GFI Investment Counsel Ltd. | *Preserving and growing family capital™*

GoodQuarter Q3'24

> "If you aren't willing to own a stock for 10 years, don't even think about owning it for 10 minutes."
>
> — Warren Buffet

IN THIS ISSUE

Dear Valued Client,

We could not have asked for better September weather. We hope everyone has taken advantage of the sun and enjoyed the great outdoors. The third quarter of 2024 provided very strong equity returns for clients, and as usual, we would not have been able to predict their timing. Inflation has continued to level-off at a subdued rate and central banks are beginning to reduce interest rates. With hindsight, the fear of a material impact on our respective economies due to the speed and severity of the rise in interest rates did not materialize. In fact, North American economies did not enter a recession through this interest rate cycle.

We recently released our 11th podcast, "Conversations at GFI". Thank you to our listeners that submitted feedback and topic ideas. We are always looking to hear from you.

We are very excited to announce that Sandra Mapa is joining GFI to focus on Business Development and Client Relations. Sandra will be working closely with the rest of the client management team introducing new families to GFI.

Multi-factor Authentication

With the increasing risk of cyberattacks, we recommend all clients who do not yet have multi-factor authentication enabled on their GFI online accounts do so. This is a simple step that can significantly increase the security of your online account. Please call or email our office to have this feature enabled. New clients will automatically be enrolled in multi-factor authentication.

Donation of Securities

We encourage all clients who plan to make sizable charitable contributions this year to speak to us about donating securities from your taxable investment portfolio in place of cash donations. This is a more tax-efficient way of giving, while the charity still receives the same benefit. Please let us know before December 6th if you plan to donate securities so we can ensure the transfer of securities is completed in the 2024 calendar year.

The GFI equity portfolio did not change during the quarter. We continue to hold businesses that we believe have bright futures while always trying to uncover new businesses that may be added to the portfolio. If you have any questions at all about the portfolio or any other matter, please reach out, we would be happy to help.

Thank you for your ongoing support.

The GFI Team

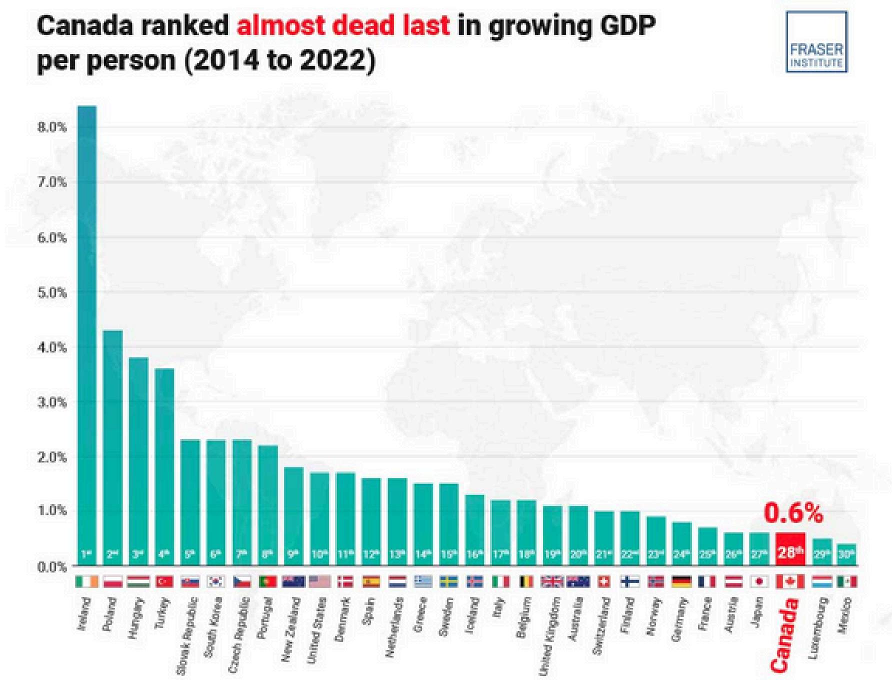
Canada and the World

We all appreciate the power of compounding. Just a small difference in annual growth rates will compound over time into large differences in outcomes.

Take $100,000 invested at a 6% annualized return vs. a 7% annualized return over 30 years. The former becomes $575,000 and the latter becomes $761,000, a difference of almost $200,000 or nearly two times the starting amount.

Similarly, a small difference in annual growth rates of economic output per person between two very similar countries can lead to very different living standard decades from now.

Canada's economic performance over the last decade or so has been extremely poor. We rank last among the major $1 trillion+ economies and 3rd last amongst all OECD nations in economic growth.



From 2002 to 2014, our growth rates kept up with OECD averages. Our prosperity gap versus the USA is not new but has gotten substantially worse over the past decade. The gap in economic output between the US and Canada has gone from Canada being at 83% of the US level a decade ago to now being at roughly 75% of the US level. An 8% decline in 10 years is drastic underperformance.

If our slower rate of growth continues, the relative difference in economic living standards between the US and Canada will be the same in 20 years as the current relative difference between the US and Portugal today! Portugal is the poorest nation in Western Europe.

This is not simply abstract math; this has real impacts. It means less resources for our universities to offer world class education, it means a more strained and underinvested healthcare system, and a brain drain of our most ambitious talented young people abroad.

As savers and investors, we all understand that small differences in annual growth rates, though almost imperceptible in any given year, can lead to very large differences in outcomes over decades. We have the education system, natural resources and human capital to be a global leader; that should be our goal. Nothing less.

THE GLOBE AND MAIL

Brenda Bouw • October 4, 2024 • Toronto

Why this money manager is buying American Express and Aon, and selling Comfort Systems

Money manager Effie Wolle doesn't mind a little banter on the latest economic data or whether the economy is heading for a hard or soft landing, but he's not acting on it.

"It isn't going to change what we own or when we own it," says Mr. Wolle, president and chief investment officer at Toronto-based GFI Investment Counsel, which oversees $2-billion in assets.

He says his firm buys stocks to own for several years throughout different economic cycles.

"We don't time markets. From time to time, it does work for some investors, but we don't think that's a repeatable endeavour," Mr. Wolle says. "We're looking for companies that can grow over a long period of time with the least obsolescence risk."

GFI invests in about 18 to 20 companies at one time, with a current split of about one-third Canadian-listed stocks and two-thirds listed in the U.S. Each position ranges from about 4 to 6 per cent of the portfolio.

The firm's all-equity portfolio returned 21.7 per cent so far this year and 36.9 per cent over the past 12 months. Its annualized three-year return was 8.7 per cent and its five-year annualized return was 14.1 per cent. The performance is based on total returns, net of fees, as of Sept. 30.

The Globe spoke with Mr. Wolle recently about what he's been buying and selling:

Name three stocks you've been buying and continue to own.

American Express Co. is a stock we bought in May of this year for US$242.72. It's the first time we've owned it. We've always been shareholders of Visa Inc. We love these companies' business models, but American Express's business model differs. Its customers are the credit card holders, whereas Visa and MasterCard Inc.'s customers are the banks and credit card issuers. Also, American Express is a bank and has to carry capital on its balance sheet whereas Visa and Mastercard don't. American Express trades cheaper for that reason.

What we like about American Express is that it's trying to be a premium credit card company, leading to increased rewards and a more affluent clientele. These customers are a little less price-sensitive, which is good for the stock in the long term.

Booz Allen Hamilton Holding Corp. is another stock we bought in May, on the same day as American Express, for US$152.79. Booz Allen Hamilton provides consulting services to various U.S. government departments, including the National Security Agency and the Federal Bureau of Investigation. The nature of its work is quite sensitive; its employees must have special security clearances, and the U.S. government must vet the firm's contracts. Few competitors can do this type of sensitive work. The company grows steadily through increased contract wins and small acquisitions.

Aon PLC is a stock we bought in April, 2023, for US$330.21. It's a commercial insurance broker for large- and medium-sized companies. Importantly, it doesn't take on any insurance risk itself but instead brokers it on behalf of its clients. It's more of a partner with businesses in terms of mitigating the different risks across their operations.

The nice thing about Aon is that it's paid in one of two ways: a percentage of its premium as a commission or a flat fee. The percentage commission is good because as risks and pricing premiums increase, Aon's revenue will increase accordingly. It's also a capital-light business, similar to Booz Allen Hamilton. That's something we always look for: companies that can grow without necessarily needing capital to grow.

Name a stock you sold recently.

Comfort Systems USA Inc. is a stock we sold in May of this year to buy American Express and Aon. We owned Comfort Systems for just under two years. It's an electrical and HVAC [heating, ventilation, and air conditioning] contractor for non-residential large industrial projects.

When we bought it, it was trading at a low double-digit cash flow multiple and we liked its down-to-earth management. The stock tripled when we owned it, which is great as a shareholder. However, we felt the valuation was higher than an HVAC company of this nature should trade. We felt there was a limit to how much it could grow, so we sold the business to buy other companies we thought had growth potential at a more reasonable valuation. The stock has risen since we sold, but we still think we made the right decision for the longer term.

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. We will always use the appropriate benchmark and include dividends when comparing our performance to benchmarks
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."

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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