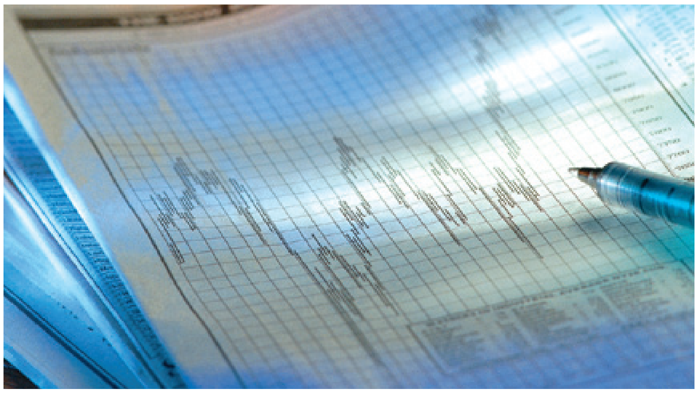
GFI Investment Counsel Ltd.

Preserving and growing family capital™

GoodQuarter

WINTER 2013



IN THIS ISSUE

Dear Valued Client,

With 2012 now behind us, we thought this would be a good time to review our portfolio results from the year. Over the full year, the value of the equities in our managed accounts increased by approximately 12%, while our fixed income holdings gained roughly 4%. In addition, Good Opportunities Fund, our proprietary pooled fund, increased 17% over the 12-month period ended December 31, 2012. While stock returns can be volatile and difficult to predict, our goal is to continue to hold several high-quality businesses that are carefully selected to provide strong long-term returns and to protect our clients against the negative effects of inflation. Please see our article on page 2 for more details.

Balanced Portfolio

YTD	1 year	3 year	5 year	Inception
7.2%	7.2%	7.9%*	4.9%*	6.2%*
2012	2011	2010	2009	2008
7.2%	7.0%	9.6%	20.1%	(16.1%)

Equity Balanced

YTD	1 year	3 year	5 year	Inception
9.1%	9.1%	10.3%*	3.8%*	6.7%*
2012	2011	2010	2009	2008
9.1%	8.6%	13.4%	19.7%	(25.1%)

Fixed Income Balanced

YTD	1 year	Inception	2012	2011
6.3%	6.3%	7.6%*	6.3%	6.0%

*Annualized.
See additional notes on page 4.

The most significant changes we made to our portfolios this year was the sale of Encana Corporation and the purchase of Visa Inc. While it is still too early to judge the results of this investment decision, we are pleased with Visa's operational results thus far, and we look forward to the continued growth that we believe Visa will achieve over the coming years. Our other holdings had excellent operational results and increased their brand value, assets and dividends over the year.

Two thousand and twelve was a busy year at GFI and our firm grew considerably over this period. Our assets under management grew by 35% and our client base grew by roughly 25%. We are structuring our business to ensure the attention to detail that you have come to expect from us continues to drive our success.

We look forward to catching up with many of you in the coming months as we reach out to discuss your portfolios, and we thank you again for your support.

Warm regards,

Daniel Goodman, CFA
President and
Chief Executive Officer

Effie Wolle, CFA, MBA
Vice President and
Co-Chief Investment Officer

Equities – The New Alternative Asset Class

Do you know how stocks have really done over the past decade?

Since the credit crisis of 2008-2009, there is no doubt that equities have become an out-of-favour asset class. In fact, given the diminished role equities are today playing within institutional portfolios, equities have become the modern-day equivalent of an alternative asset class. If one were to read the writings of many investment managers or the media, they would quickly be convinced that equities have done very poorly over the past few years. The data, however, paints a different picture.

Reviewing the past decade – a period that included a significant number of challenging macroeconomic events – for stock returns illustrates that this period was actually one of very reasonable results. Since December 31, 2002, the S&P 500 Index has gained 7.1% *per year* (including dividends). The TSX Composite Index has increased by 9.2% *per year* (including dividends) over the same period.

While there has been heightened equity market volatility over the past 10 years, those who have chosen to buy and hold high-quality businesses have earned reasonable returns. It is against this backdrop that many investors, both professional and individual, have chosen to reduce their equity holdings. This emotional response to recent events hurt these investors' long-term returns.

Given today's low interest rates, abandoning stocks is a poor long-term investment decision. Strong businesses are able to pass the cost of inflation onto their customers through increased prices, and tend to generate incrementally higher profits over time. Little by little, their profits, dividends and stock prices increase; albeit in a sometimes erratic fashion.

Depending on each client's unique requirements, we strongly recommend an allocation to a small basket of well-researched stocks. While we cannot predict future tax levels, interest rates or other macroeconomic factors, we do know that both Heinz Ketchup and Tim Horton's coffee will be more expensive in a decade, and we choose to participate in that growth rather than simply be consumers of their products.

Gains and Losses

Minimizing taxes is everyone's goal... including ours

One of the advantages of being a private client with GFI is the customized tax planning we offer. As such, we always try to help our clients defer the taxes that they pay.

Given our limited trading in 2012, client accounts will have very little realized gains over the year. A benefit of owning great businesses is that we don't have to trade often when seeking out strong returns, and our lower trading levels reduce your tax implications.

We continue to take steps to limit your tax liability, and ask that your tax advisors contact our office with any questions they may have.

Important Figures!

2013 **TFSA** contribution limit:

$5,500

Total **TFSA** contribution limit to date:

$25,500

2013 **RRSP** contribution limit:

$23,820

GFI in the News

NATIONAL POST

Q&A THE MICRO VIEW

Dan Goodman, founder, CEO and co-chief investment officer, GFI Investment Counsel Ltd.

Toronto-based GFI tailors investment portfolios for families, foundations, trusts and corporations. It also operates the Good Opportunities Fund, which uses a value-oriented approach to identify compelling long and short investments and is only available to accredited investors.

Q *What's the first thing you look at when considering a stock?*
A We try hard not to use the term stock since we see ourselves as buying fractional ownership in a business. Some of the key things we look at are around the company's competitive position. One of the areas we've been focused on is obsolescence risk. To us, it's more about looking forward than backward. We have to make sure the company and the industry is not declining or shrinking. We put everything through a fully defined checklist of qualitative issues around the business.

Q *What are some of the things on that checklist?*
A It includes balance sheet sustainability or how many years of reduced earnings can the balance sheet withstand. We ask ourselves how much can we lose, what's the worst-case scenario, and what would that look like? Does the company or business have recurring revenue? We take a really close look at the operating leverage inherent in the company. If we expect a company to grow at a certain rate, what does that do to forecasted future earnings? Obviously, we're on the hunt for great operating leverage. One term we've talked about for a long time is durable competitive advantage at a fair price. What are you willing to pay for a business given that it has such a wide moat or durable competitive advantage? To us, that's critical.

Q *What are the most important valuation metrics?*
A To us, the value of anything is the present value of its future cash flow. Price-to-cash flow and interest coverage are also things we consider important, as they help us derive our discounted cash flow. They help us ensure a margin of safety. You can't overpay for free cash flow.

Q *What indicators can be misleading?*
A Earnings can be misleading, because a lot of people capitalize certain expenses. You really have to drive through that and go to cash flow. One of the things that trips people up with free cash flow and even operating cash flow is capex [capital expenditures]. They'll move parts of capex beyond cash from operations, so you really have to understand what sort of ongoing capital expenditure the business has to outlay to continue in operation. You really have to deduct that from operating cash flow to get a better metric there.

Q *What is your sell discipline?*
A We have a very specific sell discipline based on a price. What usually happens around an earnings announcement if we're right and the company does very well is the stock rises and comes close to our sell price.It's a fluid process and we have to analyze what they just released to determine if the price should change. If future growth prospects have changed so much, maybe our price needs revision. But if nothing has changed, then we start selling as early as 85% of our defined price.

Jonathan Ratner, Financial Post

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.

Additional notes to Performance Summary on page one

1. Balanced portfolios include all managed accounts with equity holdings of 41% to 60% of total assets.
2. Equity Balanced portfolios include all managed accounts with equity holdings of 61% to 80% of total assets.
3. Fixed Income Balanced portfolios include all managed accounts with equity holdings of 21% to 40% of total assets.
4. All composites over $500,000 managed on a discretionary basis within GFI Investment Counsel are included in performance figures.
5. Composites do not utilize leverage.
6. Composites are net of all fees.
7. A fee schedule is available upon request.
8. The exchange rate used to convert non-Canadian holdings is the rate supplied by our custodian at quarter end.
9. GFI Investment Counsel's investment style most closely resembles value investing.
10. Each portfolio's inception date is determined by the date at which discretionary management originated.
11. All figures are quoted in Canadian dollars.
12. Performance figures are asset weighted.
13. Non-resident taxes are added back, where applicable.
14. GFI Investment Counsel received its license to operate from the Ontario Securities Commission in July of 2007.
15. All returns calculated prior to July, 2007 were based on accounts managed by Daniel Goodman, CFA, (continually) while an Investment Industry Regulatory Organization of Canada (IIROC) licensed portfolio manager.

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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