

GoodQuarter

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“In the short run, the market is a voting machine, but in the long run, it is a weighing machine.”

— Benjamin Graham

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Dear Valued Client,

The GFI equity portfolio was down roughly 1.7% during the third quarter of 2026.

The past year has been a challenging one for our investment results, and we believe it is important to address that reality directly. While investment results have not met our expectations, we remain optimistic about the long-term prospects of the businesses we own and the opportunities ahead.

This quarter provided a useful example of the environment we are navigating. July was very strong, reflecting improving sentiment and growing recognition of the value embedded in many of our holdings. However, that strength reversed as the quarter progressed, and much of those gains were given back in September. While short-term market movements can be frustrating, operating results remain our north star to change our assessment of underlying business value. Studies have shown that in any 1-year time horizon, valuation multiples are the determinant of total shareholder return, while over a 5-year and 10-year period, cash flow growth and return on capital determine roughly 80% of a stock's return.

Encouragingly, several of the newer investments introduced to the portfolio have been among our strongest contributors. We have been able to deploy capital into high-quality businesses at attractive valuations and their operating results reinforce our confidence in our investment process.

We will not purchase companies at nosebleed valuations simply because they are popular, nor will we underwrite businesses based on earnings that we believe are temporarily inflated.

The experience of Pool Corporation offers a useful illustration of the dangers of chasing businesses exhibiting cyclical peak earnings. During the COVID period, extraordinary demand conditions for swimming pools drove earnings far above normal levels. Investors who assumed those earnings would persist were ultimately disappointed when growth normalized and valuation multiples adjusted accordingly. From top to bottom, Pool Corporation dropped by 71%, and its stock is below pre-COVID levels even though revenues and earnings are 65% and 55% higher, respectively. We seek to avoid paying prices that require unrealistic assumptions about the future.

Importantly, the operational performance of nearly all businesses in our portfolio remains strong. Revenues, cash flows, and competitive positions are progressing as expected. The primary headwind has been valuation compression. In several cases, investors have become less willing to pay the same multiples for quality businesses that they were willing to pay only a few years ago. This narrative can change quickly, and when it does, we will see the benefit to our portfolio. On page 2, we discuss American Express Company, and why we continue to hold the business even though the stock is down 16% year-to-date.

Periods like this can test patience, but they also create opportunity. We remain focused on owning durable businesses, allocating capital thoughtfully, and preserving the discipline that has served us well over time. We appreciate your continued trust and confidence and remain excited about the portfolio's long-term potential.

The GFI Team

Membership Has Its Privileges

American Express (Amex) occupies a rare position in global payments: it is not merely a transaction network, but a premium consumer brand with pricing power, a differentiated ecosystem and attractive long-term growth economics.

The core of the investment case is American Express's successful premiumization strategy and future payment growth. Roughly 65% of new card members are Millennials or Gen Z, and about 75% of new members choose fee-paying cards. Retention rates are approximately 90%, an unusually high level for a consumer product. Younger customers are also particularly attractive because they are spending faster than older cohorts and increasingly value travel, experiences and status. American Express has positioned its premium cards to benefit directly from these trends.

Amex' competitive advantage extends well beyond the card itself. Amex has built a global "mass luxury" ecosystem that is difficult to replicate. Its proprietary Centurion Lounge network includes roughly 35 exclusive lounges, complemented by access to Delta Sky Clubs, Priority Pass and Plaza Premium. Card members also receive priority airport services, access to concerts and restaurants, travel concierge services and automatic elite status with selected hotel and car-rental programs. Competitors can offer similar individual benefits but typically depend more heavily on third-party partners. American Express combines these benefits within a global network that is especially difficult to match outside the United States.

This differentiation creates meaningful pricing power. Net card fees have compounded at approximately 17% annually since the second quarter of 2019, rising from roughly \$1 billion to \$2.9 billion. Despite substantial fee increases, American Express continues to add approximately three million new members per quarter. Higher fees can also fund richer benefits, reinforcing the attractiveness and exclusivity of the product and creating a virtuous cycle between pricing, rewards and customer demand.

The company's valuation provides another source of potential return. We assume 7%-9% annual payment-volume growth, similar growth in membership income, and 4%-5% annual capital return from dividends and share repurchases. Together, these revenue growth rates support 12%-14% medium-term compounding. At 16.8 times next-twelve-month earnings, American Express trades at roughly a 20% discount to the S&P 500, despite persistent earnings growth and strong historical returns.

We look forward to being shareholders for years to come.

Yield Opportunities

For much of the past decade, fixed income offered investors modest returns, at best. That has changed materially. The recent rapid rise in U.S. interest rates has created an increasingly attractive opportunity in short-term investment-grade corporate bonds, and the iShares 1-5 Year U.S. IG Corporate Bond Index ETF (CAD-Hedged), or XIGS, provides Canadian investors with a straightforward way to access it.

XIGS owns a highly diversified portfolio of U.S. dollar-denominated investment-grade corporate bonds with maturities between one and five years. Today, the portfolio has a weighted-average yield to maturity of approximately 5.7%, and, all bonds mature within 5 years. This combination of attractive yield and relatively limited interest-rate sensitivity is particularly compelling compared with what has been available in fixed income for much of the post-financial-crisis period. The short duration (roughly, weighted average time to payback) is important. Longer-dated bonds can experience substantial price declines when interest rates rise. With a duration below three years, XIGS is considerably less sensitive to changes in interest rates than a broad U.S. corporate bond portfolio.

For Canadian investors, another important feature is the currency hedge. XIGS hedges its U.S.-dollar exposure back into Canadian dollars. This means the investment is primarily a decision about U.S. interest rates and corporate credit rather than a simultaneous bet on the Canadian dollar. Currency hedging is particularly useful in fixed income, where foreign-exchange movements can otherwise overwhelm the relatively modest returns generated by bonds.

The fund also provides considerable diversification. Its underlying index contains thousands of bonds issued by investment-grade U.S. corporations, significantly reducing the impact of a problem at any individual issuer.

The recent increase in U.S. yields has changed the fixed-income equation. Investors can now earn an attractive yield from high-quality corporate borrowers without taking significant duration or currency risk. For portfolios seeking income, stability and diversification away from equities, XIGS has become a compelling tool.

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. **We will always** use the appropriate benchmark and include dividends when comparing our performance to benchmarks
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") 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**.



*Preserving and growing
family capital™*