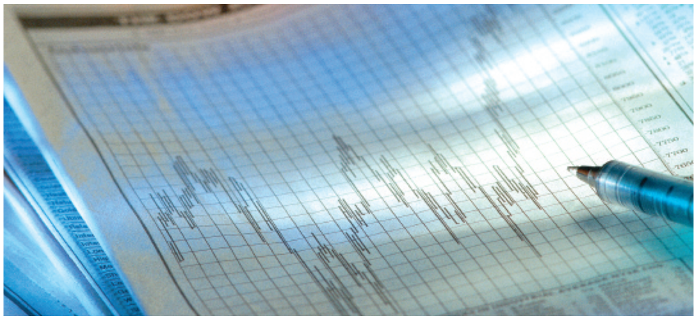
GoodQuarter

SPRING 2008



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Dear Valued Client,

After a highly volatile first quarter, equity markets appear to have fallen into a more sanguine mood of late. Although the first quarter of 2008 was challenging for any investor, our trust in your portfolio's core positions never wavered. And, we patiently added to your holdings when we saw the opportunity, while avoiding any unnecessary risk.

The work we're doing to improve our performance reporting is advancing on schedule, and we expect to have our new reporting system ready in the second quarter of the year.

Other things going on at GFI Investment Counsel:

1. **We are currently working on our corporate website and expect to have it up and running by the time you receive your next quarterly update.**
2. **We launched our proprietary hedge fund, the Good Opportunities Fund, in January. In the first quarter of 2008, the Fund significantly outperformed the broader market, and was down 0.4% for the quarter ended March 31, 2008.**
3. **We are interviewing for the position of Office Manager/Receptionist. If you know of anyone who would be appropriate for this position, please give us a call or send us an email.**

As always, we are grateful for your ongoing support and hope that if you have any questions, you will not hesitate to call us or send us an email.

We hope you enjoy a warm and wonderful spring 2008!

Best regards,

Daniel Goodman, CFA
President and Chief Investment Officer
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Inflation Risk: *Fact vs. Fiction*

There has been a lot of talk in the media about the ongoing threat of inflation, especially in the U.S. Rapidly increasing prices for food and commodities have led to higher inflation. A weaker U.S. dollar, coupled with rising commodity prices and the fact that the U.S. is a significant net importer of consumer goods, makes importing goods more expensive; helping to further stoke inflationary concerns.

So how does inflation – or the possibility of inflation – hurt investors? Let's take one example from each of the traditional asset classes (equities, fixed income, and cash) and delve a little further.

For equities, we'll use Cineplex Odeon as our example. Let's hold all other variables constant (i.e., the threat of home movie theatres and bootlegged movies, etc.). In an inflationary environment, Cineplex pays more for popcorn, employees, films, and rent. What does Cineplex do to offset rising costs? It raises ticket prices! And, anybody who goes to the movies these days knows that's exactly what Cineplex Odeon and its peers have done. While the reason for raising ticket prices has many other factors, the fact that these types of companies can raise ticket prices makes owning the shares of these companies more attractive than owning debt (i.e., bonds) in times of rising inflation.

For our fixed-income example, we'll use the most common loan: a mortgage. Suppose that in 2008, you buy a home for $400,000, put $100,000 down, and take out a five-year mortgage for the remaining $300,000. Let's further assume that your household income is $100,000, and that you pay an interest rate of 6% on your mortgage (or $18,000 a year). To make things even simpler, we're going to assume that inflation goes up 10% a year.

Each year, your income goes up by the approximate rate of inflation. In year two, your household income increases to $110,000, but the interest on your mortgage payment is still only $18,000. The portion of your income going to your mortgage has decreased. Great news for you, but not for the bank that gave you this mortgage. The $18,000 the bank now collects is no longer worth as much as in the previous year.

When you buy bonds, you're the bank. You're lending money at a fixed rate (usually), but the money you receive in interest is worth less and less as inflation rises because you can purchase less with it as the cost of buying items goes up. Thus, in a highly inflationary environment, bonds can be a dreadful investment.

Finally, there's cash. Leaving your money under your mattress will erode the value of your cash more quickly than a bond. In times of equity market uncertainty, cash can appear to be the safest investment of all. But, over the long term, cash will not keep up with inflation and continue to fall in value.

Source: www.cartoonstock.com

You may have also heard talk about the recent ascent of gold prices and gold's hedge against inflation. Gold is priced in U.S. dollars and, as the U.S. dollar depreciates, the price of gold must go up. If it doesn't, other nations with appreciating currencies would be able to buy the precious metal at a cheaper and cheaper price. Furthermore, gold acts as a safe-haven and, in times of panic, people know gold has value, is in limited supply (unlike a printable currency), and will always have a value in a doomsday scenario. Finally, gold is used for jewellery and has modest industrial applications.

The threat of inflation and what is GFI Investment Counsel doing about it

We believe inflation is real and remains a threat, especially in the U.S. To mitigate the risk of inflation, we have purchased a position in iShares Canadian S&P/TSX Global Gold Index Fund, which holds a basket of gold producers. While we like the leverage and gold assets that producers can offer, we do not want the negative surprise of a production or political problem an investment in a single gold producer represents. We are also limiting our purchase of bonds and waiting for sufficient (real) yields in which to deploy our capital.

H&R REIT

A value investment offering an impressive yield

We took a position in H&R REIT ("H&R") for client accounts in the first quarter. H&R is a diversified real estate investment trust that owns and manages properties across Canada and the U.S. H&R's Canadian properties account for approximately 75% of its assets.

H&R has over 99% of its space occupied, with an average lease term of 12 years. Only 11% of the H&R's portfolio leases are expiring in the next five years. The REIT matches its leases with long-term mortgage financing, and currently has an average mortgage term to maturity of 10 years. The mortgages expiring in 2008 have an average interest rate of 9.2% and, thus, even in today's credit environment, the company will be able to lower its cost of debt upon refinancing.

H&R's risk management extends beyond geography, long-term leases, and mortgage terms. The company's portfolio is spread across 35 office properties, 125 industrial properties, and 141 retail properties, reducing H&R's reliance on any one sector. The company's properties are fairly young, at an average of 14 years of age, limiting future capital expenditure requirements.

Some of H&R's more notable tenants include Bell Canada, TransCanada Pipelines, Telus, RONA, Atlas Cold Storage, Canadian Tire, RBC, Lowe's, and Nestlé. These tenants account for 47% of H&R's income.

H&R is currently building The Bow in Calgary, Alberta, which is the future head office of EnCana Corporation. The building will be the largest single-tenant lease in Canada, and EnCana has signed a 25-year lease for the premises.

H&R yielded 8% at purchase. Given the company's risk profile, we believe this REIT's attractive yield – relative to Canadian treasuries – makes this an investment with a rich distribution that also offers strong long-term capital appreciation prospects.

WisdomTree International Health Care Sector Fund

In December 2007, GFI Investment Counsel (GFI) purchased units of WisdomTree International Health Care Sector Fund (DBR) for our client accounts. DBR is an exchange traded fund (ETF) consisting of non-U.S. pharmaceutical and other healthcare holdings.

ETFs are similar to mutual funds in that they hold a basket of stocks. ETFs differ from mutual funds in that they trade throughout the day (similar to stocks) and have very low associated expenses. Over the past few years, a number of sector- and geographic-specific ETFs have been launched.

GFI invested in DBR for several reasons:

1. DBR holds pharmaceutical companies that generate large amounts of cash flow, regardless of the strength of the global economy.
2. DBR's holdings are based outside North America, for international diversification.
3. DBR collects and passes on dividends collected from its holdings.
4. DBR's holdings are weighted based on company earnings, which is different from most other ETFs that base their allocations on market capitalization.

The pharmaceutical industry is an attractive industry in which to invest given its patent-protected cash flows and high dividend yields. With the threat of product liability and government regulations, we prefer to mitigate risk by investing in a diversified ETF over investing in one or two specific companies.

It pleases us to note that Warren Buffett, widely regarded as one of the greatest investors of our time, recently purchased two of DBR's largest holdings.

GFI Investment Counsel and GoodFunds

GFI Investment Counsel (“GFI”) is a discretionary money manager that provides tailored investment portfolios based on each client’s unique risk level.

GFI is a bottom-up, long-term investment firm that invests primarily in North American public markets. GFI will, however, invest outside North America when quality opportunities arise. GFI meets with the management teams of prospective investments whenever possible, and places a high degree of importance on the quality and experience of these management teams when making investment decisions.

In January 2008, GFI launched Good Opportunities Fund (the “Fund”), an alternative investment fund that is the first of the “GoodFunds” series of investment products. The Fund will invest in opportunities that exhibit a high likelihood of outperforming the broader equity markets based on GFI’s proprietary research, while maintaining a focus on profitable, growing companies that adhere to GFI’s strict value discipline.

For more information about GFI Investment Counsel,
the Good Opportunities Fund, or GoodFunds, please
call **416.488.8825** or email **info@goodfunds.ca**.

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