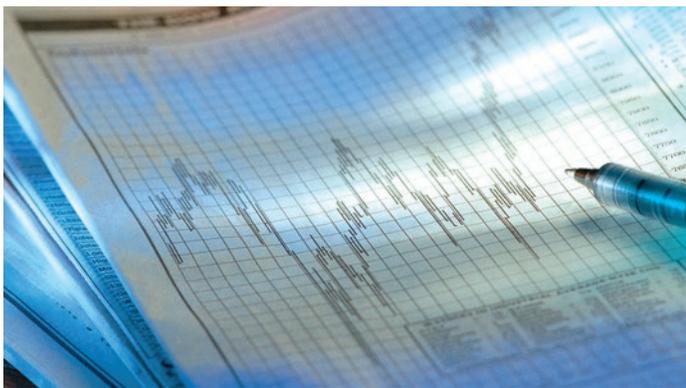


# GoodQuarter

**Q1'18**

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*“The great strategy you can’t stick with is obviously vastly inferior to the very good strategy you can stick with.”*

— Cliff Asness, Chief Investment Officer, AQR Capital Management, “Masters in Business” podcast

### Dear Valued Client,

The quote above seemed especially appropriate for this edition of our quarterly newsletter. The best-laid plans are only as good as our ability to adhere to them. In the investment realm, the asset allocation we help our clients select is effective if—and only if—we can stick to the allocation in times of extreme stress. During the quarter, equity markets exhibited volatility levels that market participants had practically forgotten about over the last few years.

In February alone, the S&P 500 Index reached a trough of 10% below its highs. March also showed some volatility, albeit not to the same extent. Each client has their own asset allocation, and no two clients are alike. Generally, clients who are at, or near, retirement will tend to have a more conservative asset mix. By contrast, clients with a longer time horizon will tend to have an allocation focused on capital growth.

If we have selected the appropriate asset allocation for each individual client, volatile quarters change little

in the way of their long-term plan. We are happy to report that, in nearly all cases, clients’ results through this recent volatile period were consistent with our expectations.

On a housekeeping note, our office is currently looking for the right individual to help us with administration, account opening and general office duties. If you know of anyone who may fit the role, please let us know.

Thank you for entrusting us with your assets. Please give us a call if we can be of any assistance with your upcoming tax filings, or any other investment matter.

Daniel Goodman, CFA  
President and  
Chief Executive Officer

Effie Wolle, CFA, MBA  
Chief Investment Officer

## SiteOne Landscape Supply, Inc.

SiteOne Landscape Supply, Inc. ("SiteOne"), originally purchased in March of 2017, is a retailer/distributor catering to residential and commercial landscapers. SiteOne sells products such as fertilizer, plants and flowers, irrigation equipment, lighting and masonry. When considering an investment in retail, it is mandatory to think about the potential effects of Amazon entering the industry. Even if Amazon has not yet entered the landscaping supplies market in a substantial way, they never stand still. We believe that SiteOne and the landscaping industry have attributes that make it difficult for e-commerce platforms, such as Amazon, to successfully compete.

SiteOne staff work in a consultative manner with landscapers, often advising them on best practices for their projects. It is therefore necessary for staff to have extensive experience in landscaping. Many of the company's sales associates are themselves former landscapers or golf superintendents.

SiteOne locations carry a wide selection of inventory that allows for one-stop shopping and saves landscapers time in offering all required supplies in one trip. SiteOne stores carry numerous parts and components of lighting and irrigation systems that landscapers are hired to maintain annually. If a repair is required at a client's site, the landscape professional can trust SiteOne to find the exact component or part to fix the problem in a timely manner.

Nurseries are a large part of SiteOne's offering. The perishable nature of flowers and the desire of most landscapers to see/smell/observe flowers before they decide to install them in their clients' homes limit the possibility of e-commerce infiltrating the industry. SiteOne serves as an effective just-in-time inventory system for time-starved landscapers with big project backlogs.

We believe that the combination of these attributes insulates SiteOne from the cutthroat commoditization faced by other brick and mortar retail business models in the e-commerce era. The e-commerce platforms excel in markets that offer commoditized products, however, if custom advice is required, the scale that e-commerce businesses seek dissipates.

The vast majority of landscapers work for upper income homeowners. These homeowners are much more concerned with the quality of the landscaper than they are with saving money on materials. Landscapers generally pass on the costs of materials they buy from SiteOne to their clients. As price is not a major criterion, landscapers have limited incentive to shop around or negotiate intensely on pricing. This gives SiteOne the ability to maintain healthy margins.

Lastly, the industry is very fragmented. Most nurseries and landscape supply stores are family-owned operations or regional chains. SiteOne is buying smaller competitors at attractive prices. In doing so, the company promises entrepreneurs who have spent lifetimes building their businesses that employees and customers will continue to be treated well. SiteOne's reputation for being a trustworthy buyer will be valuable over the next decade as aging entrepreneurial baby boomers in need of exit options turn to SiteOne as the best exit strategy for their businesses.

SiteOne has a durable business model and a good formula for reinvesting its earnings, which we believe should lead to healthy double-digit earnings growth and equity returns over the long term.



# Asset Allocation

## *The Important Role of Fixed Income*

As equity markets have advanced over the last decade, fixed income allocations (or bonds) have generally depressed overall returns. Although the fixed income asset class may appear as a drag on overall performance, it plays an important role in an investor's portfolio.

Assuming a portfolio holds creditworthy fixed income securities, bonds offer a modest return in exchange for significantly less volatility compared to equities. As the last nine years have seen robust equity returns, we have recently been asked by clients if fixed income is worth holding in a portfolio at all. The short answer is yes.

Fixed income plays an important role in clients' portfolios. Returns from fixed income investments are more predictable than those of equities, and these assets can help ensure an investor's portfolio is not overly weighted in more volatile assets. Based on their individual goals and risk profiles, some clients will have less of a need for fixed income while others are heavily weighted in the asset class. One thing is worth noting: the ultimate decision of whether to own bonds is a long-term decision based on risk appetite, not a short-term decision based on recent rates of return.

We are proud of our track record selecting securities for client accounts. However, the other central role we play is keeping our clients on course to their long-term plans and helping them maintain an appropriate asset allocation of equities and bonds.

The slight increase in North American interest rates over the last year has meant modest returns from bonds, however, it also means that we can expect slightly higher bond yields in the coming years.



## 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@gfic.com](mailto:info@gfic.com).