GFI Investment Counsel Ltd.

Preserving and growing family capital™

"You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets."
– Peter Lynch

Third Quarter 2020 Commentary

Good Opportunities Fund

Dear Valued Client,

The Fund generated a gain of 6.2% during the third quarter and has gained 20.0% over the first 9 months of the year. Below, we elaborate on our purchase of Moody's Corporation earlier in the year.

A High Rating for Moody's Corp.

GFI bought Moody's Corporation ("Moody's") in the second quarter of 2020. Moody's is the second-largest ratings agency in the world after S&P Global Inc. ("S&P"). Collectively, Moody's and S&P have a roughly 85% market share in the U.S. and Europe (35% and 50% market shares, respectively).

The two ratings agencies practically operate as a duopoly. We believe that dynamic will continue well into the future. Moody's and S&P have greater access to corporate information since nearly all large businesses in the world provide them with intimate financial details and ongoing meetings with management. Because of this broad access, investors and lenders rely on Moody's and S&P ratings over any alternatives.

Issuers use Moody's and S&P to rate their debt, as those are the ratings agencies investors trust most. This virtuous cycle is difficult for any new entrant to recreate. Issuers do not want to pay many companies for their ratings and, in fact, most issuers pay for only two ratings. Furthermore, the fees paid by companies to get their debt rated by these two agencies lowers the interest expense on their issued debt.

Although unintuitive, we believe that it is important to have a ratings industry that doesn't compete too aggressively. More players in the industry would likely mean that ratings agencies would compete not just on price, but also on favourable ratings to debt issuers. For ratings to be trusted, the ratings market has to be an insulated, relatively competition-free market so that all market participants know that Moody's and S&P's ratings standards will not deteriorate in response to a grab for market share.

Moody's strong brand and dominance in the ratings industry has given it the ability to increase fees approximately 2% above the rate of inflation over the past few decades. Moody's revenues have also grown faster than overall debt issuance levels because rated debt products, such as bonds and asset-backed securities, are taking share in new issuance from unrated debt such as bank loans.

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Paired with a business model that requires almost no capital and has low marginal costs, we expect Moody's to grow faster than gross domestic product and expand margins for decades to come, all while returning the vast majority of free cash flow to shareholders. We look forward to being shareholders as long as these favourable business qualities continue.

Thank you for continuing to trust us with your assets. We ask, as always, that you please give us a call if you have any questions or concerns that you would like to discuss.

Daniel Goodman, CFA
Chief Executive Officer

Effie Wolle, CFA
President and 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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