

"The whole problem with the world is that fools and fanatics are always so certain of themselves, and wiser people so full of doubts."
– Bertrand Russell

Fourth Quarter 2020 Commentary

Good Opportunities Fund

Dear Valued Client,

Happy New Year. We are pleased to report that the Fund generated a gain of 7.6% over the fourth quarter and increased 29.2% overall during 2020. At year-end, the Fund's five-year annualized return was 16.9%, annualized ([Click here for a copy of the Fund Fact Sheet](#)). While we are naturally pleased with this return, we expect more moderate returns going forward. If we are successful in our approach, we believe we can achieve low double-digit returns for unitholders.

GFI continued to grow in 2020, and we are pleased to have added two wonderful new members to the GFI team. Manny and Chris joined us in the second half of the year and have already contributed to our focus on handling customer service promptly and efficiently.

We remained steadfast in our investing approach throughout 2020 under extremely challenging investment conditions. Our calm in a sea of short-termism positively impacted our ability to deliver strong returns for our clients. We wanted to thank each and every unitholder for their belief in our long-term approach. During the most difficult market conditions of the pandemic, not one unitholder redeemed their investment. Needless to say, the decision to stay invested benefited all unitholders greatly.

We have included a recent article from The Globe and Mail in which our CEO, Daniel Goodman, was featured.

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

Three Top Stock Picks from the CEO of \$1.2-Billion Investment Manager GFI

Daniel Goodman isn't too worried about how the markets will behave after Tuesday's U.S. presidential election, even if it's contested for weeks to come. For Mr. Goodman, chief executive officer at GFI Investment Counsel Ltd., investors should buy companies they plan to own for years.

"This is a moment in time and, from an investment perspective, that's all it is," says Mr. Goodman, whose Toronto-based firm oversees about \$1.2-billion in assets under management.

Instead of trying to time the markets, he says investors should stick to the long-term asset mix and plan they've set up.

"The right asset mix is one you can hold in all market conditions," he says. "If you're contemplating selling down equities at this point in time, it probably means that you have too high an equity allocation in your portfolio. You should own the amount of equities that you can hold during difficult times as well as the good times."

GFI's own equity allocation is at 100 per cent – about 75 per cent U.S. stocks and the rest in the Canadian market. It invests in about 15 to 20 names at one time.

Its Good Opportunities Fund returned 20 per cent year-to-date after fees, as of Sept. 30. That compares with a return of 5.6 per cent for the S&P 500 and a drop of 3.1 per cent for the S&P/TSX Composite Index over the same period, Mr. Goodman says.

His firm is about "rational investing," which means it doesn't get into risky bets such as cannabis or cryptocurrency stocks. He's also not interested in commodities, such as mining and energy, and sold out his one Canadian bank stock in June of this year. Mr. Goodman is not expecting a crash in bank stocks but "we felt we could do better" with other companies over the long term.

One recurring theme in his portfolio is companies with high operating leverage, which measures the sensitivity of a company's operating income to its revenues.

"It's when that new dollar of revenue falls to the bottom line in a big way," Mr. Goodman says. "It's a wonderful characteristic of a great business."

Below are three of his picks:

Moody's Corp. (MCO-NYSE)

- 52-week range: US\$305.95 to US\$164.19
- Nov. 2 close: US\$265.93
- One-year return: 20.6 per cent

Mr. Goodman first bought the credit-rating agency company's stock in May, citing its limited competition and ability to raise prices without losing customers. Moody's main competition include S&P Global Ratings and Fitch Group.

"Corporate debt issuance isn't going to slow down," he says. "We look for businesses that can pass through their inflationary cost increases and raise prices to customers without losing them." He says most businesses that have to issue corporate debt don't have a wide choice about where to get rated. Also, by getting the rating, they can lower their cost of capital. It's similar to the possibility of getting cheaper home insurance if you have a security system installed.

"It's another one of the things we look for; a win-win for the customer and the business," Mr. Goodman says.

He also points to Moody's strong third-quarter earnings, where revenue increased by 9 per cent to US\$1.4-billion year-over-year, which led to a 25-per-cent increase in adjusted diluted earnings per share (EPS) of US\$2.69 compared with last year. "It's another example of operating leverage," he says.

Microsoft Corp. (MSFT-Nasdaq)

- 52-week range: US\$232.86 to US\$132.52
- Nov. 2 close: US\$202.33
- One-year return: 40.8 per cent

GFI has bought Microsoft on and off over the years and got back in a year ago and has

been adding to client portfolios ever since, attracted to the technology giant's size and recurring customer base. "People rarely switch their operating systems," he says, adding that, like Moody's, Microsoft can usually raise prices without losing customers. "It's a very sticky business."

Microsoft recently reported a 12-per-cent year-over-year increase in its fiscal first-quarter revenue to US\$37.2-billion – "which for a company that size is astounding to begin with," Mr. Goodman says. Diluted EPS increased by 32 per cent to US\$1.82.

The company's valuation is a bit high, at about 26 times 2021 free cash flow, according to his company's forecasts, but Mr. Goodman says he believes the stock will look cheap five years from now as the company continues its double-digit growth trajectory. "Price is what you pay, value is what you get."

Charter Communications Inc. (CHTR-Nasdaq)

- 52-week range: US\$663.70 to US\$345.67
- Nov. 2 close: US\$588.43
- One-year return: 23.5 per cent

GFI bought this U.S. broadband communication company in the first quarter of 2018, attracted to its ability to provide some of the fastest internet service in its territories. They've invested a lot in their network," he says, which has kept customers from switching to other providers.

The broadband company reported revenue growth of about 5 per cent to US\$12-billion in the third quarter, driven by a 12.5-per-cent surge in its internet division. Diluted EPS came in at US\$3.90, up 124 per cent from US\$1.74 a year ago.

"That's operating leverage, when that new dollar of revenue gives you significantly more earnings," Mr. Goodman adds.