



"No wise pilot, no matter how great his talent and experience, fails to use his checklist.

Charlie Munger, Poor Charlie's Almanack, Page 73 Expanded Third Edition, 2008

Fourth Quarter 2014 Commentary

Good Opportunities Fund

Good Opportunities Fund gained 10.5% over the fourth quarter of 2014 and finished the year with a gain of 14.7%. The Fund closed the quarter with long public equity holdings of 83%. The Fund is short three companies that total 3.0% of assets, and it holds 13% in cash.

Of Process and Checklists

Our investment process differs from the process of most other investment professionals in several ways. Rather than own hundreds of stocks, we have chosen to select, with great care, 10 to 15 excellent businesses in which to invest. Therefore, the selection of these businesses is critically important to our success.

We continually strengthen and refine our investment process. As part of our investment procedure, we have created a checklist of factors to help us assess any new company for portfolio inclusion. Importantly, our checklist is a dynamic and evolving document, constantly being edited and refined, and we now have over 30 items to complete on our checklist before considering the addition of a new company.

We wanted to highlight two checklist items that demonstrate the type of questions we always ask:

1. Is obsolescence a threat to the company's earnings power?

This question is critically important. Will the company exist in its current form 10 years from now? Will it be superseded by a new business model? Will new technology change the industry to the detriment of our investment?

While this question can seem overly conservative (in that we are considering events a full decade from today), the erosion of a business can start earlier and change more swiftly than anticipated. The resulting decrease in equity value can be material.

For example, let us consider this question in relation to two Canadian businesses: Canadian National Railway Company ("CNR") and Torstar Corporation ("Torstar").

CNR is the largest Canadian railroad and a large carrier of goods across North America. CNR's primary competitor is Canadian Pacific Railway Limited, although CNR also competes with other railways and other modes of transporting goods. While the railway business has its drawbacks – like the ever-increasing need to reinvest capital into the business – the company has very little risk of being replaced by new technology or competitors. The company's management team must ensure they continue to deliver great service and focus on costs. The necessity of this business will endure beyond our lifetimes.

Alternatively, Torstar is the publisher of the Toronto Star and over 100 community newspapers. The company also owns several other digital and newspaper assets. Over the past decade, the company's market capitalization has eroded as the internet has increasingly posed a threat to every newspaper's ad-dominated business model. In hindsight, it appears obvious that this transformation would occur. The ability to recognize that the newspaper industry was being permanently affected by the internet was not a commonly held view a decade ago. Professional investors continued to hold newspaper companies like Torstar, suffering a permanent loss of capital in the process.

2. Is the company's balance sheet properly structured, given the industry's outlook and cyclicity?

Companies in different industries can handle different amounts of debt and, thus, interest payments. Generally speaking, companies with recurring revenues and less cyclicity can finance their business with more debt capital and less equity capital. Alternatively, companies that are more dependent on large one-off contracts and the strength of the economy should have very little or no debt.

A company that sells diapers, for example, will generally be able to structure its business with debt. Conversely, a construction company should be more conservative in its financing and use more equity capital to ensure a prolonged economic slowdown will not bankrupt the company.

An inappropriate amount of debt for a company with quality (but mismatched) assets can suffer significant financial stress. It is imperative that companies match their capital structure with the nature of their business.

While our entire process includes many more qualitative and quantitative items, we believe these two examples of checklist questions provide insight into the type of items we ask ourselves when researching and debating an investment. Our checklist helps us highlight large and small items to consider, and makes us better investors. Our checklist also makes us more disciplined investors and removes much of the emotion out of the investment process. It provides us with a consistent, repeatable approach across industries and removes inherent bias from our analysis.

Warm regards from the entire GFI team.



Daniel Goodman, CFA
President and Chief Executive Officer



Effie Wolle, CFA
VP and Co-Chief Investment Officer

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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