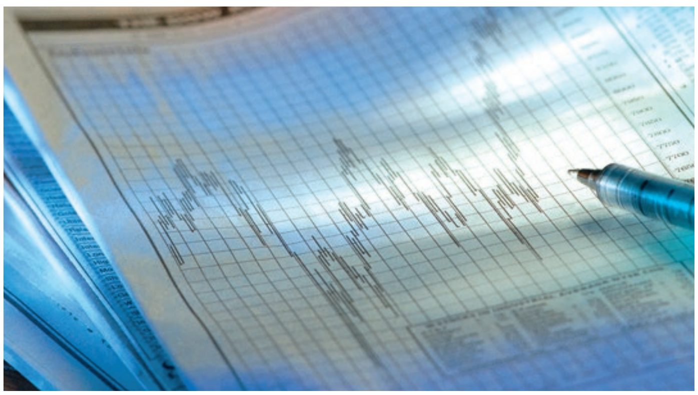
GFI Investment Counsel Ltd.

Preserving and growing family capital™

GoodQuarter Q2'18



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"No one buys a farm based on whether they think it's going to rain next year or not."

— Warren Buffett, Berkshire Hathaway 2018 Annual Shareholders Meeting

Dear Valued Client,

The first six months of the year once again illustrated the financial market volatility that can occur at a moment's notice. As you are likely now accustomed to hearing from us, we remained steadfast and did not deviate from our strategy during this period of market volatility. We continue to hold growing, well-financed businesses, while shunning short-term, tax-inefficient trading.

The current U.S. administration is less predictable than previous ones and, thus, we believe heightened market volatility might be increasingly common going forward. Again, our investment approach will not change, regardless of whether the headlines are focused on tariffs, politics or anything else that captures people's attention.

For those of you who have called the office in the last couple months, the new voice on the phone is Brissa Andreucci. Brissa is a recent graduate of Ryerson University and is already making great contributions to the GFI team.

Thank you for entrusting us with your assets. Please give us a call if you have any questions or concerns you'd like to discuss.

Daniel Goodman, CFA
President and
Chief Executive Officer

Effie Wolle, CFA, MBA
Chief Investment Officer

Portfolio changes

Apple for Spirit

During the second quarter of 2018, we replaced Spirit Airlines, Inc. ("Spirit") with Apple Inc. ("Apple") in client accounts. Spirit is an ultra-low-cost ("ULC") airline that operates across the United States and Central America. Its main advantage is the fact that its competitors' costs are roughly 70% higher than Spirit's costs. This significant cost advantage lets Spirit price its tickets lower than the competition, while still generating excellent returns on capital.

The low-cost ("LC") airline business model was started in the U.S. by Southwest Airlines several decades ago. Ryanair copied that business model in Europe, but went even further in cutting costs, which created the ULC business model. The LC/ULC business models have generated very strong returns over the years. Both Southwest and Ryanair have generated approximately 20% annual returns since these companies' initial public listings.

When investing in Spirit, our biggest mistake was comparing that company to those other two successful pioneers. Southwest and Ryanair were largely able to take the legacy airline competitors by surprise with their new business models many decades ago. Back then, the legacy airlines were suffering as a result of labour issues and broken business models, and the industry had undergone multiple bankruptcies. The legacy airlines learned the hard way the threat that the ULC airline model posed to their survival.

The element of surprise no longer existed when we invested in Spirit. The large legacy carriers responded by matching Spirit's prices on shared routes. On a wider scale, if a smaller, lower-cost company operates only in Chicago, while the larger competitor operates nationwide, the larger competitor can afford to strategically keep losing money in Chicago to put financial pressure on the low-cost company and restrain its ability to grow. Additionally, the strong economy has allowed large incumbents to charge business travellers higher prices, mitigating the impact of the lower-cost seats sold to compete with Spirit.

The strategic foresight of the large incumbents has made it very difficult to forecast the competitive situation five and 10 years into the future. No longer possessing the stability, predictability and consistent earnings growth profile we look for, we decided to exit the investment in Spirit and take advantage of the opportunity to buy a wonderful business called Apple.

While buying Apple a decade ago would have been prophetic, we are very excited about the future growth that Apple services will have to the company's bottom line. Today, the majority of Apple's profits stem from the iPhone. Its main competitor is Android, an open license operating system available on smartphones from multiple manufacturers.

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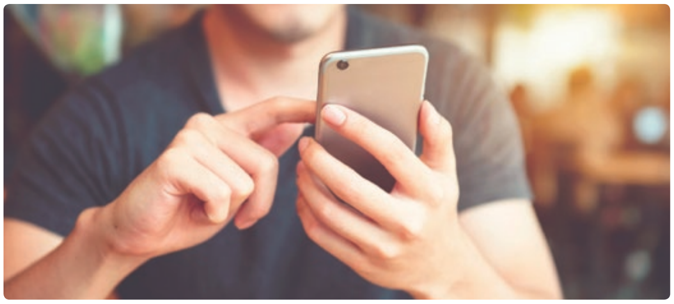

Once a consumer chooses between an Apple or Android device for their first smartphone (or has their parents choose for them), the user starts to accumulate data, buy apps, get accustomed to the user interface, and subscribe to music and other services. As time passes, it becomes statistically less likely the user will switch devices due to a combination of lethargy and the time it would take to move data to – and educate themselves on – a new operating system. This is why Apple and Android both have retention rates of 80%, which is very high for a consumer product. In fact, most switching occurs in the first few years of ownership, when learning costs are still minimal. The longer a consumer uses an iPhone or an Android device, the longer they are likely to remain loyal to that brand.

While Apple's iPhone sales have stabilized, growth lies in selling additional services to this sticky consumer. As consumers spend an increasing amount of time on their phones, a larger percentage of their spending activity takes place on their device. Transactions using Apple Pay, app purchases from the App Store, Apple Music, iCloud data storage, gaming, etc. all contribute to Apple's bottom line on a growing basis. In cases where a transaction is on behalf of a third party, Apple charges a 15%-30% commission and the revenue on this service is very high margin, with each additional transaction often exhitibing no additional cost. As smartphones continue to replace PCs for consumer transactions, we think this is a dependable source of long-term revenue and high-margin profit growth for Apple. The hardware's embedded consumer base is so valuable that Google reportedly pays Apple several billion dollars per year to make Google the default search engine on the iPhone. High margin indeed.

Unlike Spirit, Apple has a loyal customer base and predictability of future cash flow. We are excited to be fractional owners of this wonderful business.

Changes at GFI

New online portal enhancements

Just as technological change impacts all our investment holdings and is rapidly changing the various industries we scour, our business is no exception. As you know, we have started delivering our quarterly statements electronically via our website portal.

By allowing our clients to access their quarterly statements online, we reduce the likelihood of human error, the time it takes to access information after quarter-end, as well as the hours of work required to accurately deliver our statements in the traditional manner.

In addition to allowing you to access your quarterly reports, our online portal can generate a report summarizing your account since its inception (values as of month end). Moreover, the portal can provide a list of all account activity and rates of return within specific timeframes. We invite you to explore the portal and call our office if you would like a hand in navigating all the options available to you.

We are already planning our next technology update, which will provide users with the ability to open new accounts electronically. There will no longer be any need to physically print paperwork or sign documents in person. We expect this functionality to be introduced in spring 2019, and look forward to all the benefits and convenience that upgrade will provide to GFI clients like you.

If you have any feedback on how we are doing or have any ideas that can bring further efficiencies to our business, please give us a call. We are always looking for ways to support you better.

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@gfiic.com**.

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