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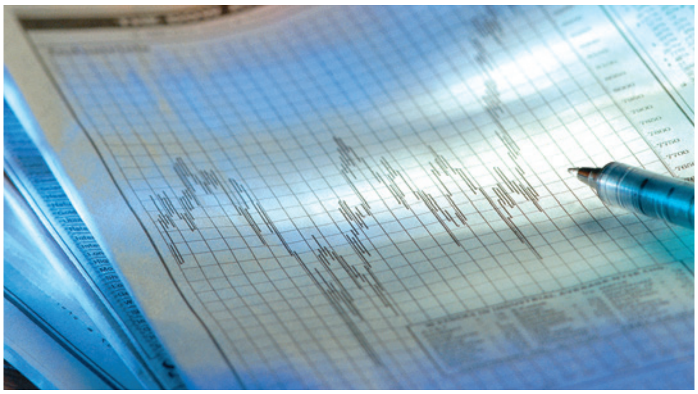
Preserving and growing family capital™

GoodQuarter

SUMMER 2013



IN THIS ISSUE

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas." – Paul Samuelson

Dear Valued Client,

Heinz Inc. completed its sale to 3G Capital and Berkshire Hathaway in the second quarter of 2013, and we were sad to see this great business leave the portfolio. There simply aren't that many brands in the world with the pricing power of Heinz Ketchup. Presumably, this is one of the reasons Warren Buffett decided to buy Heinz, and we were indeed happy to see that he agrees with our assessment of the company. As you may have noticed in your accounts, we replaced Heinz with ... Berkshire Hathaway! So, in essence, we still own Heinz, although in a less concentrated version. In addition to Heinz, Berkshire Hathaway owns BNSF Railway Company, various world-class insurance companies, as well as a wide selection of other manufacturing and retail operations around the world. Berkshire Hathaway operates using a disciplined value investment approach that we respect, and that is similar to our own investment approach.

Bond prices decreased in value over the second quarter, as interest rates rose materially for the first time in recent memory. The Canadian bond benchmark decreased 2.4% over the quarter. The resource-heavy S&P/TSX Composite Index decreased as well, falling 4.1%. The S&P 500 Index, a barometer of the U.S. stock market, gained 2.9% over the period. Gold bullion declined by approximately 23%, which detracted from our accounts.

We have upgraded our client portfolios materially over the past 12 months. In addition to Berkshire Hathaway, we added Unilever N.V., Visa Inc. and McDonald's Corp. to your portfolios. We believe all these companies currently represent significant upgrades over your previously held investments. More on McDonald's and its investment merits can be found on page two of this issue. We have also included in this issue a story about a smart banker who cared for his clients, as well as a town that used a great business to create wealth and protect itself from economic turmoil.

We will continue to focus on finding best-in-class businesses that meet our investment parameters to protect and grow your wealth, and we wish you a safe and happy summer.

Please reach out to us if we can be of any assistance with your financial affairs.

Warm regards,

Daniel Goodman, CFA
President and
Chief Executive Officer

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

Buy and Sell — McDonalds

BY RAM BINDRA, RESEARCH ANALYST

The world is changing, and fast. Being confident in (1) the magnitude, (2) the duration, and (3) the certainty of growth of free cash flow — the three fundamentals for the valuation of an enterprise — can be a difficult proposition, even when analyzing some of the largest and most profitable businesses in the world.

Our investment in McDonald's is based on our belief that people will continue to enjoy this company's ubiquitous menu items.

McDonald's possesses some key competitive advantages. Firstly, people generally do not like to experiment with food, especially for their habitual and casual needs. Those of us who stop by a Tim Horton's or a McDonald's every morning for coffee know how unlikely it is that our habits will shift dramatically or suddenly. You might have noticed that McDonald's is almost always the busiest fast food location in the food court of the mall you frequent. In food, familiarity matters.

Second, the company's brand is ever-present and successful worldwide. A McDonald's can be found in almost every airport, shopping centre, strip mall, university or office block throughout the developed world. The company also has an opportunity to capitalize on the economic growth of developing nations for a long period into the future. Consider that there are 14,000 McDonald's locations in the U.S., and only 9,500 in Asia-Pacific, the Middle East and Africa. Combined, these are areas that constitute more than 50% of the world's population.

14,000

The number of McDonald's locations in the United States.

+

9,500

The number of McDonald's locations in Asia-Pacific, the Middle East and Africa (home to 50% of the world's population).

=

FUTURE POTENTIAL

Third, rather than deploying large amounts of its own capital to maintain its restaurants or build new ones, the company employs a franchise model of licensing its famous brand and menu to local entrepreneurs who contribute capital. This allows the company to generate significant excess cash with low reinvestment requirements, which allows management to prioritize dividends and share repurchases. By charging royalties on franchised restaurants, the company can participate in the growth of franchises without having to bear the impact of higher wages or food costs. This should result in margin expansion over the long term.

Even strong enterprises go through occasional slowdowns at some point. Another attractive feature of McDonald's is its simplicity. When mistakes are made, we would much rather be in the hamburger business than in the smartphone or solar panel business, where the risks and opportunity costs of making a mistake can be devastating. McDonald's core products haven't changed for a very long time.

Based on conservative growth assumptions and continuing capital allocation for repurchases and dividends, we believe McDonald's current valuation is attractive for long-term investors. Furthermore, the strength of this global brand, the company's focus on selling low-ticket, well-known items to repeat customers, and the inherent operating leverage from the company's franchising model give us comfort that we are invested in a great business with a built-in margin of safety.

Here's a town that used a great business to create wealth and protect itself from economic turmoil.

Things Have Gone Better After Taking Stock in Coke

Investments: Local banker's advice in 1922 to buy into new company still paying huge dividends for little Florida town and its 25 millionaires

JANUARY 22, 1997

QUINCY, Fla. — In 1922, tobacco farmers in Quincy, Fla., hauled in a bumper crop and at the urging of local banker Mark Monroe plowed their profits into shares of Coca-Cola Co.

"Coke had just come public and Daddy liked the taste," recalled Julia Woodward, Monroe's 80-year-old daughter. "Plus, he figured the stock would be good collateral because folks would always have a nickel to buy a bottle."

For the progeny of the farmers who heeded the banker and never sold, the payoff has been dazzling. Today, they own 7.5 million shares valued at $375 million. Adjusted for splits, the stock cost them 2 cents a share.

Largess from the town's 25 Coke millionaires trickles down to the 8,000 residents of Quincy, about 10 miles northwest of Tallahassee, Florida's capital. They worship at the renovated Methodist Church, watch plays in the restored Leaf Theater, read in the remodeled library and stroll through a downtown that's had millions lavished on it.

"This town has more to offer than other towns its size," said Chris Elred, manager of NRT Contract Manufacturing's 150-employee circuit-board plant, which recently relocated to the area from Illinois.

Most of Quincy's Coke trust fund crowd stuck with an old, if not very fashionable, investment philosophy: buy and hold.

"The Coke families largely have resisted the temptation to sell," said W.C. "Bud" Brancon, president of Quincy State Bank. "It always seemed so prudent to hang on."

At one time, the town's residents held two-thirds of all Coke shares outstanding, said Quincy historian Johnny Blitch. As a courtesy to Quincy's Coke investors, the Atlanta soft-drink company would dispatch a special envoy to town before the annual meeting to collect proxies.

The Coke stock made Quincy one of the wealthiest communities in the country. In fact, before World War II—and before some of the Coke holders left—Quincy was the richest town in America on a per-capita basis.

Even now, grand and historic mansions with freshly painted picket fences and manicured yards line quiet side streets, partially veiled by curtains of Spanish moss that hang from massive live oak trees.

This bastion of prosperity stands out in a section of Florida's Panhandle better known for pine flatlands and poverty. When nearby Carrabelle needed $1,000 to replace its faded high school football team uniforms, it staged a cow-dropping contest, raffling off 10-foot squares as residents bet on where a cow set loose on a football field would relieve itself.

In Quincy, a Rolodex and telephone do the trick.

When Blitch wanted to restore the Leaf Theater in downtown Quincy, he called up several Coke millionaires. Julia Woodward, Florence Brooks and Marcus and Betty Shelfer all chipped in. In a matter of days, Blitch raised $150,000, mostly in Coke stock.

Quincy fell on hard times in the late 1960s, as rising labor and production costs devastated the tobacco industry. Unemployment soared to 38%. Yet, the Coke millionaires came to the rescue, paying the tuition to send local students to college, for instance, and buying Christmas presents for the disadvantaged.

"There aren't records of how many widows and orphans the Coke stock helped out," Woodward said. "But that silly old investment made a huge difference."

Since going public, Coke stock has split 10 times. The owner of one share that cost $40 in 1919 now has 4,608 shares. At a recent price of 48, that's worth about $220,000. People who reinvested all their dividends would have 96,944 shares worth $4.7 million.

The annals of investing history are filled with other stories of investors who prospered by hanging on to Coke stock.

Atlanta's SunTrust Banks Inc. accepted $110,000 in Coke stock instead of cash as payment for taking the company public. Today, SunTrust's stake amounts to 48,266,496 shares, or 2% of Coke's stock. It's valued at more than $2.4 billion.

Billionaire investor Warren Buffett is sticking with Coke, too. The Omaha, Neb., stock-picking guru heads Berkshire Hathaway Inc., Coke's largest holder, with 200 million shares, or 8%, a stake worth $10 billion. Buffett bought most of his Coke shares in the late 1980s for less than $8 each.

Buffett has said he'd never sell.

So does Woodward, the banker's daughter.

"Some people have sold shares to buy a car," she said. "But then a couple years later they realized they sold stock worth half a million dollars for a Cadillac."

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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