GFI Investment Counsel Ltd.

Preserving and growing family capital™

"Games are won by players who focus on the playing field — not by those whose eyes are glued to the scoreboard."
Warren Buffett

Second Quarter 2016 Commentary

Good Opportunities Fund

Dear Valued Client:

The Fund declined by 4.9% over the 3 months ended June 30th 2016 and has increased by 2.7% over the past 12 months. For further information on the Fund, as well as its historical performance, please see our monthly fund update sheet.

The first half of 2016 was a period of relative weakness for the publicly traded businesses we own in the Fund. While the day in and day out mania of the stock markets continued at a blistering pace, our businesses continued to grow and to allocate capital in a manner that benefits long-term owners. Many of the businesses we own are expanding and continue to take advantage of any opportunities that present themselves.

The minute-to-minute trading activity of public markets creates the false impression that business values continuously change. Occasionally, businesses can experience one-off events that affect their company's value, but these occasions are rare. More often, management takes deliberate steps – day in and day out – to continue to build their business, create pricing power and differentiate from competitors. The effects of these decisions take time but, if we choose wisely, the company's stock price should follow the growth of the business over longer periods of time. Unfortunately, stock returns are unpredictable and do not always reflect reality over shorter time periods.

Day-to-day, stocks increase and decrease in value based on whatever issues are dominating the headlines. The news is often related to central banks, interest rates and macroeconomic news from around the world. Often, these factors seem to dominate all other forces in moving stock prices. Unless a company has a specific issue to announce to shareholders, companies typically report to shareholders only four times per year, yet the stock market is open nearly every day.

This daily movement often leads to the perception that one has to have a view on the future direction of currencies, the Fed or any other topic "du jour" to invest in stocks. The truth is actually the exact opposite. It is, therefore, wise to take a step back periodically and remember that stocks are not just electronic ticker symbols that trade; they represent real ownership interests in a business.

Please contact us for more information at:

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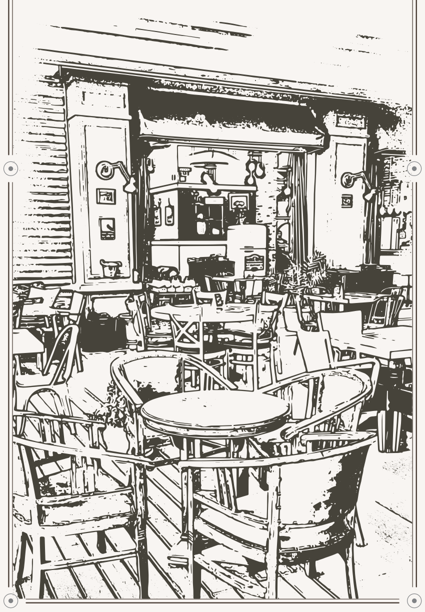
Businesses, and thus their stocks, generate returns over time in response to some basic mathematics. To illustrate this point, let's walk through an example of a fictitious company: ABC Restaurants.

ABC Restaurants has a share price of $20.00 and earns $1.00 per share. The company's stock sells at 20 times earnings. The company can allocate its $1.00 of earnings in a couple of different ways.

ABC
Restaurants



Option 1:
Allocating Capital to *Growth*

ABC Restaurants is a young company with growth potential and, thus, it reinvests all of its earnings into opening new restaurants. These restaurants earn a return of 12% on the capital used to open them.

After 10 years growing at 12%, the company will produce earnings per share of $3.11. Assuming ABC still trades at 20 times earnings, the new share price will be $62.20, providing a return of 12%.

If, instead, the company now trades at 18 times earnings, the stock price will be $55.98, providing an annualized return of 10.8%.

While price/earnings multiple expansion or contraction is important, the effect of these changes is reduced over longer time periods. The main driver of returns is the company's growth in earnings.

Option 2:
Allocating Capital to *Shareholders*

ABC Restaurants decides that its restaurant concept does not scale very well. Thus it maintains its original restaurant location, leaves its earnings in cash and pays that cash out in the form of dividends to shareholders.

ABC would then have $1 per share in cash each year, which it would return to shareholders. At the end of 10 years, the company would have paid out $10 per share in dividends.

With ABC still trading at $20, the result would be a return of 5% per year — assuming zero growth of earnings. Note that it is likely the company's earnings would grow by at least the rate of inflation, but for the purpose of this example, we have kept earnings constant.

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As you can see, a stock's return is based on two things: capital allocation and the difference in its price-to-earnings (P/E) ratio at the time of sale versus the time of purchase. Since the company's P/E ratio in the future cannot be known, figuring out how a company allocates capital is the most important factor in distinguishing a successful investment. The ideal investment opportunity occurs when a company can grow without investing additional capital in the business. That frees up its capital to pay dividends, buy back stock, or pursue an acquisition while still growing organically. However, most businesses cannot grow without reinvesting capital in new plants, stores, warehouses, trucks or other areas that drive the growth of that particular business. Ultimately, companies that reinvest their earnings at high rates will perform well over the long term. Over time, P/E multiples become less important to the return of a portfolio. The P/E ratio will move up and down, many times for reasons unrelated to business value.

To reiterate, the best companies to invest in are the ones that can simultaneously pay out earnings in dividends (or opportunistically buy back their stock) and grow. These are the types of investments that we focus on identifying. It goes without saying that these companies are hard to find. That is why we spend our days scouring the potential opportunities available in the search for just these types of investments.

Thank you for your continued support. We are always available if you would like to discuss your investments or any other matter.

Daniel Goodman, CFA
President and Chief Executive Officer

Effie Wolle, CFA
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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