should comfortably make its interest payments for the foreseeable future.

Q: Can Heinz pass on rising input costs to consumers?

A: Companies with a strong brand and differentiating quality can pass costs through to customers much more easily than those with a commoditized product. Heinz has proven that its customers are willing to pay a premium for their product.

We expect Heinz to be a core holding for the foreseeable future. Barring any unforeseen material events that could change our thesis or a material upward move in Heinz's stock price, we will remain owners of this historic company. We believe that it is only a question of time before we see the company's share price appreciate.

Making Sense of Declining Markets

In an ideal world, savvy investment professionals would sell their clients' equity holdings the day before equity markets start to decline. And, as the market bottoms out and equity prices begin to rise, that same investment professional would time the market perfectly and buy stocks at their lowest point.

GFI Investment Counsel ("GFI") does not time the market. Nor do we try to. History has shown that successfully trying to time equity markets through their ups and downs is virtually impossible. Violent upward and downward swings, sometimes lasting only several days, can provide returns that match an entire year's performance… and wipe out those returns as well.

Our goal is to purchase the shares of companies that tend to decline less than the rest of the market on the way down, and outperform when markets are rising. In our quarterly reports, we have repeatedly illustrated how we approach this task.

One of the best historic indicators of a stock market bottom is the total capitulation and liquidation of assets by retail investors. It is at the moment of maximum pessimism that stocks have normally hit their lows. This is the metric that professionals and newspaper writers most often use to try to predict the market bottom.

GFI constantly monitors the state of the economy and tailors its asset allocation (equities, bonds, and cash) to reflect the ever-changing risks and opportunities available. We will not restructure the portfolio entirely, nor will we sell high-quality holdings when other investors are selling out of panic. Over time, we have learned that disciplined, patient investing, even in times of extreme pessimism, will reward our clients in all markets.

GFI Investment Counsel and GoodFunds

GFI Investment Counsel ("GFI") is a discretionary money manager that provides tailored investment portfolios based on each client's unique risk level.

GFI is a bottom-up, long-term investment firm that invests primarily in North American public markets. GFI will, however, invest outside North America when quality opportunities arise. GFI meets with the management teams of prospective investments whenever possible, and places a high degree of importance on the quality and experience of these management teams when making investment decisions.

In January 2008, GFI launched Good Opportunities Fund (the "Fund"), an alternative investment fund that is the first of the "GoodFunds" series of investment products. The Fund will invest in opportunities that exhibit a high likelihood of outperforming the broader equity markets based on GFI's proprietary research, while maintaining a focus on profitable, growing companies that adhere to GFI's strict value discipline.

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

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