GFI Investment Counsel Ltd.

Preserving and growing family capital™

"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 Will it be superseded by a new business model?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 cyclicality?

Companies in different industries can handle different amounts of debt and, thus, interest payments. Generally speaking, companies with recurring revenues and less cyclicality 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.

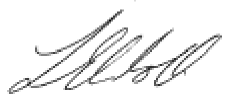
A company that sells diapers, for example, will generally be able to structure its business with debt. Conversely, a construction company should be more conservative in its financing and use more equity capital to ensure a prolonged economic slowdown will not bankrupt the company.

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

Please contact us for more information at:

GoodFunds
2 St. Clair Ave. East, Suite 1204
Toronto, Ontario, M4T 2T5
Tel: 416.488.8825
Toll-Free: 866.955.5300
Email: info@gfiic.com