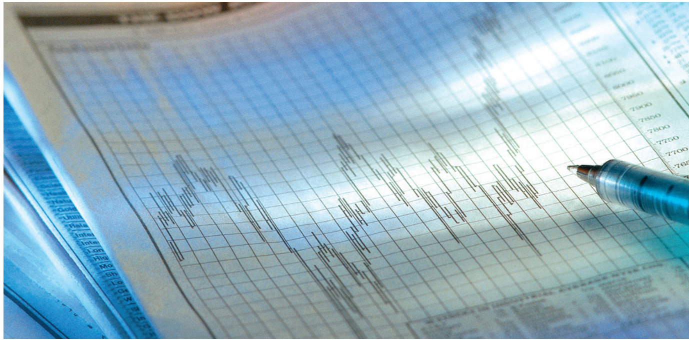
GFI Investment Counsel Ltd.
Preserving and growing family capital™

GoodQuarter

Q1'22



IN THIS ISSUE

- Sherwin-Williams
- Wait, bond prices fall in value too
- Our Client Commitments

"Investing is most intelligent when it is most businesslike."

— Ben Graham

Dear Valued Client,

It is slowly starting to feel like spring ... and not a moment too soon! Weather aside, the first quarter was remarkably volatile for stocks, and our portfolio was not immune to that volatility. Although we've discussed the potential volatility of equities at length in the past, market drops can test even the most ardent investor's emotions. This is natural.

As the stewards of your capital, our most important role is to ensure you stay the course, no matter how difficult the journey. Market declines are typically accompanied by a narrative – and usually that narrative includes rising interest rates, a looming recession and/or geopolitical uncertainty. Investing becomes emotional at times like these. But it is during these moments that investors need to stay the course, follow their long-term plan and not make rash decisions.

We believe it is helpful to think about such volatility as the short-term cost of participating in the long-term returns offered by equity markets. GFI clients have benefited from an equity return of 17.5%, annualized, over the past decade. The cost of that return is periodic volatility.

During the quarter, we sold the portfolio's position in Netflix and purchased Alphabet, Google's parent company. Our portfolio remains well positioned by our investment team, who analyze both existing holdings and potential new businesses to invest in. We didn't trade very much during the quarter, but please don't mistake inactivity with lethargy. Activity simply for the sake of activity is a recipe for poor performance.

We are incredibly confident in our portfolio of businesses. They have achieved exceptional wealth creation for clients over the last 15 years, and we look forward to another 15 years of success.

Please join us in welcoming Vivian Young to the GFI team. Vivian comes from TD Asset Management, and will help in our client management and financial planning areas.

On page 2 of this issue, we give some historical context to Sherwin-Williams, a GFI portfolio company. On page 3, we explain why and how bonds have decreased in value thus far in 2022. We have also included our pledge on page 4.

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, MBA
President and Chief Investment Officer

Sherwin-Williams: putting some colour around this long-term holding

In the first quarter of 2022, various stocks in our portfolio decreased in value by meaningful amounts, the largest of which was Sherwin-Williams, which posted a 30% decline. While we always manage money with a focus on the long term, a 30% decline is jarring and difficult to bare.

Some of the questions we ask ourselves when experiencing a decline of this manner include:

- What's changed?
- Has the business deteriorated?
- Is the industry facing new competition or regulation?

Sherwin-Williams is a manufacturer, distributor and seller of premium paints, coatings and related products. The company's crown jewel is its network of retail stores that offer consultation to builders and contractors about all facets of a project. Store employees are often former contractors themselves, and undertake extensive training before working at a Sherwin-Williams' store.

In our research, we have confirmed that the company's current strategy continues to resonate with customers. The company's stock price decline is a function of shifting investor sentiment and concern about the potential for an economic slowdown; both of which are out of the company's control.

Over the past 20 years, Sherwin-Williams' stock price has increased 35-fold, meaning $1,000,000 invested in the company's stock on March 28, 2002, would be worth $35,000,000 today. During that same 20-year period, the company's stock experienced the following temporary drops in market value.

Year	Decline
2002	29%
2006	23%
2008/09	40%
2015	22%
2018	22%
2020	30%

The stock price also declined between 10% and 20% a number of times over this period. Even with these declines, the stock produced a stunning annualized return of 19.5% *per year*. As mentioned on page 1 of our newsletter, public businesses provide exceptional returns, although the cost of those returns is short-term volatility.

In cases where we deem a business's prospects to be impaired longer term, we will sell that holding. We believe that none of our holdings – including Sherwin-Williams – fall into that category at this time.

Wait, bond prices fall in value too?

While most investors are aware of the volatile nature of equities, the performance of bonds can be a bit trickier to understand. Stocks, as everyone knows, fluctuate on a day-to-day basis based on expected earnings and interest rates, as well as investor sentiment. Bonds, however, tend to be more stable. After all, bonds are a promise made by a borrower to repay a lender with a prescribed interest rate. So how is it that bond prices have decreased in value over the past year? Can't we just hold our bonds and receive the rates of return we were promised? Yes, but ...

To answer that question, let's walk through an example. Suppose that on January 1, 2000, you bought a five-year bond from the Canadian government. You lent the government $1,000 and, in return, the government promised you a 5% coupon and the repayment of $1,000 at the end of the five-year period. You bought this bond knowing you will own this security for all five years, while earning 5% each year.

Now suppose the day after you purchased that bond that interest rates increased, and the government was now offering a similar five-year bond with an annual interest rate of 7%. Would you be able to sell your bond for $1,000? Why would anyone purchase your bond with a 5% coupon if they could get a similar bond from the government that paid 7%? In fact, nobody will buy your bond for $1,000.

To sell your bond, you have to offer a similar rate of return of 7% (until maturity) on your bond. To do so, you would drop the price of your bond to roughly $918 to provide the purchaser with the equivalent 7% return. The 5% coupon would be paid to the new purchaser and they would also generate additional return by buying the bond at $918 and receiving $1,000 at the end of the five-year term. Through a reduction in price, your 5% bond at the reduced price provides a return of 7% to the purchaser.

Now you can imagine that there are thousands of others who own the same Government of Canada five-year, 5% bond issue. Given that other holders of the same 5% bond often want or need to sell their bond, the $918 price that the bond trades at becomes the most recent mark-to-market price. It doesn't change the 5% return the purchaser will earn, the coupons they'll receive or the $1,000 they'll receive at maturity, but the new, higher interest rate the government is offering has caused this bond price to fluctuate.

Rising interest rates are not all doom and gloom. Since interest rates have risen, bond purchasers today are receiving higher rates on their savings. Rather than the roughly 2% returns that were available for investment-grade corporate bonds, investors are now receiving returns of closer to 4%. We have lived through an era of exceptionally low interest rates, and a moderate increase in interest rates can be expected in the broader context of history.

Our Client Commitments

Here are the promises we make to you *(formed over decades of industry experience):*

1. ***We will always*** manage your money as if it was our own – and we don't take unnecessary risks with our own money.
2. ***We will never*** claim to be able to time markets.
3. ***We will always*** ensure you understand what we are saying.
4. ***We will*** return your phone calls and emails promptly.
5. ***We will always*** report your performance net of all fees.
6. ***We will always*** disclose how and what we charge you.
7. When comparing our performance to benchmarks, ***we will always*** use the appropriate benchmark and include dividends.
8. ***We will*** manage your capital rationally.
9. ***We will never*** discuss or use terms like "macro," "tactical," "sector rotation" or "absolute return."
10. ***We will never*** chase the most recent investment trend.
11. ***We will*** charge fair fees; not the fees we think we can get away with.
12. ***We will never*** use the term "risk-adjusted" to justify poor results.
13. ***We will never*** use Greek letters to explain our approach or rationalize our returns.
14. ***We will never*** tout illiquid investments as if they are "less risky" just because they are private.
15. ***We will never*** launch new products simply because a sector is "hot."

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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