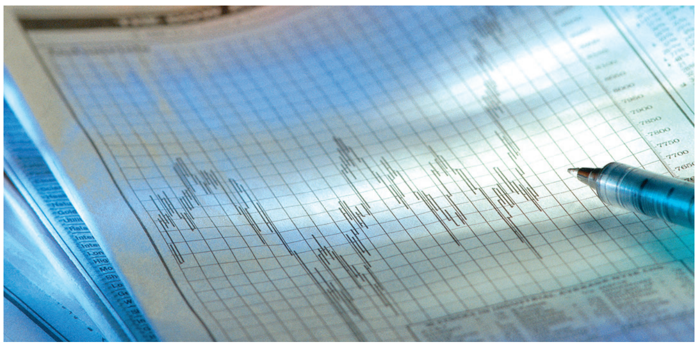
GFI Investment Counsel Ltd.

Preserving and growing family capital™

GoodQuarter Q3'23



IN THIS ISSUE

- The hotel stock this money manager is betting on for long-term growth
- The Importance of Liquidity in Your Investment Portfolio

"Most people are too fretful, they worry too much. Success means being very patient, but aggressive when it's time."

— Charlie Munger

Dear Valued Client,

Equity investing can be both euphoric and frustrating; occasionally in the same week … or even in the same day. We sometimes ponder a universe where equity investors receive the long-term equity return and tax treatment, but in a linear fashion. What a simple investing world that would be. But, alas, that is just not how the stock market behaves.

Our basket of equities declined roughly 3.1% over the quarter. At the end of July, we sold Intact Financial Corp. and purchased Hilton Worldwide Holdings Inc., the franchisor of the Hilton hotel brand. As you know, we view every investment decision through a long-term lens. In this case, we weighed the returns we believed we could achieve by owning Intact versus Hilton, given each business' unique risks. If we can achieve a similar long-term return in another business without the probability that a catastrophic event could impact our investment, we prefer to own the business without the one-off insurance risk. Intact remains a well-managed company, but we prefer to own Hilton, a business that is a franchisor and manager of hotels, that generates reliable fees from franchisees, as well as creating significant value for its franchisee partners by filling rooms through its brand and loyalty program. While personal and business travel will ebb and flow, we believe the growth in hotel properties, as well as Hilton's continued excellent capital allocation, will serve us well for years to come.

We are blessed with a tremendous client base that understands equity returns are not linear and that volatility is going to occur from time to time. While we slowly inch back toward our previous highs, remember that positive returns often happen just as quickly as negative returns.

On page 2 of our *GoodQuarter* newsletter, we have included a recent article from *The Globe and Mail* in which our CEO, Daniel Goodman, discusses some specific investments and the general investing environment. On page 3, we discuss portfolio liquidity and the advantages this liquidity provides investors.

We are available any time to discuss any questions or concerns you may have about your portfolio. We appreciate your trust and confidence in our firm and we 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

The Hotel Stock This Money Manager is Betting on for Long-Term Growth

Brenda Bouw, Globe Advisor, Published September 15, 2023

Daniel Goodman doesn't invest based on forecasts of whether or not a recession is coming. Instead, the chief executive officer at Toronto-based GFI Investment Counsel Ltd. chooses to own a handful of companies he believes are strong and will survive some of the toughest economic cycles. "We never say we're getting more defensive or offensive," says Mr. Goodman, whose firm oversees about $1.7-billion in assets. "Instead, we establish an asset mix of equities and bonds for a particular client and stick with it unless their circumstances or comfort level changes." And when the markets do drop, Mr. Goodman's team looks for opportunities to buy great businesses at cheaper prices that he expects to perform well in the long term.

GFI invests in about 15 to 20 companies at one time with a current split of about 40 per cent Canadian-listed stocks and 60 per cent listed in the U.S. Mr. Goodman says many companies his firm owns also have a global footprint. Some of its top holdings include Apple Inc. AAPL-Q +1.06% increase, Microsoft Corp. MSFT-Q -0.47% decrease, MSCI Inc. MSCI-N +1.22% increase, Comfort Systems USA Inc. FIX-N -1.36% decrease and Sherwin-Williams Co. SHW-N -0.54% decrease.GFI's all-equity portfolio returned 14.7 per cent so far this year and 17.4 per cent over the past 12 months. The all-equity portfolio also had an annualized return of 7.5 per cent over the past three years and 15.6 per cent over the past 10 years. The performance is based on total returns, net of fees, as of Aug. 31.

The Globe and Mail spoke with Mr. Goodman recently about what he's been buying and selling and some advice for new investors.

Describe your investing style.

We are value-focused investors. We look for high-quality companies, which to us means companies that can survive based on their operations and cash flow without having to raise capital. We also look for businesses that can grow revenue without increasing costs. We also like companies that can control their pricing so that when inflation hits, they can pass those higher costs along to the consumer and don't get stuck with margin erosion. We also like capital-light companies, which means they don't have high capital requirements to produce their goods and services.

What have you been buying lately?

One company we bought in the second quarter was insurance broker Aon PLC AON-N +0.94% increase. Aon represents the client, it doesn't take on any insurance risk. It has a client retention rate of about 95 per cent. It's a disciplined and focused company that doesn't need a lot of capital to achieve its business plan. It has also bought back its stock consistently for about 15 years now. We think it's a wonderful business. Another stock we bought in recent weeks was Hilton Worldwide Holdings Inc. HLT-N +0.41% increase. Hilton focuses on marketing, room booking and support for its franchisees. It has a great rewards program, making it slightly less price-sensitive. It's also focused on growing its properties in the future. We see a lot of growth coming in the next decade, especially with its focus on business travel. With the resurgence in travel, overall, we believe Hilton is poised to do incredibly well.

What have you been selling?

We recently sold our position in Intact Financial Corp. IFC-T -0.78% decrease. Intact has been a great business for some time, but we don't think it will be as strong going forward. There are a lot of risks with the changing environment, which we saw with the number of forest fires across Canada this summer, for example. We sold this position to purchase Hilton shares, which we felt was a better long-term investment.

Name a stock you wished you bought or didn't sell.

SiteOne Landscape Supply Inc. SITE-N +1.40% increase is a stock we sold in 2019 that I wished we hadn't. We owned it for approximately three years.

It's a well-run business that we sold for a better investment opportunity. We bought Microsoft to replace SiteOne, which cushions the blow as the former has been and remains a fabulous investment.

What advice do you have for new investors?

Develop a financial plan and stick to it. Ideally, set aside a little bit from your paycheque every month and invest it. And take advantage of some of the tax incentive programs, such as the tax-free savings account or the new tax-free first home savings account. Also, invest in a few great businesses you understand and believe will likely be around for many years. Lastly, remember that economic downturns are a normal part of life and investing. There should be nothing to fret about if you have a long-term plan that you stick to. This interview has been edited and condensed.

https://www.theglobeandmail.com/investing/globe-advisor/advisor-funds/article-the-one-hotel-stock-this-17-billion-money-manager-is-betting-on-for/

The Importance of Liquidity in Your Investment Portfolio

Liquidity – meaning the ability to turn an asset into cash without a significant impact on market value – is a crucial benefit of investing in public markets. It allows you to sell all or a portion of your investments at a time of your choosing, and at a reasonably low cost. For many of our clients who are retired or approaching retirement, liquidity becomes even more important. It provides these clients with the flexibility to draw a regular income, and to adjust their portfolio holdings as their needs or goals change throughout their lives.

The ongoing mark-to-market pricing of public markets can cause emotional stress for investors in the short term, as they watch their investments rise and fall in value, often steeply, on a daily – even hourly – basis. It is also what pushes investors to seek out alternative investments, such as private debt, private real estate or private equity.

Since there are liquidity restraints on many of these alternative investments, they tend to be valued much less frequently. This gives the illusion that there is less price volatility in their underlying investments. In fact, with interest rates rising faster than at any time in history over the past few quarters, some private investments actually marked up the value of their holdings using opaque valuation methodologies. Not only can you not always access your capital when you want to (because of their lower liquidity), they often don't provide transparency regarding their actual value.

You may have seen recent media concerning various private investments and the complications that can arise. When interest rates were at ultra-low levels, many investors sought alternative strategies in place of bonds to increase the yield of their portfolios. Mortgage and private debt funds may seem similar to bonds on the surface, but they do not behave the same way, nor do they carry the same risk.

Access to – and a true understanding of – your investments and their values always results in better investment decisions. Volatility exists in your investment portfolio whether you see it reflected in the price or not. Investment liquidity provides flexibility for people to deal with whatever life may throw at them. When selecting investments, we prefer to have the ability to sell and reallocate proceeds to new opportunities, and our clients prefer to be able to access their capital no matter the circumstances.

As always, we are here to help should you want to discuss any of your financial planning or investment-related questions.

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**.

GFI Investment Counsel Ltd.

Preserving and growing family capital™