GFI Investment Counsel Ltd.

Preserving and growing family capital™

""We are paying 100 times earnings for something whose earnings aren't going up...now that is a terrible, terrible investment."
Warren Buffett, CNBC interview with Becky Quick weekend of May 5th, 2017, with regards to holding cash.

Second Quarter 2017 Commentary

Good Opportunities Fund

The Fund generated a return of 5.4% over the second quarter of 2017, and has gained 12.0% year-to-date. The Fund's portfolio of businesses stayed fairly steady throughout the quarter. The largest change was a short position combined with puts on a company that we believe should continue to erode equity value over time. To date, the Fund's short position has been profitable and, of course, we hope for that to continue.

Our article this quarter illustrates the effect of acquisitions made for the wrong reasons.

"Diworsification"
Stay focused

GFI maintains an ongoing watch list of high-quality companies that we do not own but continue to study and learn more about regularly. To be prepared for future opportunities, we follow these companies' financial performance and developments closely, in case we find an opportunity to become shareholders.

We were recently reviewing three companies on our watch list: Gartner, Inc., Stericycle, Inc. and Verisk Analytics, Inc. If you would have asked us a few months ago, we would have spoken admirably of these three companies. Given recent acquisitions by these companies, however, we were disappointed to find that our desire to invest in Gartner, Stericycle and Verisk Analytics has decreased significantly.

Stericycle, a medical waste management firm, purchased document destruction firm Shred-It International Inc. Gartner, an information technology and software research company, bought a human resource solutions company called CEB Inc. Verisk Analytics, a provider of critical data to insurance companies, purchased Wood Mackenzie Limited, an information and consulting company focused on the oil/petro-chemicals industry.

Both Stericycle and Verisk, which made their acquisitions in late 2015, have suffered from the underwhelming performances of their acquired businesses. Verisk acquired Wood Mackenzie just as oil prices were crashing. Stericycle's acquisition of Shred-It, a business already in decline, has been destroying shareholder value practically from the date of purchase. Gartner, an extremely profitable and fast-growing company, purchased a significantly lower-quality business in an unrelated field. In fact, the three acquisitions made by these companies were all largely unrelated to their core competencies.

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These acquisitions have all been disappointing. Rather than shareholders being able to buy a singular business ranked amongst the best in the world, shareholders must now tolerate a significant dilution of quality if they want to own these companies today.

Businesses that are very strong and focused on excellence in one industry often find it hard to resist the seduction of expanding the empire lorded over by management. Peter Lynch called this process "diworsification," and it captures perfectly what's happened over the past few years at these once-fine businesses.

Our portfolio contains many businesses that are very acquisitive. That in itself is not a problem, as our portfolio companies restrict their acquisitions to the same narrow industries in which they have expertise and can attain strong synergies. The one exception to this is Berkshire Hathaway Inc., a large conglomerate run by Warren Buffett that owns everything from railroads to utilities, from GEICO General Insurance Company to candy shops. Given its decentralized structure, Berkshire Hathaway has been an exception to the rule that diversified conglomerates tend not to perform very well.

The businesses we own or have owned, such as Canadian National Railway Co. and Whistler Blackcomb Holdings Inc., have provided attractive rates of return specifically because they hold wonderful assets and stay focused on their core business. We will continue to differentiate businesses by their capital allocation and ensure that they build, rather than destroy, shareholder capital for our clients.

On July 1st, GFI celebrated 10 years as a licensed investment manager. As in any business, days are filled with challenges to overcome and moments to celebrate. We have been privileged to meet and work with incredible people and we are humbled by the support and encouragement we receive from our clients. Thank you again for your continued support and we continue to ask that you reach out to us to discuss anything at all. We are always available to talk.

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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