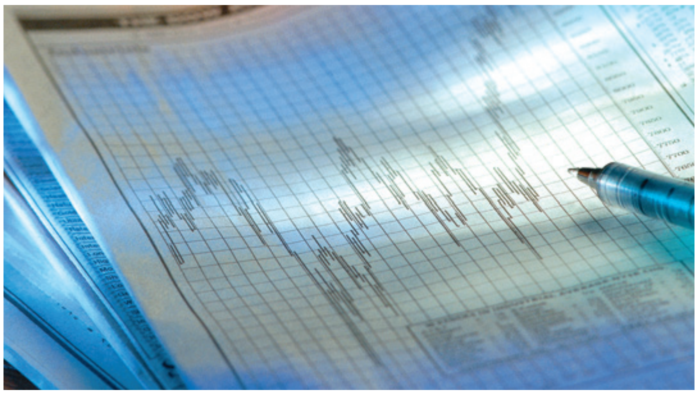
GFI Investment Counsel Ltd.

Preserving and growing family capital™

GoodQuarter

SUMMER 2014



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I think the reason why we got into such idiocy in investment management is best illustrated by a story that I tell about the guy who sold fishing tackle. I asked him, "My God, they're purple and green. Do fish really take these lures?" And he said, "Mister, I don't sell to fish." — Charlie Munger, 1994

Dear Valued Client,

The second quarter of 2014 was, generally, another period of positive stock and bond performance. And year-to-date, both bonds and stocks have also performed admirably. Since the 2008 credit crisis, annual returns have been positive for nearly all assets.

This steady asset growth will not last forever. At some point there will be a drop in asset prices. However, the timing of this event cannot be predicted. Many of our competitors, clients and friends have been attempting to time their exit from stocks for several years and, to date, their timing has been wrong. We wish we had a crystal ball to help us determine the short-term direction of markets, but we do not (at this time) have such an accurate predictor of future market conditions.

Our portfolios continue to have very little turnover. We did sell a holding when the underlying conditions of the business changed. We will continue to monitor all our holdings to ensure we only own businesses with clear prospects for the coming years. This low-turnover approach contributes to your returns by ensuring lower fees and a higher after-tax return.

Warm regards from the entire GFI team. We hope you enjoy the improving weather!

Daniel Goodman, CFA
President and
Chief Executive Officer

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

What's driving performance?

"There were two thousand auto companies: the most important invention, probably, of the first half of the twentieth century. It had an enormous impact on people's lives. If you had seen at the time of the first cars how this country would develop in connection with autos, you would have said, 'This is the place I must be.' But of the two thousand companies, as of a few years ago, only three car companies survived. And, at one time or another, all three were selling for less than book value, which is the amount of money that had been put into the companies and left there. So autos had an enormous impact on America, but in the opposite direction on investors."

SOURCE: *THE SNOWBALL WARREN BUFFETT AND THE BUSINESS OF LIFE* BY ALICE SCHROEDER

If you have entrusted us with your assets for a relatively long period of time, and you have chosen to read our quarterly missives regularly, you must be used to the monotony of our message by now. We have consistently discussed our focus on best-in-class business ownership and our desire to find investments with revenue and cash flow streams that are visible 10-years out or longer. You already know that our goal is to own businesses that sell a product or service that will continue to be in demand for long periods of time, regardless of any changes that are occurring in other areas of society.

If we were to today fall into a sleep that lasted for 10 years, when we woke up the world would be remarkably different. Our iPhone 5s would look like a rotary dial phone compared to the smartphone of 10 years from now. Our car would be the equivalent of a horse and buggy. CN Rail, though, will still be moving critical goods (with little competition) across this country in 10-year's time. Procter and Gamble will still be selling toothpaste, and Tim Hortons will still pour many Canadians their morning cup of coffee.

We focus our efforts on avoiding businesses and industries that may be subject to potentially lethal change. This approach may cause us to miss out on the next Tesla, but it allows us to avoid potential financial peril.

There is no doubt that with some reasonable health, we will live to see the day when self-driving cars occupy the roads. Google is advancing at breakneck speeds in its effort to make that scenario a reality. There is evidence that computers are better drivers than humans. The self-driving automobile will result in millions of lives saved annually. Fewer vehicle accidents will impact the bottom lines of companies that provide auto insurance, as well as auto-body shops. While these businesses have not felt any impact yet, the pace of change will quicken at an exponential rate and, one day, the auto body shop will notice a significant drop in volume. Companies that provide auto insurance will face massive change, and this change will not be in their shareholders' favour. The whole car ownership model may change. Think Uber without a human at the wheel. Will we need parking lots for this constant fleet of shared cars? There's a chance that only the ultra-affluent (and those with special needs) will continue to own individual automobiles. There will be a constant supply of transportation mechanisms that will arrive in time to meet your needs. This change, when it occurs, will have massive ramifications for many industries, as mentioned. As members of society, we welcome the positive outcomes of this change with open arms. As the stewards of our collective capital, however, we have concerns surrounding investments in a variety of industries and companies that will no doubt be significantly impacted by this change. When we face investment uncertainty like this, avoidance is our only course of action.

As long-term investors, we always focus on those businesses that we believe will continue to generate inflation-protected earnings for the foreseeable future.

While it is difficult to forecast what the ramifications of technological change will be over time, we will always err on the conservative side and avoid areas that may cause a permanent loss of capital. So until teleporting becomes reality and we stop eating and drinking, companies like CN Rail and Tim Hortons will continue to make up meaningful portfolio positions at GFI.

THE GLOBE AND MAIL

CANADA'S NATIONAL NEWSPAPER • TUESDAY, JUNE 17, 2014

Six dividend stocks with wide moats

JOHN HEINZL
Special to The Globe and Mail

When Daniel Goodman and Effie Wolle are looking for promising stocks, they don't necessarily set out to buy dividend-paying companies.

But more often than not, that's what the co-chief investment officers at GFI Investment Counsel end up purchasing for their clients' portfolios.

Dividend stocks tend to possess many of the qualities GFI looks for in a company: They often have a durable competitive advantage or "moat," they throw off growing amounts of cash and and they enjoy strong pricing power.

Dividend companies also typically stick to what they do best, which minimizes the risk of destroying capital on unproven ventures.

"What you find with good dividend-paying companies is that they tend to be very disciplined with capital allocation," says Mr. Goodman, who is also president and chief executive of GFI, which manages about $380-million on behalf of high net worth clients.

And, of course, dividend-paying companies send investors a chunk of cash every three months, which makes them ideal investments for clients requiring income.

One thing GFI scrupulously avoids are investment "fads."

"Whether it's a few years ago in molybdenum, whether it's dot-coms in 1999-2000 or social media the last few years, we're not looking at a sector because it's being talked about in the media. We're looking for something that has sustainability and something that will be around for decades to come," Mr. Wolle says.

I asked Mr. Goodman and Mr. Wolle to discuss some of their current dividend stock holdings. Some will be familiar; others might surprise you. Remember to do your own due diligence before investing in any security.

Procter & Gamble
Price: $79.58 (U.S.); Yield: 3.2 per cent

Thanks to its stable of global brands, including such heavyweights as Tide, Crest, Pampers, Gillette and Duracell, Procter & Gamble has built strong customer allegiance that gives it formidable pricing power. Even with competition from cheaper private-label competitors, "people are willing to pay that incremental dollar to have those brands," Mr. Wolle says. P&G's dividend growth record speaks volumes: It has raised its payment for 58 consecutive years.

Whistler Blackcomb Holdings
Price: $17.14; Yield: 5.7 per cent

Because Whistler Blackcomb's world-class resort in British Columbia draws well-heeled skiers from around the globe – in addition to plenty of locals – the company has been able to raise prices slightly faster than the rate of inflation without putting a dent in demand. What's more, it's insulated to an extent from unfavourable weather because many visitors pay for their trips well in advance.

As for the juicy dividend, "I believe it is safe given the stability we have seen in their cash flow," Mr. Wolle says.

Canadian National Railway
Price: $67.94; Yield: 1.5 per cent

CN's yield alone won't make you rich, but the dividend has roughly doubled over the past five years and the share price has gone for a nice ride, too. Canadian National and Canadian Pacific have a duopoly on rail traffic in this country – the barriers to entry are far too high to allow a third competitor – and rail will remain a dominant form of transportation for goods "until we find out how to teleport things," Mr. Wolle says.

Automatic Data Processing
Price: $78.22 (U.S.); Yield: 2.5 per cent

Automatic Data Processing provides payroll, human resources and benefits services to businesses large and small. Once it gets its foot in the door, it tends to stay with a company for years. "It's a very sticky business. Companies aren't going to switch providers because of a slight increase in price," Mr. Goodman says.ADP's scale and expertise allow it to serve clients that operate across jurisdictions with different tax codes, giving it an edge over smaller competitors. The dividend has grown by 7.8 per cent annually over the past five years.

Silvercrest Asset Management
Price: $17.50 (U.S.); Yield: 2.7 per cent

Silvercrest is a U.S.-based investment firm that manages about $16-billion in assets, primarily on behalf of wealthy families, endowments and foundations. "When we started to research Silvercrest and recently met with the CEO, one of the things that struck us the most was ... their culture of doing right by clients and charging fairly, and that's what really attracted us to the company," Mr. Goodman says.

Bank of Nova Scotia
Price: $71.01; Yield: 3.6 per cent

GFI singled out Bank of Nova Scotia among Canadian banks because of its low cost structure, and because it's chosen to expand primarily in Latin America and Asia instead of in the fiercely competitive U.S. market, Mr. Wolle says. "While there are risks in being in economies that are younger and still growing, the bank is diversified across several of them and it's a weighting of their income that we're comfortable with," he says. Since the first quarter of 2011, Scotiabank has raised its dividend six times, proving that if you invest in high-quality dividend payers, you might get richer than you think.

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.

FYI: Complaint Handling Process

Recently, a new dispute resolution procedure has been implemented for all clients of Investment Managers licensed directly with the Ontario Securities Commission (OSC).

GFI Investment Counsel will attempt to resolve any complaint directly with you. If you are not satisfied, you may contact the Ombudsman of Banking Services and Investments (OBSI) at no cost. If you would like more information on the new dispute resolution procedure and the OBSI please contact us.

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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