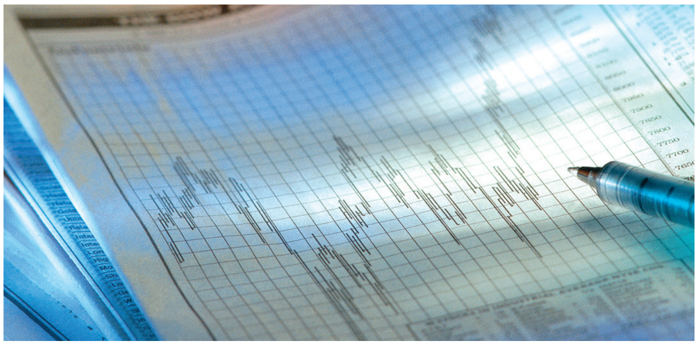
GFI Investment Counsel Ltd.

Preserving and growing family capital™

GoodQuarter Q1'23



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"The big money is not in the buying or selling, but in the waiting."

— Charlie Munger

Dear Valued Client,

The first three months of the year are now behind us, and good weather is around the corner. In a quarter marked by continued economic uncertainty, our approach of identifying high-quality companies with strong fundamentals has enabled us to deliver equity gains of 7.7% year-to-date. We continue to search for the best investment opportunities, while ensuring our portfolio is well positioned for any eventualities.

Nearing quarter-end, we sold Alphabet Inc., the parent company of Google, from client accounts. As you are aware, our plan when purchasing a security is to be shareholders for the long term. Over five years is a typical holding period for us. That said, we bought Alphabet in January of 2022, and have already sold the holding. What happened?

Our strategy is to own growing businesses with high returns on capital that operate in industries in which we can predict the next five to 10 years with reasonable certainty. Up until last fall, Alphabet, which is dominated by the Google search engine, fit our criteria. However, last fall, OpenAI introduced ChatGPT, an artificial intelligence chatbot that you have likely heard of. While it is not assured that Google will be impacted by the capabilities of ChatGPT, we can no longer predict Alphabet's future with reasonable certainty.

As investors, we have to be prepared to alter our opinion when facts change and, in this case, the introduction of a potential competitor is too material to ignore. While Alphabet has already rolled out its own similar chatbot, ChatGPT has quickly gained mindshare. For the first time in Google's existence, it likely has legitimate competition, and we are concerned by the potential for ChatGPT to completely upend Google's dominance. For example, Expedia already introduced a plugin that lets ChatGPT users book vacations directly from their ChatGPT query. We are certain that advertisers will be thrilled to have a competitive platform to Google on which to market their goods and services.

In our view, the risk of a material industry change has increased substantially, and we would rather earn a similar or better return with a business that has fewer competitive threats. Quite often, the competitive landscape shifts slowly over time. In this case, it is possible that we have seen the catalyst quite clearly and now must wait to see the repercussions. While we recognize Alphabet will compete vigorously, we no longer believe the risk is worth the reward. We will be watching from the sidelines without a horse in the race.

Pages 2 and 3 of our newsletter discuss the long-term costs of investing in lower volatility approaches.

As always, we are available to discuss any questions or concerns you may have about your portfolio or our investment strategy. We appreciate your trust and confidence in our firm and look forward to continuing to work with you in the years ahead.

Daniel Goodman, CFA
Chief Executive Officer

Effie Wolle, CFA, MBA
President and Chief Investment Officer

Low Volatility is Something You'd Better be Willing to Pay for with Your Retirement Lifestyle

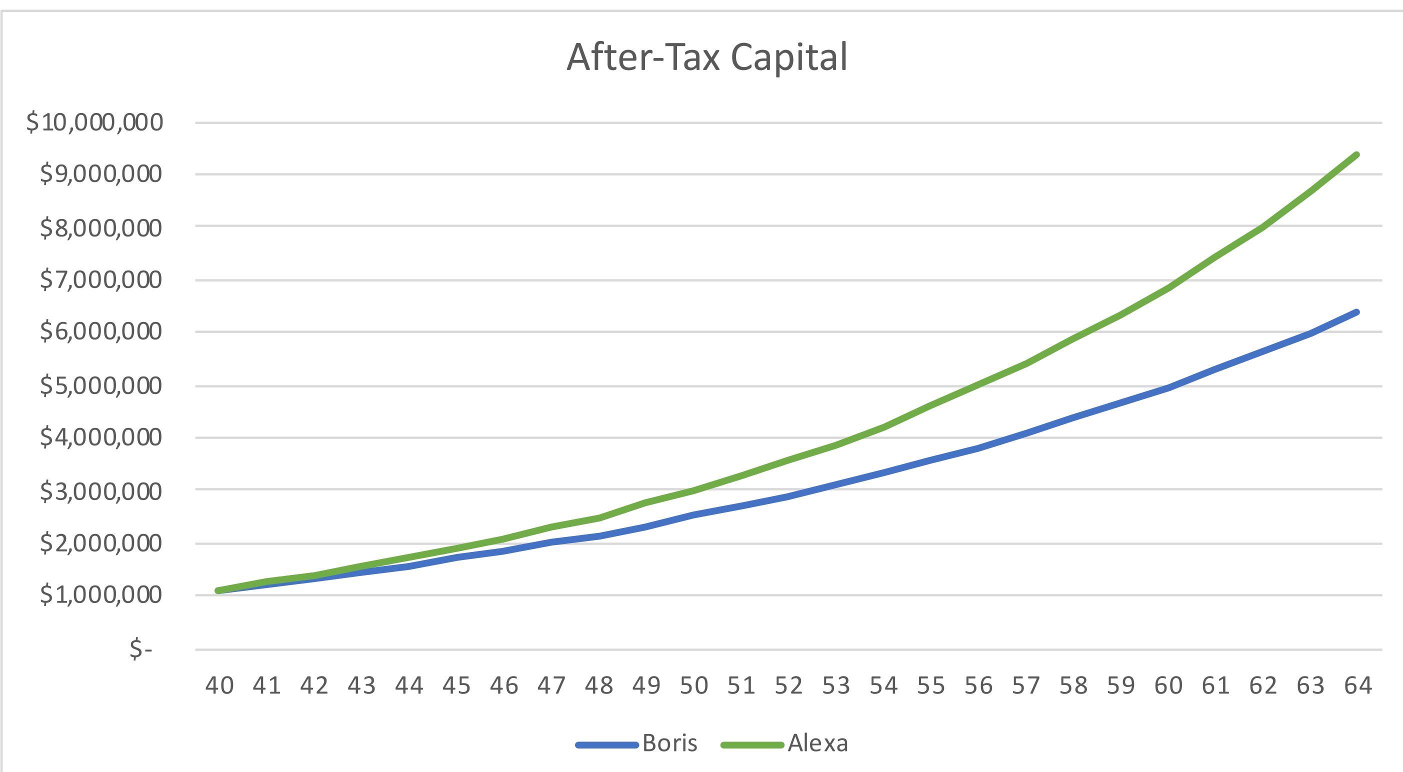
The wealth management industry is always happy to sell you what you want, but not necessarily what you need. With the stock market volatility experienced over the last few years, funds that employ a hedged or low volatility investment strategy have gained in popularity. These funds aim to provide a steady annualized return (typically in the 4%-6% range), regardless of market conditions. The industry gets paid handsomely to deliver these products, and some investors love the notion of lower volatility and uncorrelated assets.

But the opportunity cost for a smoother ride is ultimately a smaller retirement nest egg. For clarity, this article will talk about using these strategies to replace equities, not fixed income.

To fully understand the long-term impact a low volatility approach could have on retirement, we have compared two 40-year-old clients with $1 million of investment capital, each adding $50,000 annually. Contributions are increased at 2% annually to adjust for inflation.

Investor A (we'll call Alexa) understands and is willing to accept short-term volatility in her investment portfolio, given the long-term nature of her investment goals. Her asset allocation is weighted heavily to equities at inception, with a gradual shift to bonds as she approaches retirement at 65. For illustrative purposes, we assume Alexa's average allocation over her working years is 80% in public equities and 20% in investment-grade corporate bonds (gradually shifting from equities to fixed income as she ages). This portfolio generates an average annualized return of 7%, net of fees.

Investor B (Boris) is unwilling to accept short-term market volatility, despite his long-term investment objectives. He decides a portfolio of low-volatility funds will allow him to participate in the market's upside without experiencing the discomfort of negative years. Boris' average annualized rate of return is assumed to be 5%, net of fees.



Although a 2% difference in annualized returns may appear negligible, the impact becomes substantial when compounded over time. Both Alexa and Boris have accumulated a significant amount of capital through disciplined saving, but Alexa would begin retirement with an additional $3 million in her account.

They may both be able to meet their desired retirement goals. However, Alexa may also be able to achieve some of the secondary goals that she identified as "not necessary, but would be nice." Examples that are common among our clients include:

- Purchasing a vacation home
- Helping kids with a downpayment on a first property
- Funding private school for grandchildren
- Increasing discretionary spending

Although Alexa experienced a higher degree of short-term market volatility, she is rewarded for maintaining her disciplined savings strategy through positive and challenging market environments, while staying focused on her long-term goals.

There is no "free lunch." Those who seek equity-like long-term returns will at some point experience short-term volatility in their portfolios. Your investment time horizon is critical in determining how much risk you can accept in your portfolio at a given time. The example we have shown is what happens when long-term goals are impacted by short-term thinking.

The right balance between risk and reward is unique to each individual and depends on your goals and comfort level with equity market volatility. While some investors possess a capital level that will suffice regardless of returns, many investors sacrifice retirement lifestyle for reduced volatility. In most cases, a balanced portfolio of equities and investment-grade bonds will mitigate volatility and achieve meaningful long-term returns.

Speak to a GFI representative about what's right for you. Our long-term equity and balanced returns can be found at the following link: https://www.gfiic.com/gfi-managed-accounts/.

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. When comparing our performance to benchmarks, ***we will always*** use the appropriate benchmark and include dividends.
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."

Updates to our Disclosure Document

We wanted to remind clients who opened an account with us before October 2021 that the language to our Investment Management Agreement or Relationship Disclosure Documents have been updated. We sent a summary of changes with your Q4 2021 statements and will continue to prepare an acknowledgement of these changes at your next portfolio review. If you have any questions or would like to receive another copy of the change summary document, please do not hesitate to contact us.

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.

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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