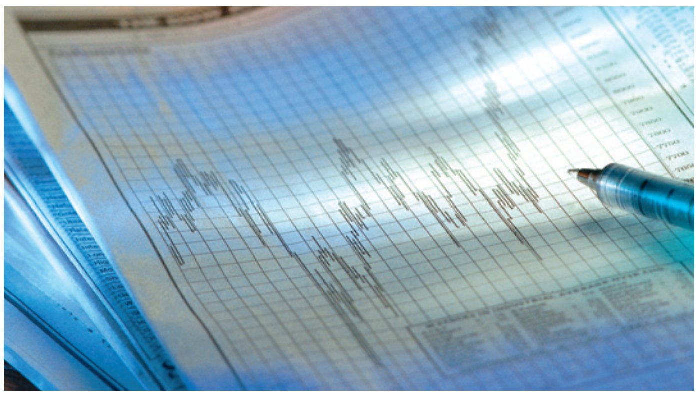
GFI Investment Counsel Ltd.

Preserving and growing family capital™

GoodQuarter

WINTER 2015



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"No wise pilot, no matter how great his talent and experience, fails to use his checklist." — Charlie Munger, *Poor Charlie's Almanack*, Page 73 Expanded Third Edition, 2008

Dear Valued Client,

The fourth quarter of 2014 was a strong period for equities held in client accounts. As we often say, the value that quality companies accrue over time is a long-term phenomenon, and our client accounts are benefiting from that phenomenon as time passes. Additionally, abstaining from owning certain stocks often helps to establish a successful track record. Our disciplined and focused investment process has allowed us to avoid many of the companies and industries that have struggled over the past 12 months.

We are happy to note that of our 15 core equity investments, nine raised their dividend during the 2014 calendar year, and one investment introduced a new quarterly dividend.

Warm regards and best wishes for 2015 from the entire GFI team. We are always available if you would like to discuss your investments or any other matter.

Daniel Goodman, CFA
President and
Chief Executive Officer

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

Of Process and Checklists

Our investment process differs from the process of most other investment professionals in several ways. Rather than own hundreds of stocks, we have chosen to select, with great care, 15 to 20 excellent businesses in which to invest. Therefore, the selection of these businesses is critically important to our success.

We continually strengthen and refine our investment process. As part of our investment procedure, we have created a checklist of factors to help us assess any new company for portfolio inclusion. Importantly, our checklist is a dynamic and evolving document, constantly being edited and refined, and we now have over 30 items to complete on our checklist before considering the addition of a new company.

In this edition of *GoodQuarter*, we wanted to highlight two checklist items that demonstrate the type of questions we always ask:

☐ Is obsolescence a threat to the company's earnings power?

This question is critically important. Will the company exist in its current form 10 years from now? Will it be superseded by a new business model? Will new technology change the industry to the detriment of our investment?

While this question can seem overly conservative (in that we are considering events a full decade from today), the erosion of a business can start earlier and change more swiftly than anticipated. The resulting decrease in equity value can be material.

For example, let us consider this question in relation to two Canadian businesses: Canadian National Railway Company ("CNR") and Torstar Corporation ("Torstar").

CNR is the largest Canadian railroad and a large carrier of goods across North America. CNR's primary competitor is Canadian Pacific Railway Limited, although CNR also competes with other railways and other modes of transporting goods. While the railway business has its drawbacks – like the ever-increasing need to reinvest capital into the business – the company has very little risk of being replaced by new technology or competitors. The company's management team must ensure they continue to deliver great service and focus on costs. The necessity of this business will endure beyond our lifetimes.

Alternatively, Torstar is the publisher of the Toronto Star and over 100 community newspapers. The company also owns several other digital and newspaper assets. Over the past decade, the company's market capitalization has eroded as the internet has increasingly posed a threat to every newspaper's ad-dominated business model. In hindsight, it appears obvious that this transformation would occur. The ability to recognize that the newspaper industry was being permanently affected by the internet was not a commonly held view a decade ago. Professional investors continued to hold newspaper companies like Torstar, suffering a permanent loss of capital in the process.

☐ Is the company's balance sheet properly structured, given the industry's outlook and cyclicality?

Companies in different industries can handle different amounts of debt and, thus, interest payments. Generally speaking, companies with recurring revenues and less cyclicality can finance their business with more debt capital and less equity capital. Alternatively, companies that are more dependent on large one-off contracts and the strength of the economy should have very little or no debt.

A company that sells diapers, for example, will generally be able to structure its business with debt. Conversely, a construction company should be more conservative in its financing and use more equity capital to ensure a prolonged economic slowdown will not bankrupt the company.

An inappropriate amount of debt for a company with quality (but mismatched) assets can suffer significant financial stress. It is imperative that companies match their capital structure with the nature of their business.

While our entire process includes many more qualitative and quantitative items, we believe these two examples of checklist questions provide insight into the type of items we ask ourselves when researching and debating an investment. Our checklist helps us highlight large and small items to consider, and makes us better investors. Our checklist also makes us more disciplined investors and removes much of the emotion out of the investment process. It provides us with a consistent, repeatable approach across industries and removes inherent bias from our analysis.

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.

Portfolio	YTD	1 year	3 year*	5 year*	Since Inception**	2014	2013	2012	2011	2010
Equity	28.3%	28.3%	22.8%	—	19.2%	28.3%	31.6%	9.8%	—	—
Equity Balanced	22.7%	22.7%	17.2%	14.8%	9.5%	22.7%	19.6%	9.1%	8.6%	13.4%
Balanced	17.6%	17.6%	12.7%	11.0%	7.7%	17.6%	13.4%	7.2%	7.0%	9.6%
Fixed Income Balanced	13.7%	13.7%	9.2%	—	9.0%	13.7%	7.2%	6.3%	6.0%	—

*Annualized.
**Equity inception is April 29, 2011. Equity Balanced and Balanced inception is January 31, 2005. Fixed Income Balanced inception is January 29, 2010.

1. Equity portfolios include all managed accounts with 100% equity holdings.
2. Equity Balanced portfolios include all managed accounts with equity holdings of 61% to 80% of total assets.
3. Balanced portfolios include all managed accounts with equity holdings of 41% to 60% of total assets.
4. Fixed Income Balanced portfolios include all managed accounts with equity holdings of 21% to 40% of total assets.
5. All composites over $500,000 managed on a discretionary basis within GFI Investment Counsel are included in performance figures.
6. Composites do not utilize leverage.
7. Composites are net of all fees.
8. A fee schedule is available upon request.
9. The exchange rate used to convert non-Canadian holdings is the rate supplied by our custodian at quarter end.
10. GFI Investment Counsel's investment style most closely resembles value investing.
11. Each portfolio's inception date is determined by the date at which discretionary management originated.
12. All figures are quoted in Canadian dollars.
13. Performance figures are asset weighted.
14. Non-resident taxes are added back, where applicable.
15. GFI Investment Counsel received its license to operate from the Ontario Securities Commission in July of 2007.
16. 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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