GreensKeeper ASSET MANAGEMENT
a division of LIGHTWATER PARTNERS LTD

The Scorecard
Issue #1 - October 2011

My Painting

One of the things that attracted me to mathematics in my university days and now investments in my middle years is the rationality and objectivity of both pursuits. You are either right or wrong in both disciplines. The difference is that with investments, the proper course of action is only proven out over longer periods of time. As Benjamin Graham - the father of value investing - wrote in his seminal work *The Intelligent Investor:* in the short run the stock market is a voting machine, in the long run it is a weighing machine.

The Scorecard will be my platform to communicate the GreensKeeper Value Fund's performance to investors and to keep score against my preselected benchmarks. I aim to deliver absolute returns to my clients (net of all fees) in excess of both the S&P/TSX Index and the S&P500 Index (measured in Canadian dollars) over the long term.

I encourage readers to start with my previous newsletters (McValue Portfolio Newsletters) which are available on the website. I started writing them for a few friends and they introduce some key concepts like *Owner Earnings, Circle of Competence* and *Intrinsic Value* that I will not repeat here.

The Inner Scorecard

My investment idol Warren Buffett has often talked about the concept of an Inner Scorecard. An Inner Scorecard is the set of criteria and standards by which a person judges himself/herself. In contrast stands the Outer Scorecard, which is a picture of self-worth predicated upon the judgments of others.

As applied to investing, my interpretation of this concept is being able to think for yourself. I often listen to the opinions of others and have occasionally changed my views on certain stocks when another person's arguments were valid and improved on my thinking. However, I have never had a hard time ignoring the short term irrationality of the stock market or the views of people that I like and respect if I disagreed with their conclusions (including many management teams). The Inner Scorecard is really about being yourself – something that I am quite good at. Fortunately for me my quirks magically become "eccentricities" as I grow older.

" The big question about how people behave is whether they've got an Inner Scorecard or an Outer Scorecard. It helps if you can be satisfied with an Inner Scorecard. "

Warren Buffett

Starbucks (Nasdaq:SBUX)

I can remember the last conversation that I had about Starbucks before buying the stock. It was at a dinner on Friday, October 24, 2008 celebrating my brother's birthday and I had just completed my analysis of the stock. I asked a few people seated around the table what they thought about the company. Recall that in October 2008 the world economy was grinding to a halt, the commercial paper market was frozen and global stock markets had just crashed 30% in the past month and as much as 10% earlier that day.

The general consensus around the table was that the company was unlikely to do well in the current environment and that I should avoid the stock. People were cutting back on spending and were unlikely to pay $4+ for a cup of coffee. As a discretionary item many people were likely to give it up or find a cheaper alternative, etc. I bought the stock on Monday morning.

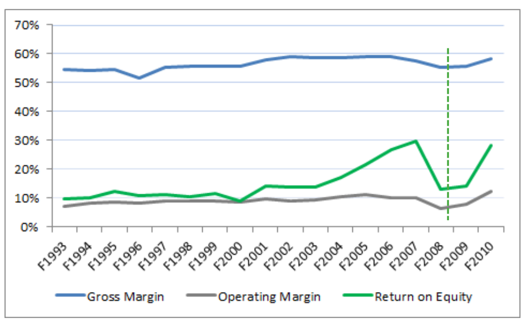
What was I thinking? Despite the state of panic that existed in the world at the time I figured that people would continue to drink coffee. It is warm, makes you feel good and caffeine is mildly

> *" Companies such as Coca-Cola and Gillette might well be labeled "The Inevitables." Forecasters may differ a bit in their predictions of exactly how much soft drink or shaving-equipment business these companies will be doing in ten or twenty years… In the end, however, no sensible observer - not even these companies' most vigorous competitors, assuming they are assessing the matter honestly - questions that Coke and Gillette will dominate their fields worldwide for an investment lifetime. "*
>
> **Warren Buffett**

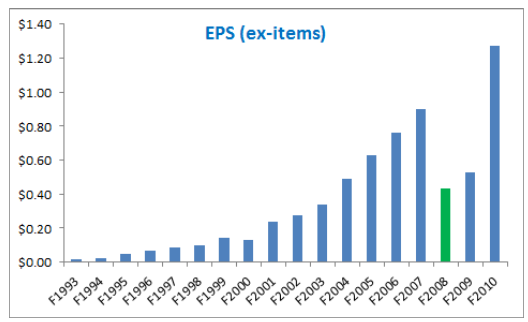
addictive. In tough times people still need small rewards to boost their spirits. Also, humans are creatures of habit and a daily trip to a Starbucks is a ritual for many people. Starbucks is the largest coffeehouse company in the world. I concluded that their ubiquity and their premium brand would mitigate migration to other lower priced alternatives. Starbucks had expanded too rapidly in recent years but the founding superstar CEO Howard Schultz was now back at the helm. Most importantly it was the numbers that spoke to me – they literally jumped off the page.

At the time of my investment the company was clearly going through a tough patch given the economic environment and their overexpansion. Stores were being closed and earnings were taking a hit. However the fact remained that Starbucks was and is an incredible cash flow machine. They sell cups of coffee for $4 – a pretty good business model. During the prior 12 months the company had generated $1.4 billion of cash from operations and spent about $1.1 billion on capital expenditures leaving $300 million in free cash flow. I estimated that $600 million of the capex was required to maintain the existing infrastructure and the rest was for expansion (new stores).

The balance sheet at the time was fine with only $740 million of net debt which existed primarily due to $3 billion of questionable share buybacks by the former CEO over the prior three years. There was $300 million of additional availability under their existing credit facilities. Even considering their off-balance sheet liabilities (leases) they were clearly going to be just fine. In a pinch they could simply slow their store growth. The numbers spoke volumes:



Source: Capital IQ



Source: Capital IQ

To me, despite the negatives and the potential risks the numbers spoke for themselves and the stock was practically being given away at what I calculated were 11 times normal owner earnings for a growing business with the market leading position. The business wasn't broken, it was just operating in a tough environment and working through some poor capital allocation decisions that had been made. I figured that Schultz would be able to fix that given his prior track record at the company. The result may not have been *Inevitable* but it was highly probable:

" Obviously many companies in high-tech businesses or embryonic industries will grow much faster in percentage terms than will The Inevitables. But I would rather be certain of a good result than hopeful of a great one. "

Warren Buffett

As any good Canadian must ask, what about Tim Hortons (TSX:THI)? There is no question that Tim Hortons is another great company with very attractive economic characteristics. Unfortunately its stock has never traded at a price at which I would consider buying it. At least not yet. Remember that even a fantastic company can be a poor investment if you overpay for its stock.

I calculated that I have made enough on my investment in Starbucks to buy a cup of coffee a day there until I am 115 years old. Let's hope that I live long enough to enjoy them all.

The Value Fund

Despite my mother's protestations to the contrary, I was never any good at art. It just wasn't my thing. But I did find my passion and talent when it came to investing.

Warren Buffett gave a speech in his native Omaha in 2003 and spoke about why he continued to work despite his enormous wealth. His answer was simple – he loved managing money and running Berkshire Hathaway:

> *"I mean, I feel like I'm on my back, and there's the Sistine Chapel, and I'm painting away; it's my painting, and somebody says, 'Why don't you use more red instead of blue?' Goodbye. It's my painting. And I don't care what they sell it for. That's not part of it. The painting itself will never be finished. That's one of the great things about it."*

Warren Buffett
Speech at the Oquirrh Club, "An Evening with Warren Buffett", October 2003.

The GreensKeeper Value Fund is my painting. I will have the bulk of my family's capital invested alongside my clients. I am truly blessed to be able to wake up in the morning and do what I love to do for a living. I will do my very best to deliver the returns that you deserve on your hard earned savings. Thank you for your trust and support.

Michael

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The Scorecard
Issue #2 – January 2012

“Analysts have recently been acting in Wall Street pretty much as they always have, that is to say, with one eye on the balance sheet and income account, and the other eye on the stock ticker.

Benjamin Graham

The Truly Important Things in Life (and Investing)

The Value Fund was successfully launched on November 1 and I have already settled in to the running of the business and dealing with regulatory compliance matters. Things are very busy but in short, I love my new job. What started out as an inexplicable desire to write an investing letter to a few dozen friends has led me to a new career and a growing distribution list that currently numbers in the hundreds. I believe that compared with my prior careers in law and investment banking, GreensKeeper will be my most rewarding.

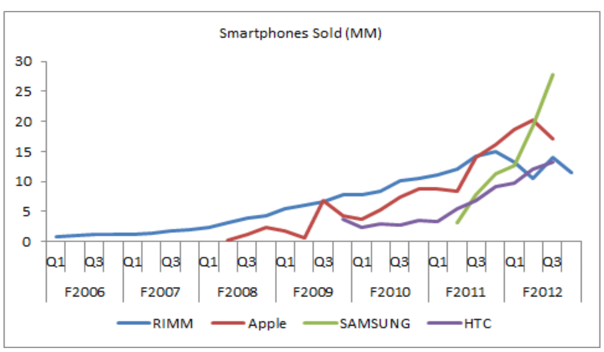
My time is largely focused on adding to the portfolio, broadening the universe of stocks that I follow and growing the business. On that front, if you are interested in receiving an investor package or know someone that would, I would love to hear from you.

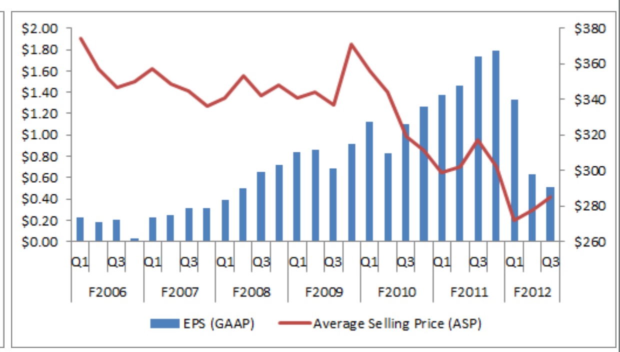
Accompanying this newsletter are the performance reports for the first two months of operations for the Value Fund. Beginning in the second-half of 2012 I will start to provide my investors with a full Statement of Investment Portfolio that will include a detailed listing of the stocks that I hold in the Value Fund. Like my investing hero Warren Buffett, I have historically been reluctant to discuss specific holdings. However based on feedback received from both current and prospective investors I have decided to provide greater transparency. It is time to follow my own path.

Research in Motion (TSX:RIM; NASDAQ:RIMM)

Not a day goes by without someone asking me for my view on RIM. The past year will clearly go down as *annus horribilus* for Canada’s former tech darling. For those living in a cave during the past year the following all transpired during 2011: (i) a share price decline of 75%; (ii) RIM’s North American market share of smartphone sales fell over 60%; (iii) two of its employees forced a plane to be diverted to Vancouver due to their drunken antics; (iv) the company once again delayed the launch of its new Blackberry 10 operating system; (v) RIM has repeatedly lowered its earnings guidance; and (vi) the shares are currently trading below the company’s book value of $19.77 and close to their tangible book value of $13.70. Not good.

The rapid pace of change in the smartphone and tablet markets are usually enough to keep me away from the sector in general. However, the massive price decline caused me to take a closer look to see if I was missing something. RIM makes the bulk of its profits from selling new devices each quarter so the following trends are worrying:





One of the key factors for me when investing in a company is the quality of management. Specifically, I look at their success in execution, whether or not they are shareholder-friendly and their level of candour with the owners of the business. The current management team owns 10% of the company so interests should be aligned. However, both co-CEOs have been made enormously wealthy by virtue of their past success and may no longer have the laser-like focus that is required to stay on top. Steve Jobs was notoriously obsessive about Apple and wasn’t distracted by things like purchasing an NHL sports franchise.

A distracted management team could explain some of the problems identified above, but I have an even bigger concern about the company. I believe that RIM has already started to lose their dominant position with the business market – a market that has traditionally been their core strength. Exhibit A – the Playbook tablet was launched without standalone email and calendar functions, critical tools for business users. Exhibit B – RIM recently announced that their Blackberry Enterprise Server secure solution will allow IT departments to support competing devices such as the iPhone. In the consumer market, smartphones have become status symbols and RIM's devices have clearly lost some of their lustre. Business executives are buying iPhones and insisting that their IT departments support them. In short, RIM is currently losing both the smartphone battle and the enterprise war.

Even if I ignore the past stock option backdating scandal and the above-noted execution blunders, the final straw for me came in the company's third quarter conference call on December 15, 2011. In addition to confirming an inventory write-down of $485 million related to the Playbook, the company's co-founder and co-CEO had the following to say in his prepared remarks on the call:

> *"While we remain solidly profitable … we recognize our shareholders may feel we've fallen short in terms of product execution, market share and financial performance." Jim Balsillie*

Did you catch that? He didn't say that *he* was disappointed, but rather that he understood that shareholders might be. The comment reminded me immediately of something that my investing hero once said that always stuck with me (see quote at left). In my opinion, RIM's co-CEOs are not being totally honest with themselves about their recent mistakes or their own ability to turn things around. They continue to overpromise and under-deliver.

Major change at the top is unlikely at RIM despite lobbying by activist shareholders. The board is largely deferential to the founders given their history of success and the fact that like most companies, the directors were appointed to their posts by the current management team. Jim Balsillie and Mike Lazaridis may yet turn things around with their next-gen devices but I am not highly confident of that result. Equally as likely is the prospect of the co-founders continuing with their recent track record of poor execution to the point that the company starts to lose money and destroy book value (anybody remember Palm, Inc.?). I have long felt that RIM had outgrown the managerial talents of the co-founders of the company. This is not uncommon with many successful technology companies but it can be fatal if not dealt with in time. With RIM my concern is that it may already be too late for a change at the top to turn things around.

As a proud Canadian I wanted to like RIM and I wish them all the success in the world. I hope that Jim and Mike can right the ship. But when investing my own capital and that of my clients I am not willing to assume odds that I calculate are no better than those offered in Vegas. I will continue to take a pass on RIM and look elsewhere for attractive investment opportunities.

Not So Wonderful

Over the holidays I was channel surfing when I stumbled upon that James Stewart Christmas classic – *It's a Wonderful Life*. The film usually leaves me with a warm feeling but given what has been happening in Europe what caught my attention this year was the scene where the customers of the Bailey Building and Loan make a run on the bank. As I wrote back in April 2010 (McValue Newsletter #3) one of my concerns about the market's rapid advance were the PIIGS – that unflattering and ultimately prophetic acronym that refers to Europe's most profligate countries – Portugal, Ireland, Italy, Greece and Spain. In order to understand what is really happening in Europe it is instructive to look at how the banking industry operates.

"The CEO who misleads others in public may eventually mislead himself in private."

Warren Buffett

"Investing should be dull. It shouldn't be exciting. Investing should be more like watching paint dry or grass grow. If you want excitement, take $800 and go to Las Vegas."

Paul Samuelson
US Economist (1915 – 2009)

Banking 101

At its heart, banking should be a fairly simple business. Banks accept depositors' savings and recycle them into loans for credit-worthy borrowers. In this way banks serve a useful capital allocation function like the equity markets. Banks borrow from depositors at a rate below their lending rate and pocket the difference (referred to as a bank's 'net interest margin'). Banks repeat this process many times and by growing their assets and adding leverage to their equity base they can earn attractive returns for shareholders.

One prominent feature of this arrangement is that depositors can withdraw their money on demand (hence the term demand deposits) yet banks make loan commitments for much longer periods of time. Banks borrow short (and cheap) and lend long. In order to avoid bank runs like the one that befell our protagonist George Bailey and to maintain stability, governments around the world invented deposit insurance to assure retail depositors that their money was safe.

Given this arrangement, bank runs and panics are things that governments prefer to avoid as they end up holding the bag. Hence they regulate banking activity through several means including limits on a bank's ability to use leverage. The Basel Accord (1988) introduced the concept of the categorization of a bank's assets according to their perceived riskiness (known as 'risk-weighting'). The riskier the asset, the greater the capital that a bank would need to set aside. All very logical.

> *"…I intend to manage the hell out of [risk-weighted assets]."*
>
> **Jamie Dimon**
> **CEO of JP Morgan Chase**
> **Financial Times, Oct. 25, 2011**

But there was an interesting category of assets that were classified with a 0% risk weighting, namely AAA and AA rated sovereign debt. In other words, banks were permitted to buy as much of these assets as they wished without setting aside *any* capital. Incentives are powerful things so banks levered-up on these "risk-free" assets in order to maximize their returns on equity. Governments didn't mind as they were running large deficits and needed people to buy their bonds – so why not their own banks? Only it turns out that these risk-free assets weren't so risk-free. Euro government bonds started to decline in value and were downgraded by the credit-rating agencies and banks are now reluctant to buy them. The problem with leverage is that it magnifies not only gains but losses as well. Small mistakes in a leveraged environment can be fatal. At a leverage ratio of 30 to 1, a small 3.3% decline in the value of a bank's asset portfolio will eliminate its *entire* equity base (it will be bankrupt).[1]

Back to Europe

At the heart of Europe's woes is their banking sector. Ireland's government debt levels were actually quite low but they were pressured (I would argue duped) into standing behind their banks beyond their legal commitments to retail depositors.[2] Spain today has a debt to GDP ratio of 67% and Germany 83%, both lower than Canada's 84%. So why the fuss?

Germany has no desire to save Greece and the rest of the Euro zone out of the goodness of their hearts. Being a major exporter to the Euro zone is a concern but there is a bigger worry on their minds. The reality is that if they cut their southern European neighbours loose, the German banks have a problem that is too big for them to fix on their own. German banks own bonds of other Euro governments and will be forced to take a haircut. Add leverage and voila, you have a problem. Take a look at some of the current leverage ratios of the major banks in Europe and elsewhere:

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[1] A prudent supplement to RWA is to limit banks' total leverage multiple (assets to equity) regardless of the type of assets held. Canada was one of only two major countries that had this system in place all along (the United States being the other). While our banks were better at managing credit quality during the downturn, this wasn't the only reason that they stayed out of trouble. The Canadian regulations prevented them from catering to their worst instincts. Give OSFI some credit for recognizing that banks need to be adequately regulated to protect them from themselves.

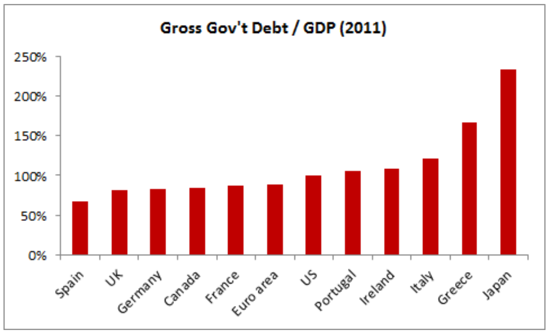
[2] For an entertaining and insightful read on the financial crisis in Ireland, Iceland and Germany I highly recommend the book 'Boomerang' by Michael Lewis.

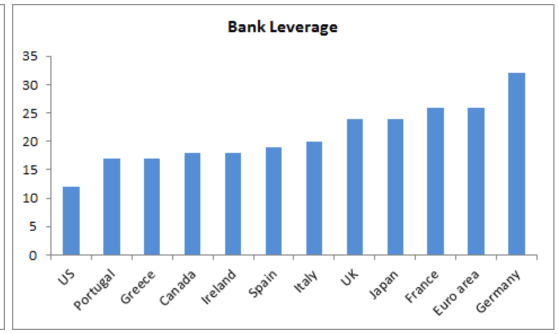
"A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful . . .

Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month — or a year — from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So, if you wait for the robins, spring will be over."

Warren Buffett

NY Times, October 16, 2008





Source: IMF Global Financial Stability Report, Sept. 2011

By rescuing their banks, overnight Ireland went from a debt/GDP ratio of less than 25% to over 100%. These bank leverage ratios may even *understate* the true leverage involved given bankers' creativity in using accounting gimmicks like Lehman's infamous Repo 105 or repo-to-maturity trades that keep debt hidden off of their balance sheets. All perfectly legal mind you.

One way or another, Europe's banks require additional capital and need to decrease their leverage multiples. Many find themselves presently shut out of the equity markets which leaves asset sales as an unattractive but necessary option. Lenders (both retail and wholesale) are also heading for the exits which leaves European banks with only two viable options: their own governments or the European Central Bank. The net result of all of this is that credit dries up for European borrowers and growth slows. It's that simple. And Europe, if not already in recession, is at risk of one.

What Really Matters

Given this macro environment, what do I do when deciding where, or if, to invest in the equity markets? The reality is that being aware of potential landmines like a Euro implosion is important in order to avoid direct or indirect exposures, but it doesn't otherwise impact my daily investment decisions. I believe that we are in for a period of slower growth as consumers, governments, businesses and banks continue to deleverage. At the risk of being flippant (and a bit of a Grinch), what's the difference between 2% GDP growth and a modest recession? I just assume below-average growth when valuing the companies that I look at. What *is* very important in this environment are strong balance sheets to weather the occasional storm that is likely to pass through.

One mistake that people often make is to assume that the stock markets will decline when the economy is in recession or one is forecasted. Being a math geek I went back and looked at the correlation between US GDP and US stock market returns over the past 80 years. The results will probably surprise you. Over this period only 17% of stock market movements could be explained by movements in GDP.[3] In other words, the stock market shows very little correlation with economic growth. There is however a much higher correlation between investment returns and buying quality stocks when they are cheap. I think that my investment hero said it best (see quote at left).

George Bailey taught me that having loving friends and family are the truly important things in life. But in the world of investing, it is the quality of the business and its valuation at the time of purchase that are truly important when it comes to long-term success. There are some great world-leading companies currently on sale while the public is worried about the economy, Europe, etc. I think that I will follow Warren's lead and put some more money to work in the New Year.

Michael

[3] *For the mathematically inclined, I calculated a maximum correlation (r_{t+1}) of 0.413 when comparing the DJIA performance with the following year's GDP and accordingly a covariance (R-squared) of 0.17.*

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The Scorecard

Issue #3 – April 2012

Mr. Market and The Path Less Traveled

The Value Fund is up 3.9% year-to-date and 3.3% since inception (after all fees and expenses). To date the Value Fund is ahead of the S&P/TSX total return index but lags the S&P500($CAD) – our two primary benchmarks. Our cash balance has been steadily declining since my last newsletter as I have found a number of suitable stocks worth purchasing at current levels.

In order to outperform the market over time, you must be different than the market. While this less than brilliant observation seems obvious, it is often lost on money managers. Our approach entails ignoring the constant siren song of performance benchmarks and running the risk of lagging the market at times. When working for a large financial institution, business pressures lead many to worry more about their careers than their long term performance. Naturally, this leads to the safe choice of closet-indexing (mind you a full management fee is still applied). My desire to outperform the market over time is the primary reason that I founded GreensKeeper. When managing my own money and that of my clients, I wanted to ensure that I created an environment that allows me the freedom to invest for the long-term. By eliminating the institutional pressures that lead to sub-optimal, short-term decision making, we are positioned to do so.

"I would rather lose half our clients … than lose half of our clients' money."

Jean-Marie Eveillard

First Eagle Funds

As an adult, I have been blessed with the temperament to be different than others and not care what the crowd is thinking when I disagree with it. I like the stocks that we currently own in the Value Fund and take my time before reducing our cash balance by adding any new stock to the portfolio. This inactivity can be psychologically painful to many when the markets rally sharply. However I recognize that I tend to own stocks for a very long time and only buy them when I believe them to be mispriced. You should not be surprised to learn that I haven't sold anything that I have purchased for the Value Fund to date. This approach necessarily implies that I need to be very picky when committing capital. I think that the words of famed French value investor Jean-Marie Eveillard (at left) express my views better than I ever could. Experience has taught me that in the long run, we win.

Microsoft Corporation (NASDAQ:MSFT)

I started buying Microsoft for the Value Fund in November shortly after the launch and have added slightly to the position as new investors have joined. Our average cost base is US$26.58. I have heard a few main criticisms of the stock and by addressing them, will share a few lessons that I have learned over the years.

Microsoft has three divisions that actually matter financially: (i) its Window's operating system, (ii) the Office suite of productivity products and (iii) its server software business. These three core businesses accounted for over 100% of Microsoft's operating income for fiscal 2011. The Entertainment Division (Xbox, Kinect) makes a modest profit and the Online Services Division (Bing search engine, MSN portal) actually loses money.

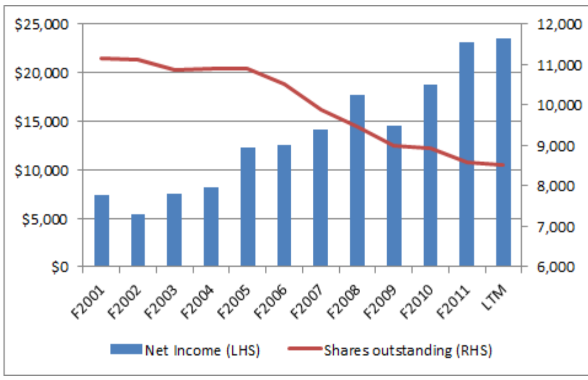
The most consistent criticism of the company's stock is that it "hasn't done anything in ten years". That is quite right as you can see for yourself in the chart below. MSFT (the stock) has largely been dead money:

"Mr. Market is there to serve you, not to guide you."

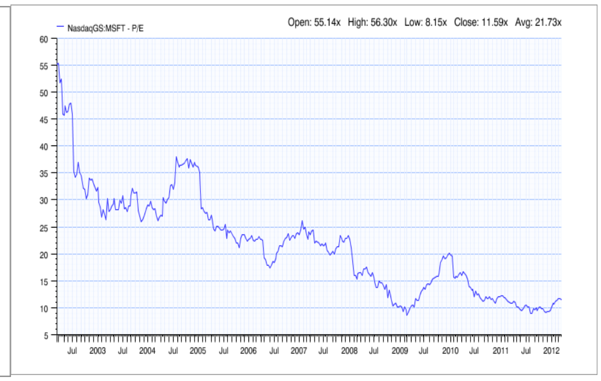
Benjamin Graham

I learned something a long time ago from reading about Ben Graham whose words were as obviously true to me then as they are now (see quote at left).

So what did Microsoft's *business* do in those intervening ten years? Well, the company's net income went from $7.3 billion to $23.2 billion and the company's share count was reduced 23% as Microsoft bought back a lot of its stock. The result of the stagnant share price over that same time period was a massive multiple contraction (see chart at right below). At the time of purchase for the Value Fund, Microsoft was being offered to us at less than 10x trailing earnings vs. over 50x a decade earlier.



Source: Company Reports



Source: S&P Capital IQ

Another common criticism of Microsoft is that the world is heading towards a post-PC era which will hurt them. In the personal computer (PC) world, Microsoft has long dominated as the operating system of choice - Windows has a 90% market share. I agree that Apple is a great company and that smartphones, iPads and other tablets are here to stay. They will certainly cut into PC growth rates going forward. But smartphones and tablets are not PCs and are excellent at certain tasks (reading, email, web surfing) and not at others. I laugh to myself when I see someone with a tablet tethered to a keyboard trying to work on a complex document or spreadsheet. For certain tasks, I believe that PCs will remain the device of choice. And with their near-monopoly in operating systems, Microsoft's pricing power gives them the ability to make incredible profits even with modest unit growth.

If Microsoft manages to gain some traction as a viable operating system in the smartphone and tablet world via its Windows 8 launch this fall, then great. That's upside that I am not counting on. In my opinion, the real risk that the proliferation of smartphones and tablets pose to MSFT is that people expect Office "apps" to be priced like apps instead of the hundreds of dollars that they currently command. I don't expect that to happen – but it could. It is one of the things that I am watching closely.

"A ham sandwich could run Coca-Cola"

Warren Buffett

Microsoft is also dominant in productivity software and enterprise server software and tools. Without boring you with the details, let's just say that Microsoft is the dominant player in business/enterprise software.

As I mentioned last quarter when discussing Research in Motion (Scorecard #2), technology is usually a challenging area to invest in as things change so rapidly. In other words, the predictability of the business' future path is difficult, if not impossible, to determine with any degree of certainty. However I feel comfortable that Microsoft's core business franchises will continue to prosper for the foreseeable future.

Warren Buffett has joked that he searches for businesses whose economics and competitive position are so wonderful, that they could be run by a ham sandwich. I believe that Microsoft's business franchise and its competitive "moat" meet this test. In fact, Microsoft's business is so good that what really worries me is that management will find dumb uses for the cash (paying $8.5 billion for a money-losing Skype comes to mind). As a matter of fact, I think that a ham sandwich could actually do a better job when compared with some of the acquisitions that Microsoft has made in the past.

“Think about it a little bit more and you'll agree with me, because you're smart and I'm right"

Charlie Munger
Vice Chairman – Berkshire Hathaway

“You're neither right nor wrong because other people agree with you. You're right because your facts are right and your reasoning is right."

Warren Buffett

After completing my lengthy analysis on a company I like to go back to first principles. I believe that before buying a stock, I should be able to articulate a simple investment thesis in just a few sentences. Microsoft has close to 80% gross margins and an unlevered return on equity in excess of 40%. The company is a cash flow machine – generating over $2 billion of free cash flow *per month*. I believe that Microsoft’s dominant position in their key segments will continue for the foreseeable future. At our average cost of $26.58, I paid 9.7x trailing earnings (3% dividend yield) for one of the best software companies ever created. If I take into account the $45.5 billion in net cash that they had on their balance sheet at the time (I even applied a “repatriation tax” to the offshore component), the multiple was actually 8.2x. Microsoft also had another $8.6 billion or $1.00 per share in other investments (e.g. shares in Facebook, preferred shares) that I essentially ignored.

To date the investment has been a good one (last trade - $32.26 and we have also received dividends of $0.34 per share after the deduction of US withholding tax). But it is early yet. Only time will tell if my investment thesis is correct.

Intelligent Investing

I believe that one of the keys to successful investing is approaching it with the proper mindset. By focusing on a company’s long-term prospects you can avoid some of the common pitfalls that come with trying to predict what a business or the stock market will do in any given week/month/year (something that I do not believe is possible). This approach also implies that you don’t need to be glued to the stock ticker every day or read every press release that a company puts out. I would have no problem not knowing what the market quote is on a particular stock that I own for months on end. If you buy the right type of business at the right price, monitoring its financial progress quarterly and any major changes are sufficient. Much of my time is actually spent on looking for new opportunities.

Another key success factor in investing is being able to come to your own conclusions based on thorough research, hard work and proper reasoning. Conventional wisdom is *often* but not *always* correct. The difference is important. I spend a lot of time looking at first-source materials (data, financial reports) and when my views differ from the crowd, that is usually where opportunity presents itself. Stocks that are out of favour due to misguided reasons are usually cheap and mispriced.

Before I head off to find some more diamonds in the rough I will leave you with something that had a profound effect on how I go about searching for investment ideas for the Value Fund and my overall approach to investing.

Any serious investor should do themselves a favour and pick up a copy of Ben Graham’s classic – *The Intelligent Investor*. I agree wholeheartedly with Warren Buffett’s comment that this book is the best book about investing ever written. I will even save you some time by suggesting that you only need to read Chapter 8 (Mr. Market allegory) and Chapter 20 (Margin of Safety). These two concepts, properly understood and embraced, will save you from a lifetime of investment grief. In fact, I will save you even more time. Reproduced on the next page are my favourite passages from Chapter 8. I hope that the words jump off the page for you as they did for me the first time that I read them many years ago.

Michael McCloskey

Mr. Market [1]

… Let us close this section with something in the nature of a parable. Imagine that in some private business you own a small share that cost you $1,000. One of your partners, named Mr. Market, is very obliging indeed. Every day he tells you what he thinks your interest is worth and furthermore offers either to buy you out or to sell you an additional interest on that basis. Sometimes his idea of value appears plausible and justified by business developments and prospects as you know them. Often, on the other hand, Mr. Market lets his enthusiasm or his fears run away with him, and the value he proposes seems to you a little short of silly.

If you are a prudent investor or a sensible businessman, will you let Mr. Market's daily communication determine your view of the value of a $1,000 interest in the enterprise? Only in case you agree with him, or in case you want to trade with him. You may be happy to sell out to him when he quotes you a ridiculously high price, and equally happy to buy from him when his price is low. *But the rest of the time you will be wiser to form your own ideas of the value of your holdings*, based on full reports from the company about its operations and financial position.

The true investor is in that very position when he owns a listed common stock. *He can take advantage of the daily market price or leave it alone, as dictated by his own judgment and inclination*. He must take cognizance of important price movements, for otherwise his judgment will have nothing to work on. Conceivably they may give him a warning signal which he will do well to heed—this in plain English means that he is to sell his shares because the price has gone down, foreboding worse things to come. In our view such signals are misleading at least as often as they are helpful. *Basically, price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal. At other times he will do better if he forgets about the stock market and pays attention to his dividend returns and to the operating results of his companies.*

…

The investor with a portfolio of sound stocks should expect their prices to fluctuate and should neither be concerned by sizable declines nor become excited by sizable advances. He should always remember that *market quotations are there for his convenience, either to be taken advantage of or to be ignored*. He should never buy a stock *because* it has gone up or sell one *because* it has gone down.

…

The true investor scarcely ever is forced to sell his shares, and at all other times he is free to disregard the current price quotation. He need pay attention to it and act upon it only to the extent that it suits his book, and no more. Thus *the investor who permits himself to be stampeded or unduly worried by unjustified market declines in his holdings is perversely transforming his basic advantage into a basic disadvantage. That man would be better off if his stocks had no market quotation at all, for he would then be spared the mental anguish caused him by other persons' mistakes of judgment.*

1 *Graham, B., & Zweig, J. (2005). The intelligent investor: A book of practical counsel (4th Revised Edition). New York: HarperBusiness Essentials (emphasis added).*

Greenskeeper Asset Management
a division of LIGHTWATER PARTNERS LTD

The Scorecard

Issue #4 – July 2012

PIIGS and Merde

The Value Fund is up 1.7% year-to-date and 1.1% since inception (after all fees and expenses). To date the Value Fund is ahead of the S&P/TSX total return index but lags the S&P500($CAD) – our two primary benchmarks. More importantly, I am excited by what we currently own and believe that our portfolio of stocks are worth significantly more than what Mr. Market is currently valuing them at. Despite the tough economic climate, these businesses should thrive in the coming years and grow their earnings accordingly. Time will tell. In the meantime I am continuing to reduce our cash balance as I acquire additional stocks that meet my unwavering criteria.

As mentioned previously, I have decided to start disclosing the holdings of the Value Fund in order to provide investors with greater transparency. A full list of the Value Fund's current holdings is provided on page 3. Additional details on the positions (cost basis, position size, etc.) will be provided to clients directly when they receive our June 30 financial statements.

"Investing should be dull. It shouldn't be exciting. Investing should be more like watching paint dry or grass grow."

Paul Samuelson

Nobel Prize-winning Economist

GMP Capital Inc. (TSX:GMP)

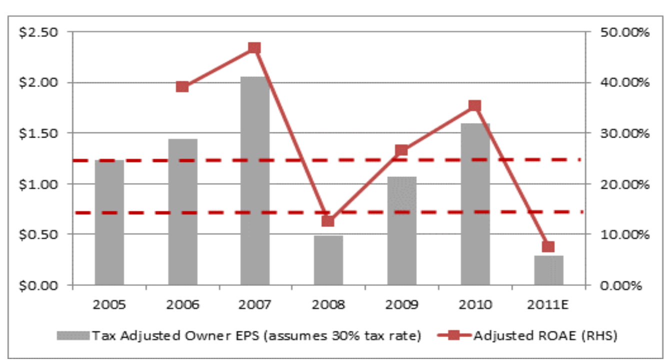
One of the keys to being successful at investing over the long term is to stick to businesses and industries within your *circle of competence*. Put another way, you should invest only in businesses that you know and understand. During my investment banking days at Cormark Securities, our primary competitors were the Canadian bank-owned dealers and then GMP Capital Inc. (GMP). They were, and still are, a formidable competitor.

GMP at its core is an institutional investment bank - it acts as agent/underwriter on equity financings and provides advisory services on merger and acquisition (M&A) transactions for Canadian companies. It also facilitates trades for its institutional clients by matching buyers and sellers for blocks of securities. Most of the firm's revenues come from two very cyclical sectors: Energy (Oil & Gas) and Mining. This is a regulated business that is difficult to get right but once you do, it is a license to make money. The business generates a lot of free cash flow and requires very little capital (desks, computers, office space) other than working capital to facilitate its trading and underwriting activities. The real assets of the business are its talented employees.

As illustrated in the charts at right, GMP is a cyclical business with the ability to earn returns on equity of 15-25% and easily earn over $1.00 in earnings per share in good markets.[1]

GMP's business franchise reminds me of a Canadian version of Goldman Sachs *prior* to its initial public offering (IPO) in 1999. Post-IPO, Goldman has become much more reliant on its proprietary trading business which requires significant leverage and is a much riskier (and hence less valuable) business.

Source: S&P CapitalIQ.



Source: Company Reports, GreensKeeper Estimates.

[1] Historical earnings have been adjusted to take into account a number of one-time items and to adjust for GMP's conversion from an income trust to a corporation in 2009.

"Our sustained heavy overweight in quality stocks in 2009 was painful, intellectually and otherwise. Our pain in 2010 was more "business as usual," waiting for the virtues of value to be revealed. The saving grace is that, although value is a weak force in any single year, it becomes a monster over several years. Like gravity, it slowly wears down the opposition,"

Jeremy Grantham,
GMO LLC Quarterly Letter Q1 2011

Going public provides investment banks with a permanent form of capital and access to more if needed. But the downside is that management is tempted to take greater risks once they have access to capital other than their own. I don't believe that Goldman Sachs would have taken the risks that they did in 2008 (leverage of 23 to 1) had the firm been capitalized like they were historically with just the partners' capital on the line.(2) Despite the fact that both are public companies, GMP is a very different business than the Goldman Sachs of today. GMP has largely stuck to its knitting after its IPO and the employees and directors of the firm still own about 25% of the business. They have done a lot of things right and have had a few hiccups along the way.

The Good

One of the keys to success in the investment banking business is the quality of the players on the team. It is hard to retain talent over time as competitors try to poach them or they become wealthy enough to pursue other activities. GMP has dealt with the retirement of a number of its early partners and has successfully managed to attract new talent to the firm and to keep them financially motivated.

GMP has also been successful in starting an asset management division from scratch in 2008. The asset management business is a natural extension of their core franchise and requires very little regulatory capital. It is a good business and GMP has capitalized on this opportunity. The division is currently profitable and already has assets under management of $582 million which should continue to grow.

GMP has also extended its core franchise to new geographies, namely the U.S., the U.K. and Australia. Expanding its core business to places where it can leverage its expertise in commodities is a smart and relatively low risk strategy. In early 2011 the firm also raised $115 million of permanent capital via a preferred share issue on what I believe are attractive terms. It should allow them to avoid having to do another dilutive equity issue like the one they did in the depths of the market collapse in 2008. I give them full marks for both of theses initiatives.

The Not So Good

Management teams of great businesses that generate a lot of free cash flow are often tempted to use it to expand their business empire. It is simply human nature. Unfortunately this often this leads to *unforced errors* when management takes the cash generated by the great business and invests it in a less attractive one. It is somewhat ironic that a firm whose primary function is to allocate capital efficiently has been less than stellar when it comes to its own capital allocation. A few examples will demonstrate.

In 2005 GMP decided to start up a wealth management division with financial advisors who would provide advice to retail clients in exchange for advisory fees. In my opinion, the wealth management business is a mediocre one at best. The business requires large scale to operate at a profit and even at scale, the investment advisors often consume most of the business' economics leaving little for the shareholders. In addition, the business brings with it huge regulatory and compliance risks. Unfortunately, to date this division has lived up to my expectations: growth in assets under administration but few profits for the shareholders. It consumes management time and capital that I believe is better used elsewhere.

In 2006 GMP purchased a private equity business (Edgestone) for approximately $152 million. Over the ensuing years, the business was essentially written off *entirely*. This is a significant amount of money for a company that is currently valued by the market at about $340 million.

(2) For an excellent book on the history of Goldman Sachs as a private partnership, I recommend "The Partnership: The Making of Goldman Sachs" by Charles D. Ellis.

GMP recently acquired a New York investment brokerage that focuses on institutional sales and secondary trading of high yield and distressed debt. It is a natural extension of GMP's institutional equity franchise. However, the debt capital markets business operates on much thinner margins and I believe is a less attractive business than GMP's core equity-focused franchise. More troubling, GMP paid $48 million (plus a possible future earn-out) for a business with a book value of about $2.1 million that was modestly profitable in 2011 and is unlikely to earn much profit this year.

Finally, GMP's dividend history has been all over the map. The company has increased its dividend, decreased it and paid several special dividends over the past five years. Having been in this business, I know that it is a cyclical one. The key is to keep your costs in check (including employee count and compensation) when things are slow, maintain a fortress-like balance sheet and distribute capital to shareholders in an efficient manner if and when it is available. The idea of a steady common share dividend isn't consistent with the cyclical nature of the business. I applaud GMP's management and board for distributing the excess capital to shareholders. I would just encourage them to do so via special dividends when excess capital is in hand. This strategy has the added benefit of reducing the pressure of earning enough to cover a fixed quarterly amount.

Investment Thesis

In short, I have to give GMP poor marks for its historical capital allocation decisions. My preference would be for the firm to stick to their core institutional equity investment banking franchise and grow their asset management business. That's it. I believe that these two divisions account for 95% of GMP's entire business value. Any excess cash should be returned to shareholders via special dividends and/or share repurchases if and when the shares are significantly undervalued (like now).

Being significant shareholders in the company as well, I suspect that there are many GMP employees that would agree with my conclusions. In this regard, our interests are completely aligned. I am hopeful that management and the board have reflected on the past and will make future capital allocation decisions that will maximize value for all shareholders.

Despite the risks, I believe that the stock is attractive at current levels ($4.90) and I own a position in the Value Fund. The business should continue to generate significant free cash flow and the book value per share of $3.47 (tangible book value - $2.80) should provide some support for the stock. The investment has not been a good one to date as the stock continues to hit new 52-week lows and is trading below my average cost. Obviously I bought too early. However, I am long-term bullish on the Canadian Energy and Mining sectors despite the market's current pessimism. These sectors will turn as they have always done – I just can't tell you exactly when. And when they do, GMP should absolutely mint it as they have done in the past.

Meanwhile, Over in Euroland

Politics makes for strange bedfellows and the political partnership of France and Germany over the past few years has been interesting to watch. Alas the duo better known as "Merkozy" (Merkel and Sarkozy) is no more after the latter lost the French presidential election in May to Francois Hollande. The new celebrity "couple" of Merkel and Hollande has not yet been ceremoniously christened by the European press with a suitable handle. In light of all of Europe's trouble with the PIIGS I think that "Merde" (Merkel and Hollande) seems quite apt. It's catchy n'est-ce pas?

Michael McCloskey
Founder & President

"Of one thing be certain: if a CEO is enthused about a particularly foolish acquisition, both his internal staff and his outside advisors will come up with whatever projections are needed to justify his stance. Only in fairy tales are emperors told that they are naked."

Warren Buffett

Value Fund – Current Holdings

Berkshire Hathaway
Cash (US$)
Cash (CAD$)
Cisco
GMP Capital Inc.
Home Capital Group Inc.
Microsoft
Sanofi
Tempur-Pedic
Wells Fargo

Birdy Num Nums

The Value Fund was up 2.8% in Q3 and 4.5% year-to-date (after all fees and expenses). Since inception the Value Fund is ahead of the S&P/TSX total return index but lags the S&P500($CAD) – our two primary benchmarks. The biggest movers in the quarter were Tempur-Pedic (+39%), Sanofi (+14%) and Home Capital (+14%). Our poorest performer was a recent addition – Joy Global (-7.9%). The 3.5% appreciation of the Canadian dollar during Q3 was also a headwind given our large holdings of US dollar denominated assets. I do not hedge our US dollar exposure as I do not believe the cost is worth it, and I am comfortable being long US dollar assets at current exchange rates.

"If I'm pretty sure I won't lose money, all the other possibilities are good ones."

Joel Greenblatt
Gotham Capital

I had planned to write about the latest addition to the portfolio (Joy Global - NYSE:JOY) but several recent events changed my mind. First, the actor Herbert Lom, best known as Chief Inspector Dreyfus to Peter Sellers' Inspector Clouseau in the brilliant *Pink Panther* movies, passed away. Next, Tempur-Pedic (a former Value Fund holding) traded strangely and subsequently announced a significant acquisition. Finally, a lot of ink was spilled critiquing Facebook's "successful" IPO which turned out to be anything but. The first event may seem difficult to reconcile with an investing newsletter but bear with me for a few moments and all will become clear.

Peter Sellers is one of my favourite character actors of all times and I must have watched each of his Pink Panther movies dozens of times. The recent passing of Herbert Lom made me reminisce about their collective comedic genius. It also made me think of one of Sellers' lesser-known films - a 1968 oddity called *The Party*. The movie consists of a series of skits involving Sellers buffoonish lead character Hrundi Bakshi being mistakenly invited to an exclusive Hollywood party. In one scene Hrundi picks up a bowl of bird seed labelled Birdy Num Nums and "feeds" them to a parrot in a large cage by hurling the entire bowl's contents at the bird. Good stuff! (YouTube: http://bit.ly/5GYarP). The investing lesson in all this… please bear with me a little longer.

Tempur-Pedic (NYSE:TPX)

My investment thesis for Tempur-Pedic (TPX) was very straightforward. In brief, I believed that: (i) people would continue to purchase mattresses, premium mattresses in particular, (ii) TPX would retain its premium brand and pricing power while tweaking its business model to respond to increased competition, and (iii) the company would continue to grow its sales and earnings over the long-term along with the growth in the premium segment. A longer version of my investment thesis on TPX is available from a recent BNN appearance (BNN video: http://bit.ly/PMvUe1).

Source: S&P CapitalIQ.

Since the date of purchase, TPX's stock price action was as follows:

The stock generally increased in price since purchase until it peaked at about $35 in mid-September and then made a sharp reversal until an acquisition was announced on Sept. 27. So what happened to the company and/or the industry during this period to justify the price action? Was the stock worth $22 or $35? The reality is that there was no material announcement that would justify the market valuing the business as much as 60% higher over that short period of time. The S&P500 was up about 11% during that time, so that only explains a small portion of the major move. The reality is that Mr. Market started to view the business more favourably and the stock as underpriced.

In my mind, the critical question that an investor must always ask is: "what is the stock worth"? If my investment thesis was correct, I believed the stock to be worth well in excess of $40. If TPX delivered the results that I expected going forward, in the long-run I trusted that Mr. Market would value the stock accordingly. By buying at less than half of what I believed it to be worth, I de-risked the purchase for my clients. Modern portfolio theory suggests that TPX is a very risky stock given that the volatility of its stock price relative to the market (Beta of 2.0) is quite high. Without putting too fine a point on it, this measure of risk is idiotic. The risk of owning a stock isn't its price volatility, it is the price that you pay relative to its intrinsic value. An intrinsic value is difficult to calculate with pinpoint accuracy, so it is important to buy cheap enough that you leave yourself plenty of cushion or *margin of safety*.

Whenever a stock that I own makes a large move (in either direction) without any noticeable change in the underlying business or its industry it usually elicits a strong involuntary emotional reaction. I can't control it - it's simply part of the human condition. My response is to try and picture the imaginary Mr. Market as one of Peter Sellers' zany characters. Should I be asking Inspector Clouseau or Hrundi Bakshi for investment advice? Of course not! This little mental trick may seem silly to you. But it is my own way of internalizing Benjamin Graham's Mr. Market allegory and a golden rule of investing: You can't value a stock by just looking at the movement in its share price.

Yes portfolio managers can be a little eccentric. But it is mental tricks like this that keep me from making rash judgments and giving in to my fight or flight responses when markets move sharply. The most important thing about investing is temperament, not intelligence.

After peaking at $35 in mid-September, TPX's share price retreated rather aggressively. Again there didn't appear to be any rationale for the change in sentiment. However, this time I suspect that there was something behind the move. On September 27, TPX announced a $1.3 billion acquisition of Sealy (NYSE:ZZ). Mr. Market was quite excited by the deal and TPX's stock was up 14.4% on the day. I didn't like the transaction and sold our entire position at $30.52. I will take our 39% three-month return and find somewhere else to deploy the capital. For those that are inclined, I published a more detailed article on the reasons that I disliked the transaction on *Seeking Alpha* which can be found here: http://ow.ly/e4lsv.

"Basically, price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal."

Benjamin Graham
The Intelligent Investor

"Success in investing doesn't correlate with I.Q. once you're above the level of 125. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing"

Warren Buffett,
Berkshire Hathaway

Facebook Fail

Andrew Ross Sorkin wrote an interesting article in the *New York Times* on subject of the Facebook IPO "debacle" and came to the conclusion that it was the company's CFO – David Ebersman – who was to blame. It didn't take long for the online comments to pile up with opinions all over the map. Having participated in many IPOs as an investment banker and in my former life as a securities lawyer, several people have asked me for my views on the matter. No surprise, I have strong opinions on the topic.

"If you want to find the true culprit behind the Facebook IPO 'debacle', take a look in the mirror."

GreensKeeper

The reality of the Facebook IPO is that this was a bubble in search of a sharp object. Facebook may be an amazing social utility but it is too early to tell if it will evolve into a cash generating machine like Google. Facebook is approaching 1 billion users, a truly astonishing feat. However, its business model is still evolving as the company struggles to find ways to monetize this traffic.

So how do you value a business like Facebook? I would argue that it can't be done. In my opinion, you cannot predict with any degree of certainty how much money the company will make in the coming years or whether or not they will be displaced by a newer technology. In other words, prudent investors should stay away. Unfortunately this approach isn't as exciting as jumping on board of a stock that seems to go higher and higher every time that it is traded in the private market prior to the IPO. In my mind, looking around at the major parties involved, there was plenty of blame to go around.

The Company: Mark Zuckerberg is probably a genius and has created something that has changed the world and will probably continue to do so. I applaud his vision. However, he is young and inexperienced when it comes to the financial markets. Everyone has a blind spot and it is important to surround yourself with people you trust and respect that can make up for your shortcomings. If the goal of the Facebook IPO was to sell as little stock as possible for the maximum valuation achievable, then the Facebook IPO was a huge success for the company. But I don't believe that was the goal. Mr. Zuckerberg is a billionaire many times over and his other actions don't lead me to believe that he had any intention of overpricing the IPO. He was just out of his league. The entire executive team (including the CFO) would have been involved in the final pricing decision and the board would have been involved at one stage as well. They all had their opportunity to take a more cautious approach by pricing less aggressively, accepting a little more dilution and leaving more on the table for new investors. In my view, that is the primary mistake that the company made. The IPO "debacle" has been an unnecessary distraction to the company, its employees and their morale. People that congratulate the company for getting the best price possible fail to recognize that the IPO created lasting damage to the company's reputation and their momentum.

"We have met the enemy and he is us."

Pogo

The Underwriters: In an IPO, the key role of the underwriters, and the lead bookrunner (Morgan Stanley) in particular, is to assess demand and recommend an initial pricing range and a final IPO price and size. They do this based on the valuations of other similar companies that are publicly traded and indications received during the IPO roadshow. The underwriters are often faced with conflicting demands – sellers that want the highest possible price and buyers that want to buy cheap. A large "pop" in the stock means that the issue was priced too low. If the stock trades down, it was priced too dear. The right balance is to have the stock trade up slightly to balance these competing interests. When in doubt, my instinct was always to err on the side of leaving more upside for new investors. To be fair, I wasn't in the room and don't know the discussions that took place. Nevertheless, the fact remains that the demand that was perceived to be there dried up very quickly. The Nasdaq's technology snafu didn't help matters. However, Morgan Stanley could have recommended pricing lower and sizing less aggressively. Recall that the IPO pricing range and size of the offering were both increased shortly prior to the launch. The reality is that they misread the market.

"If making money right away is important to you, please take your money out."

Seth Klarman
Baupost Group

Value Fund Former and Current Holdings

AÉROPOSTALE
BERKSHIRE HATHAWAY
Cash (US$)
Cash (CAD$)
CISCO
GMP Capital Inc.
HOME CAPITAL GROUP INC.
JOYGLOBAL
Microsoft
SANOFI
TEMPUR-PEDIC
WELLS FARGO

The Investors: You may not be surprised to learn that this is where I believe most of the blame ultimately rests. At the end of the day, people were lining up to buy Facebook's stock at any price. Most buyers were likely looking for a quick flip and panicked when that didn't happen. There were even certain so-called "value" funds that bought stock in the IPO. If I ever buy a stock for the Value Fund at a valuation of 100x trailing earnings (65x forward earnings), feel free to physically knock some sense back into me. As a joke I told one of my investors (with a straight face no less) that we had bought into the Facebook IPO. His astonished reaction was priceless but he quickly figured out that I was joking. Priceless.

Valuation Matters

Markets will forever continue to oscillate between the extremes of panic and greed. The common thread is that at both extremes, most people ignore valuations to their peril and become transfixed with stock price movements. It has happened for centuries and will continue to as it is simply in our nature.(1)

I would encourage you to honestly ask yourself the following question (be honest):

> *How many times have I invested in a company after only looking at its stock chart or reading a news article without ever looking at the company's financial statements?*

Whenever you find yourself doing this, try and imagine that you are taking investment advice from Inspector Clouseau or Hrundi Bakshi. Remind yourself that he is a temperamental imbecile. Take advantage of his temporary bouts of stupidity. If, on the other hand, you can't avoid internalizing the "wisdom" that his stock quotations are imparting on you, just accept the fact that you are speculating, not investing.

My goal in building the Value Fund's portfolio (My Painting – Scorecard #1) is to assemble 15-18 stocks in exceptional businesses that I understand and at prices that I feel are very attractive. The valuation requirement means that they are often unloved by the market at present for varying reasons. On occasion things work quickly like they did in the case of Tempur-Pedic. More often, the market takes longer to agree with my view of the stocks that I have selected.

It is important that you understand my investment philosophy as I want to attract the right kind of investors to the Value Fund. My value investing philosophy and methodology will inevitably lead to some volatility in our monthly performance. My own focus is to measure the Value Fund's returns over years, through both good and bad markets. If my grasp of the facts and my reasoning are right, I am confident that we will have protected our downside and be rewarded handsomely over the long-run.

Michael McCloskey
Founder & President

(1) For an excellent book on the history of stock bubbles and human folly throughout the ages, I recommend *Extraordinary Popular Delusions and the Madness of Crowds* by Charles Mackay, first published in 1841.

GreensKeeper ASSET MANAGEMENT
a division of LIGHTWATER PARTNERS LTD

The Scorecard
Issue #6 – January 2013

Apples and Oranges

The Value Fund was up 7.7% in 2012 after all fees and expenses. Our biggest winners for the year were Tempur-Pedic (+38.8%), Sanofi (+29.7%) and Home Capital (+23%). Our only losing positions were GMP Capital (-17.4%) and one small position that I recently initiated but prefer not to discuss at the moment as I am still accumulating shares. So how did the Value Fund stack up against the major indices?

	30-Dec-11	31-Dec-12	Change
S&P 500 Total Return Index ($CAD)	2,195.64	2,491.67	13.5%
DJIA Total Return Index ($CAD)	23,052.21	24,987.40	8.4%
GreensKeeper Class A	$9.9433	$10.7047	7.7%
S&P/TSX Total Return Index	33,302.95	35,696.72	7.2%

	30-Dec-11	31-Dec-12	Change
S&P 500 Price Return Index ($CAD)	1,278.98	1,418.92	10.9%
GreensKeeper Class A	$9.9433	$10.7047	7.7%
DJIA Price Return Index ($CAD)	12,425.26	13,037.31	4.9%
S&P/TSX Price Return Index	11,955.10	12,433.53	4.0%

I want you to compare the two performance tables above. Did you catch the sleight of hand in the table on the right? Some mutual funds compare their results against benchmarks based on *price* return indices instead of *total* return indices. What's the difference? Price return indices only track the capital appreciation of a portfolio but ignore income generated by the assets such as dividends and interest. Total return indices, on the other hand, include this income in the return calculation. Our portfolio, like most equity portfolios, earns interest and/or dividends on many of its holdings. While using the price return benchmarks may be tempting to some (it makes a mutual fund's relative performance look better), I believe that by doing so, an equity manager is making a misleading comparison. I don't ever intend to join that club. Aim high and let the chips fall where they may is more my style. The proper benchmarks for the Value Fund are the total return indices reproduced in the first table above left.

> *"Well, some of our success we predicted and some of it was fortuitous. Like most human beings, we took a bow."*
>
> **Charlie Munger**
> **Vice Chairman**
> **Berkshire Hathaway**

Observant readers will have also noticed that all returns are reported in Canadian dollars. Over 60% of the Value Fund's current holdings are U.S. dollar denominated assets. That percentage will likely increase over time as most of the world's great companies are publicly listed in the U.S. When we calculate the gain or loss on any position, we measure it in Canadian dollars. Accordingly the U.S. indices should be reported in Canadian dollars as well. The Canadian dollar appreciated by 2.2% in 2012 against the greenback which had the effect of reducing the reported returns on our U.S. assets.

One last point about benchmarks is worth thinking about as you open your year-end mutual fund statements that arrive in the mail. The Value Fund, like any mutual fund, is at a disadvantage when it comes to total return benchmarks. The reason is that mutual funds incur operating fees (legal, accounting, trading commissions), foreign dividend withholding taxes and management fees, all of which reduce stated returns. That said, if a fund manager cannot beat the indices, after all fees and expenses, *over the long run*, they are not earning their keep. You always have the option of purchasing a low-cost exchange-traded fund (ETF) that will only slightly reduce the returns on the total return indices.

The Value Fund's performance in 2012 fell a little short primarily due to carrying a large average cash position during the year. The stocks that we owned performed well (better than well, actually) but I didn't hold enough of them. My conservatism cost us some performance during 2012. However, I prefer waiting for severely mispriced situations that let me sleep at night knowing that with the stocks that we own, the odds are strongly in our favour. The portfolio's cash position is now at an all-time low and I expect the Value Fund to be fully invested very shortly.

Lifelong Learning

One of the things that I love best about my job is that I get to read and think all day long. I will never get tired of learning. Investors typically get better with age as experience and knowledge are both cumulative. The daily journey is a joy and full of surprises.

At the time that I was starting GreensKeeper, I came across an advertisement in the newspaper for a liquidation auction of high-end office furniture. A major Bay Street law firm was changing buildings and decided to upgrade to the latest and greatest. I invested $5 for a copy of the auction catalogue and wandered over to the TD Bank Tower during the inspection period to have a look for myself. There were some fantastic solid mahogany office suites on offer. Not having secured GreensKeeper's office space yet, I figured I could store the furniture for a few months until I signed a lease.

On auction day I registered along with about 70 other people, many of whom were clearly professional buyers who purchase office furniture to resell. Once the bidding started I sat back and watched things unfold in order to get my bearings. The first few hundred lots were well bid and I quickly caught the hang of things and turned my attention to some reading material I had brought with me (unlike my Amex card, I don't leave home without it).

A few hours later something caught my attention and I looked up. It was the sound of silence. 'Crickets' as they say. I checked the lot number against my handwritten notes and sure enough it was one of the mahogany desks that I had inspected earlier and in excellent condition. There were probably 15 identical desks on sale that day and many of the earlier ones had gone for $600 (they retail new for about $2,600).

The auctioneer asked again if there were any bids. Silence. Just before he moved on to the next lot I put up my bid number and said '$25'. Sold! I probably could have paid less but would have been embarrassed to offer anything less. I took the desk home and stored it until I secured my office space. Wouldn't you know it, my office came fully furnished with a desk even better than the one that I purchased. Not needing two desks, I put the one I had purchased at the auction up for sale on a free online auction site. Within a few weeks I had someone interested in buying it. The buyer showed up, inspected it and didn't even negotiate my $1,100 asking price. He knew that he was getting a good deal and more than happy to pay it.

"It takes character to sit there with all that cash and do nothing. I didn't get to where I am by going after mediocre opportunities."

Charlie Munger

The hardest part about value investing is having the discipline to be extremely patient. Attractive opportunities to buy shares of excellent companies on the cheap don't come along very often. Market panics are a good source but far too infrequent. More often they come in the form of companies that are encountering a temporary problem and the market overreacts. A few stocks that I purchased for the Value Fund in 2012 were examples of this. For instance, below is the one-year stock chart for Western Union:

The use of leverage is another form of impatience. I'm not referring to a company's use of a modest amount as part of an appropriate capital structure. Nor am I referring to minimal use of leverage in an equity portfolio (although my bias is to avoid it altogether). What I am referring to is the use of significant leverage in order to attempt to enhance returns. Leverage amplifies gains but also does so with losses. And they are often called at the most inopportune time.

In both my legal and investment banking careers I have witnessed situations where people that I knew have had brokers sell their margined stock holdings due to margin calls. The consequences are severe as margin loans force a sale at the worst time to sell - when stocks are plunging. Mortgage debt is another example. Used prudently, it allows the immediate use of an asset at a reasonable cost. Too much of it provides an even larger house but at the risk of losing it altogether if something goes wrong. I have always preferred something more modest knowing that I wouldn't be out on the street when life threw me a curveball.

"Learn from the mistakes of others. You can't live long enough to make them all yourself."

Former First Lady
Eleanor Roosevelt

We all make mistakes. I do and can guarantee that I will continue to. However, time has taught me that I prefer to follow the advice of Eleanor Roosevelt and learn from mistakes the easy way - by studying the mistakes of others and avoiding the painful first-hand experience.

Patience has always guided me in the investing world. Avoiding the use of leverage and waiting for obvious stock opportunities are both dependent on maintaining the discipline of being extremely patient. It is difficult as I am driven and extremely competitive. Fortunately my fear of loss has always been stronger than my desire to compound invested capital quickly. Mathematics taught me that the magic of compounding works the same way in reverse as it does when stocks are rising. I prefer to wait for favourable situations and to avoid giving up any meaningful ground. I am fortunate in that my conservatism comes naturally. It is just how I am and have always been – in other words it is simply my temperament. That said, I have never had a problem buying a stock when it is universally hated provided that I view it to be materially mispriced and misunderstood.

My conservatism may cost the portfolio a few percentage points of performance from time-to-time, however I am convinced that it is the long-term path to success. I am currently GreensKeeper's biggest client (although I would be pleased to be displaced by any whales that you would be kind enough to send my way). Given that my investment dollars are right beside my clients (as they should be), you should know that I manage the portfolio no differently than I would were it mine alone.

Moats

A good friend of mine read my recent *Globe and Mail* article on owner earnings (**link**) but it left him with a unanswered question. Over the holidays he asked me what I meant when I referred to a company's 'moat'. He is a very well educated, intelligent and successful businessman so his question led me to a realization. Namely, investing terminology that I use daily and often take for granted may not be clear to those that don't manage investments for a living.

An "economic moat" is a *sustainable* competitive advantage that is possessed by certain very special companies. The term was coined by Warren Buffett in his 2007 Annual Letter to Berkshire Hathaway's shareholders. One of the Oracle of Omaha's many gifts is his ability to explain complicated concepts in a simple manner using metaphors that tend to stick in the mind:

"In business, I look for economic castles protected by unbreachable 'moats'."

Warren Buffett

" A truly great business must have an enduring 'moat' that protects excellent returns on invested capital. The dynamics of capitalism guarantee that competitors will repeatedly assault any business 'castle' that is earning high returns. … Our criterion of 'enduring' causes us to rule out companies in industries prone to rapid and continuous change. Though capitalism's 'creative destruction' is highly beneficial for society, it precludes investment certainty. A moat that must be continuously rebuilt will eventually be no moat at all."

Warren Buffett

Moats come in several forms and Morningstar has done a good job of categorizing them in an easily understood format. A few specific examples that I came up with should help you to understand them better:

Types of Moats	Examples
Intangible Assets *(Patents, Brands, Licenses)*	AstraZeneca, Coke, Home Capital
Switching Costs	Joy Global, Microsoft
Network Effects	American Express, Google
Scale / Cost Advantages	GEICO, Exxon, Western Union

On occasion you will discover a great business that possesses several of these economic moats (e.g. Coke – strong brand, trade secrets, economies of scale). When multiple moats are combined, the company that possess them can often keep its competitors at bay and maintain its abnormally high profits for many, many years.

Why do moats matter and why does Buffett focus so much time and effort trying to identify and understand them? The answer is: the *w i d e r* a company's economic moat, the more confident you can be about its future financial results. And when you can predict a business' future with reasonable certainty, you can value it. Knowing what a business is worth allows you to purchase its shares when the stock market does not recognize what you do.

GreensKeeper Annual Meeting – March 23, 2013

My goal in building the Value Fund's portfolio (My Painting – Scorecard #1: **link**) is to assemble 15-18 stocks in exceptional businesses that I understand and at prices that are very attractive. I am nearly finished the first draft of 'my painting' and should be fully invested in Q1 2013. My painting is unfinished and always will be as I constantly strive to make it better.

A list of selected current and former holdings of the Value Fund can be found in the margin at left. A few stocks that we currently hold are omitted as I am still building a position in them.

On completion of the annual audit of the Value Fund by KPMG, GreensKeeper clients will receive an Annual Report that will contain a more detailed discussion of the portfolio and the first full year of operations for the Value Fund. I also plan to host an Annual Meeting on Saturday, March 23 (invitation to follow) where I will make a very brief presentation and provide attendees with the opportunity to ask any and all questions about the Value Fund or investing in general. If you know of any friends that are growing tired of their current investment returns and interested in learning more about GreensKeeper and value investing, please bring them along.

If you have any questions or would just like to chat, I would be pleased to hear from you at any time.

Michael McCloskey
Founder & President

Value Fund
Selected Former and Current Holdings

Aeropostale (NYSE:ARO)

AstraZenica PLC (NYSE:AZN)

Berkshire Hathaway (NYSE:BRK.A)

Cash (US$ and CAD$)

Cisco Systems (Nasdaq: CSCO)

GMP Capital Inc. (TSX:GMP)

Home Capital Group Inc. (TSX:HCG)

Joy Global, Inc. (NYSE:JOY)

Microsoft Corporation (Nasdaq:MSFT)

Sanofi S.A. (NYSE:SNY)

Tempur-Pedic (NYSE:TPX)

Wells Fargo & Company (NYSE:WFC)

The Western Union Company (NYSE:WU)

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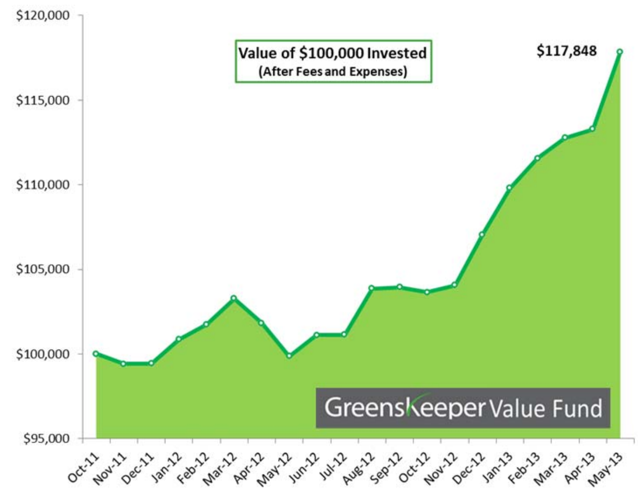
" Charlie and I always knew that we would become incredibly wealthy. We were not in a hurry… If you're even a slightly above-average investor who spends less than they earn, over a lifetime you cannot help but get rich if you are patient."

Warren Buffett
Chairman
Berkshire Hathaway

Anchors Aweigh

The Value Fund is up 10.1% so far in 2013 and 18.0% over the past 12 months (both figures are after all fees and expenses). Our results have been held back somewhat by our sizable cash position which has been an anchor in this ever-upward market. Fortunately, our cash has now been almost entirely deployed and the portfolio is likely to remain fully-invested going forward.



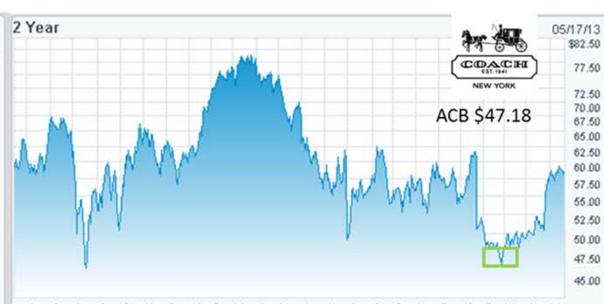
2013	YTD	1-Year
Value Fund	**10.1%**	**18.0%**
S&P/TSX Total Return Index	3.0%	13.3%
S&P 500 Total Return Index ($CAD)	19.9%	27.2%

Statistical Analysis

	Value Fund	S&P/TSX	S&P500 (CAD$)
Standard Deviation [1]	5.20%	8.29%	7.44%
Total Positive Months	15	11	14
Total Down Months	4	8	5
Median Market Capitalization	$34.7 Billion		
2012 Annual Turnover Rate	18.6%		

[1] Annualized and based on monthly returns since inception on November 1, 2011.
[2] All figures as at May 31, 2013.

Building the initial portfolio in a prudent and disciplined manner has taken some time. Longer than initially expected to be frank. However, preservation of capital is one of our key tenets of investing at GreensKeeper. Whereas many investors start with the upside when focusing on investment opportunities, we start by focusing on the risks involved. We would rather wait for very attractive opportunities to invest in great companies at attractive entry-points rather than settling for mediocrity. And great companies rarely stumble badly so we wait patiently for opportunities to present themselves. Our purchases of shares in Western Union (NYSE:WU) and Coach, Inc. (NYSE:COH) are perfect examples:



Our preservation of capital mentality may cause us to miss out on some of the upside in the short-term, especially in bull markets like the present, but long-term our capital should be safe and continue to grow.

GreensKeeper Inaugural Annual Meeting – May 28, 2013

GreensKeeper hosted its first-ever annual meeting several weeks ago and we had an excellent turnout. After a brief presentation on Value Investing and the Value Fund we opened up the floor to some Q&A. The quality of the questions coming from the audience was first-rate.

One of our goals at GreensKeeper is to pass along the value investing principles that we were taught by our investing heroes (Graham, Fisher, Buffett and Munger). It seems that our clients are returning the favour by

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asking tough questions that keep us on our toes. Hopefully we held our own and we are already looking forward to next year's annual gathering.

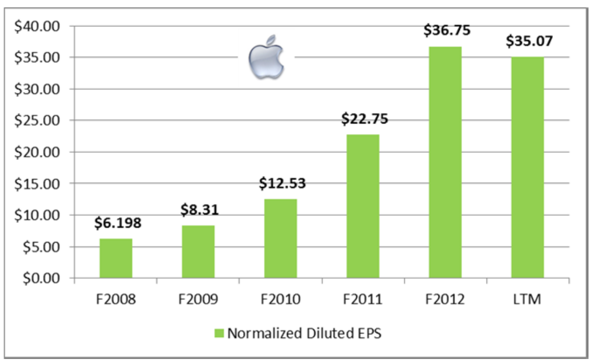
Apple, Inc. (Nasdaq: AAPL) – In the "Too Hard" Pile

As a consumer I love Apple, Inc. What's not to like? They make fantastic products that are user-friendly and often leading-edge. At first glance the stock also appears attractive. The company has pricing power, market-leading margins, a cult-like legion of customers and a fortress-like balance sheet with $145 billion of cash and equivalents. And the shares appear cheap – trading at less than 12x earnings. A value-investor's dream, correct? Perhaps not.

"The best way to predict the future is to invent it.."

Walter Isaacson,
Steve Jobs

We decided to pass on Apple for a very simple reason – our inability to predict what the company will look like in the coming years. Rapidly changing technology is fantastic for consumers but not so much for investors. Change is the enemy of business.



In fiscal 2012 Apple's flagship product – the iPhone – accounted for more than 60% of Apple's operating profit. My personal favourite – the iPad - represented another 10%-15% of Apple's operating profit for the year. In other words, three quarters of Apple's operating profit comes from two products. The iPhone did not exist seven years ago. The iPad only came into existence in 2010.

Apple's talented engineers and other employees notwithstanding, we believe that no one can tell what Apple will look like in five years. We know that we can not. Will competition cause fat profit margins to erode or lead to a loss of market share? Will the company go back to earning $6.20 per share as it did only five years ago or will earnings continue to grow from here? We simply don't know with any degree of conviction. The industry simply changes too fast and in ways that we find impossible to predict. As a result, we can't properly value the stock. In investing, there is no shame in saying that you don't know and moving on. However, failing to recognize your limitations is likely to bring future pain.

"We're gambling on our vision, and we would rather do that than make 'me too' products."

Steve Jobs

Some would argue that Apple's walled garden or "ecosystem" will keep the company's customers tied to its products and coming back for more. We believe that in time the quality of Apple's "moat" will reveal itself to be less secure than those who own the stock are assuming. A hot new smartphone (e.g. the Samsung Galaxy S4) may be all that it takes to lure away customers or at least put downward pressure on margins. Or maybe a competitor will invent a product that we haven't even dreamed of yet.

Perhaps we are being too harsh on Apple's future prospects and we acknowledge that the company may continue to be the market-leader in premium smartphones, tablets and whatever comes next. Or Apple's next products could be failures like the Apple Pippin and Newton. In either case, without a high degree of conviction about how things will evolve from here we choose to invest our money elsewhere. In a universe of investment opportunities there is no need to come to a definitive conclusion on the future direction of every stock. We simply choose to look for and invest in opportunities that are easier to predict.

Where To From Here?

Many (most?) investors are fascinated by the daily fluctuations of the stock market. CNBC, BNN and other business news programs fill countless hours of their programming days featuring "experts" that try and give meaning to recent market moves and predict the way forward. Investors are thus conditioned to search for meaning in Mr. Market's every twitch. It is a Pavlovian-like process.

As a result, it shouldn't surprise you to learn that we are asked countless times about our thoughts on the future direction of the markets and the basis for that opinion. What may surprise you is our answer. Judging from the long silence and puzzled look that usually follows our standard response it seems that it surprises others as well.

In the short-term (a day, a week, a month or even a few years) we believe that *the direction of the stock market is totally unpredictable*. In other words, it can not be predicted consistently by anyone. Accordingly, we don't spend *any* time trying to figure it out. It is simply a waste of time to try.

However, over the long-term the stock market is upward trending. Inflation alone will increase the level of the S&P500 Index over time as it is stated in nominal (as opposed to real) dollars. In addition, companies generally pay out annual dividends that are less than they make in annual profits. The retained earnings that they reinvest in their business generally result in higher future earnings.

Instead of trying to predict the future direction of the stock market, at GreensKeeper we spend our time studying individual companies that are unloved (and hence cheap). We try and determine if they are cheap for a valid reason, ever hopeful that on occasion we find a situation where the market has overreacted to a passing phenomenon. Provided that our work is first-rate, the company's business of high quality and its balance sheet in good shape, our results should be more than satisfactory in both up and down markets. In fact, many of the stocks that we own were purchased with plenty of bad news already priced in. Consequently, on a relative basis they should outperform more in down markets.

The more interesting question to ask us is whether we prefer bull vs. bear markets. Bull markets like the one we are currently experiencing make most investors feel good as their investment portfolio grows with each passing month. Unfortunately it also makes it increasingly difficult to find bargains.

At GreensKeeper we prefer sideways to down markets. The reason is quite simple. Bear markets and volatility create panic and the flight response that causes people to sell at exactly the wrong time (when stocks are cheap). Bear markets nurture *severe* stock mispricing. Provided that we are positioned to act (we are) and can do so with equanimity (we can), fear is our friend. That said, we are very comfortable operating in both bull and bear markets and are ready to exploit opportunities when they present themselves.

Michael McCloskey
Founder & President

"In reality, no one knows what the market will do; trying to predict it is a waste of time, and investing based upon that prediction is a speculative undertaking."

Seth Klarman
Margin of Safety

Value Fund
Selected Former and Current Holdings

Aeropostale
(NYSE:ARO)

AstraZeneca PLC
(NYSE:AZN)

Berkshire Hathaway
(NYSE:BRK.A,BRK.B)

Cisco Systems
(Nasdaq: CSCO)

Coach, Inc.
(NYSE:COH)

DirecTV, Inc.
(Nasdaq:DTV)

GMP Capital Inc.
(TSX:GMP)

Home Capital Group Inc.
(TSX:HCG)

Joy Global, Inc.
(NYSE:JOY)

Microsoft Corporation
(Nasdaq:MSFT)

National Oilwell Varco
(NYSE:NOV)

Sanofi S.A.
(NYSE:SNY)

Tempur-Pedic
(NYSE:TPX)

Wells Fargo & Company
(NYSE:WFC)

Western Union Company
(NYSE:WU)

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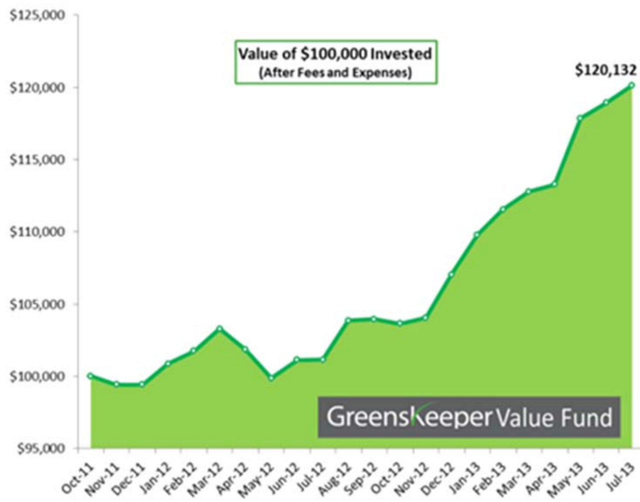
Unconventional Wisdom

The Value Fund is up 12.2% so far in 2013 and 18.8% over the past 12 months (both figures are after all fees and expenses). Since inception we have had 17 positive months and 4 down months. As reported in our last Scorecard, it took some time to deploy our cash holdings as attractive opportunities have a tendency of presenting themselves at their own pace. The continuing influx of new investors into the Value Fund makes this a constant challenge, but one that we welcome.

"When there's nothing particularly clever to do, the mistake lies in insisting on being clever."

Howard Marks
Oaktree Capital Management



2013	YTD	1-Year
Value Fund	12.2%	18.8%
S&P/TSX Total Return Index	2.3%	10.5%
S&P 500 Total Return Index ($CAD)	23.7%	28.4%

Statistical Analysis

	Value Fund	S&P/TSX	S&P500 (CAD$)
Standard Deviation [1]	4.93%	8.77%	7.20%
Total Positive Months	17	12	16
Total Down Months	4	9	5
Median Market Capitalization	$34.7 Billion		
2012 Annual Turnover Rate	18.6%		

(1) Annualized and based on monthly returns since inception (Nov. 1, 2011).
(2) All figures as at July 31, 2013.

Helen and Tom

A couple that I know recently approached me for a loan but their request was declined for reasons that will soon become clear. "Helen and Tom" are fantastic people. Kind, very charitable towards others and I enjoy their company. Unfortunately they have one negative quality. Helen and Tom consistently spend more than they earn, hence their request for a loan.

Now before you think that I am completely cold hearted, I did give them the opportunity to explain why they needed the money. There were lots of great things that they planned to do with it. Despite their bad habit of overspending, I was tempted to write a cheque and asked about their thoughts on repayment.

Helen and Tom were flexible on the repayment terms (I suspect that they would take what they could get). But their clear preference was for a longer term loan so that they didn't have a maturity date hanging over their heads. Ten years would be ideal but they would take five. That made me pause to say the least.

Believe it or not, I continued to hear them out because I have known the couple for a long time and know that their credit is good. They have fairly stable incomes and I was confident that they would pay me back. Even if that meant that they would likely have to borrow from others to do so.

When I asked them my final question about an appropriate interest rate their answer surprised me. They thought that "two or three percent a year" was sufficient. They knew that the risk of their defaulting on the loan was remote and they knew that I knew that too. Given the current level of inflation and the likelihood of higher inflation in the future, Helen and Tom were really asking me for a loan that wouldn't make me a reasonable return. In fact, in inflation-adjusted dollars I would probably be going backwards.

"Neither a borrower nor a lender be."

Polonius,
Hamlet, Act I, Scene III

Put yourself in my shoes and ask yourself if you would lend them the money on this basis. Take the charitable aspect of their request out of the equation and evaluate it on purely financial terms. Be honest about it. Would you lend them the money on these terms as a prudent financial investment? Like me, I suspect that your answer is "no".

Not to worry, Helen and Tom ended up finding someone else to lend them the money. In fact they found many millions lining up to do so. For my friends' real names aren't Helen and Tom. They are Canada, the United States, Germany and several other highly rated sovereign credits.

"Conventional wisdom is often, but not always, correct. Learn to think for yourself and when logic and reason lead you to a different conclusion, take advantage of it by reacting with equanimity."

The GreensKeeper

As this allegory demonstrates, lending your money to a credit-worthy borrower for a decade at two per cent or so makes little financial sense. Buyers of sovereigns pay a steep price for the owning these "risk free" assets at current prices.

Conventional wisdom holds that as we get older, we should blindly allocate a larger and larger percentage of our investment portfolio to bonds. One hundred minus your age invested in equities comes to mind. The problem with this rule of thumb is that it doesn't factor in the relative attractiveness of bonds to other investment alternatives at different points in time. Price always matters.

Safety doesn't come from an asset class. It comes from the price that you pay for an asset. An investment can be wise at one price and foolish at another.

Before allocating our investment dollars we always determine the relative attractiveness of the options available to us. There are plenty of choices: public equities, private businesses, real estate, commodities and cash equivalents. Based on current prices, we continue to favour equities for our own investment dollars.

Now, equities aren't for everyone. Some people can't stomach the inherent volatility that comes with the markets. Others have investment horizons that are too short. Investors should take the time to speak with their own financial planner about what makes sense for them.

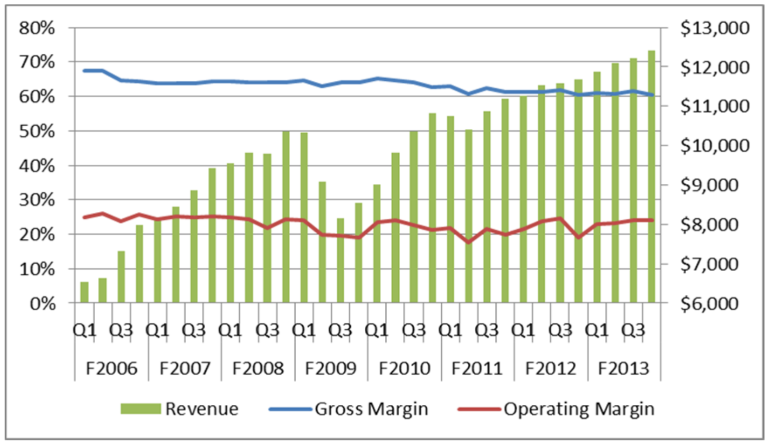
But for us, based on current prices, equities are the place to be. We will be investing our portfolio for many years to come and believe that the stock market will provide us with the best returns over the long term, despite the occasional bump in the road.

And if we can continue to find great companies to invest in at attractive prices, over time our results should not only provide us with a satisfactory result. They should turn out to be safer than investing in the broader market as well.

Cisco Systems, Inc. (Nasdaq:CSCO)

Cisco Systems is the world leader in the design, manufacture and sale of high-performance networking equipment for the Internet. Their products are ubiquitous and most often the industry standard. In an era of increasing usage of smartphones, tablets, and connected devices (the "Internet of Everything") data transfer and consumption should continue to increase exponentially. As a result, telecommunications companies, governments and other organizations will continue to require faster routers, switches, etc. to keep up with the onslaught. In other words, Cisco should benefit from a tailwind as demand for its products and services is set to continue for years to come.

Financially speaking, Cisco is an excellent business. High, stable gross and operating margins and the company generates a tremendous amount of free cash flow. Cisco has managed to maintain a dominant market share in its core routing and switching products (>50% of revenue). For example, their share of the switch market has exceeded 60% in each of the past five years. Cisco's market share in the telephone carrier router market is about 50%.



Cisco is simply dominant and brutal to compete against. These attributes should continue going forward as high switching costs, intellectual property and scale combine to provide Cisco with what we perceive to be a wide economic moat.

On August 14 after the market close, Cisco reported its fiscal Q4 results. Revenues for the fiscal year were up 5.5% from the prior year and Q4 non-GAAP EPS of $0.52 was slightly ahead of expectations. The stock dropped 8% the next day due to management's conservative short-term revenue guidance (growth of "only" 3%-5% for the next quarter). Our take of the market's reaction is that expectations for the stock were simply too high. Cisco's quarter is a great example of what value investing is all about. We thought that the quarter was decent and the guidance conservative, prudent and very short-term. In a slow-growth world, providing aggressive guidance for a large company like Cisco is unwise. It is always better to manage expectations and try to outperform. Accordingly, our investment thesis on Cisco remains intact.

"I would rather be certain of a good result than hopeful of a great one."

Warren Buffett
1996 Annual Report

Cisco currently has over $50.6 billion of cash and equivalents on its balance sheet (or $34 billion, net of debt). This represents $6.42 per share of net cash sitting idle on its balance sheet. Even if we assume that the offshore cash is repatriated and taxed, this still leaves $4.16 in net cash per share. GAAP earnings of $1.86 over the past year actually understate the company's earnings power and our calculation of *owner earnings* for the year was $2.06.(1) The current share price of $24.07 implies that the stock is trading at less than 10 times trailing *owner earnings* (net of cash) for a world-class but slow growing business.

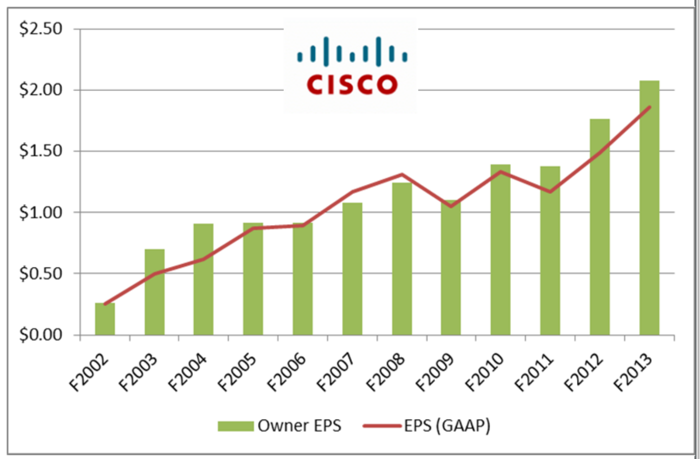
Most often, mispriced stocks are found in oddball corners of the market. However, when Mr. Market puts the best of breed on sale, all else being equal we would rather own quality. In rising markets everybody looks great but when the tide goes out, it is usually the strong that survive.

[1] *Owner Earnings are our preferred measure of a business' earnings power. A detailed description of the concept can be found in our Dec. 20, 2012 Globe & Mail article available by clicking* ***here****: "Add 'owner earnings' to your toolbox of financial metrics".*

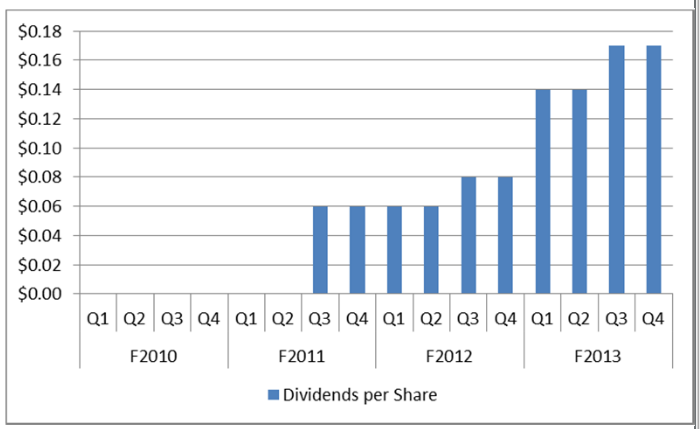
"Value stocks are about as exciting as watching grass grow. But have you noticed just how much your grass grows in a week?"

Christopher Browne
Tweedy, Browne & Co.

Cisco's management has historically been a poor capital allocator but this has started to change over the past few years. Share repurchases, the implementation of a dividend and steady dividend increases are all positive signs. Importantly, the company has publicly stated its commitment to returning at least 50% of annual free cash flow to shareholders.



The bears on Cisco cite the risks of increasing competition and technological changes such as Software Defined Networking (SDN) that are potential threats. Cisco spent $6 billion (12% of revenue) on R&D in its past fiscal year. This figure is larger than the *revenue* for some of the competitors that are described as potential threats.



We suspect that Cisco will stay on top of industry trends and continue to work with their customers to provide best in class networking solutions. When new technologies emerge and Cisco is late to the game, they will likely continue to make tuck-in acquisitions to maintain their industry leadership position. Even after returning $6 billion to shareholders, they still have almost $6 billion available to spend on acquisitions, if necessary.

Our take is that Mr. Market was eager to get euphoric on the back of Cisco's Q4 results. However, management's conservative (we would say prudent) guidance did not give him permission to do so. We still believe that the stock is worth at least $30.00 and are content to continue to hold it in the Value Fund. However, we are not adding to our position at the current price as we prefer a larger margin of safety (our adjusted cost base is $17.68).

Cisco may not be a "sexy" investment but it possesses the attributes that we look for at GreensKeeper (see the quote at left which was the inspiration for our company name). Cisco's balance sheet is rock solid and we know that our money is safe and should continue to grow at a satisfactory rate over time. If Cisco happens to deliver a blowout quarter along the way, Mr. Market may get another chance to get really excited about the stock as he happens to do from time to time. If and when that happens, we plan to take full advantage of it.

Michael McCloskey
Founder & President

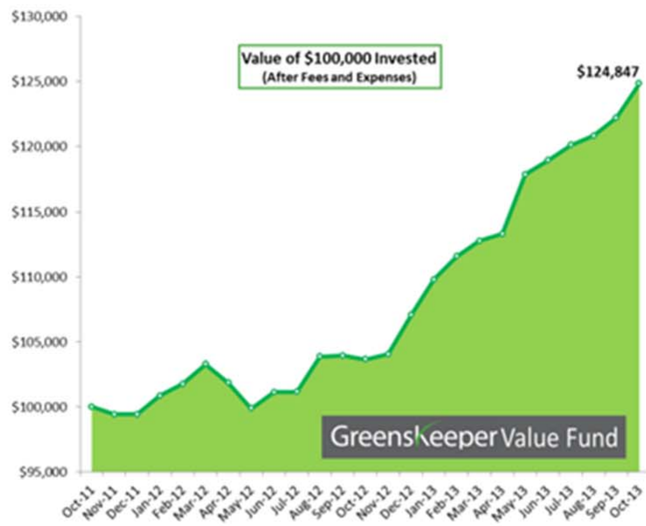
GreensKeeper ASSET MANAGEMENT
a division of LIGHTWATER PARTNERS LTD

The Scorecard

Issue #9 – November 2013

Taking Stock

As of October 31, the Value Fund was up 16.6% in 2013 and 20.5% over the past 12 months (both figures are after all fees and expenses). Since inception we have had 20 positive months and 4 down months. Given that GreensKeeper recently celebrated it second anniversary and with a new calendar year fast approaching, we thought that it was the perfect time to revisit a few of our portfolio holdings, discuss a stock that we recently sold and to take a look at current market valuations.



2013	YTD	1-Year
Value Fund	16.6%	20.5%
S&P/TSX Total Return Index	10.3%	11.0%
S&P 500 Total Return Index ($CAD)	31.3%	32.7%

Statistical Analysis

	Value Fund	S&P/TSX	S&P500 (CAD$)
Standard Deviation (1)	4.69%	8.78%	7.61%
Total Positive Months	20	15	18
Total Down Months	4	9	6
Median Market Capitalization	$33.6 Billion		
2012 Annual Turnover Rate	18.6%		

(1) Annualized and based on monthly returns since inception (Nov. 1, 2011).
(2) All figures as at October 31, 2013.

Home Capital Group (TSX:HCG)

We first wrote about Home Capital in the *Globe & Mail* on August 8, 2012 (link). Since then the company has done what it usually does – execute on its business plan and increase earnings per share at a steady pace. We estimate that the company will earn about $7.30 per share in 2013 and at least $8.30 in 2014. A favourable regulatory ruling last quarter will also provide a tailwind for years to come. Despite the company's consistent execution, its stock has been anything but consistent.

The pullback in Home Capital this past spring was largely the result of a speech given by Steve Eisman, a U.S. hedge fund manager, at the Ira Sohn investment conference in New York. Mr. Eisman recommended that investors short Home Capital's stock given his view that the Canadian real estate market is overvalued (we agree) and that Home Capital is a "sub-prime" lender. Here is what we wrote to our clients back in May:

> *"We continue to believe that Home Capital is misunderstood, particularly by our friends south of the border who recently lived through the U.S. subprime housing debacle. Home Capital is an excellent lender. They do not make "no doc" (undocumented income) or "NINJA" (no income, no job, no asset) loans and their average loan has about 30% homeowner's equity behind them…. At current prices the stock is trading at approximately 7.3x 2013 earnings. We used the pullback as an opportunity to add to our position and believe that in time the stock will trade at materially higher levels."*

Our patience has been rewarded as Mr. Market is now awarding the company a reasonable price to earnings multiple. We remain vigilant as the Canadian housing market is not cheap by any means and Home Capital's shift to its more profitable "traditional" loans has had the effect of increasing the company's exposure to a major housing correction. But with a short position in the stock last reported at around 12% of the company's float, a short squeeze is a real possibility.

"You're looking for a mispriced gamble. That's what investing is. And you have to know enough to know whether the gamble is mispriced. That's value investing."

Charlie Munger
Berkshire Hathaway

When asked what the stock market will do:

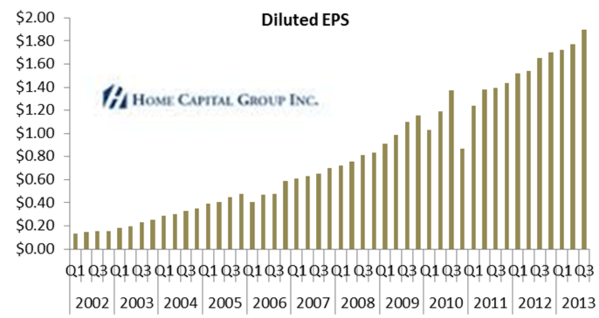
"It will fluctuate."

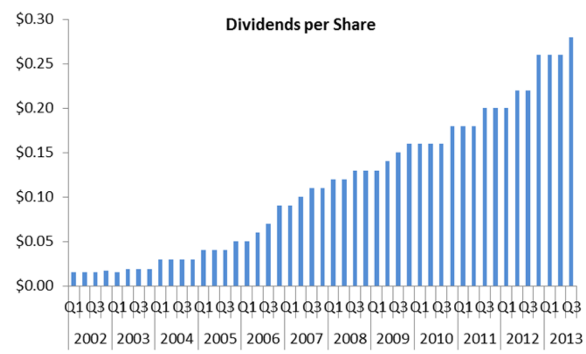
John Pierpont (J.P.) Morgan

With the stock currently trading at less than 10 times next year's earnings, and the shorts feeling some real pain, we are still comfortable owning the stock. Our cost base of $48.83 (+70%) and the company's habit of frequently increasing their dividend also makes the stock an easy one to hang on to.

Home Capital is a "compounder" and one worth holding on to for a long time absent more attractive places to put our capital or a change in our view of the company's business.

Our thanks go out to Home Capital's CEO - Gerry Soloway and President - Martin Reid for their exceptional execution and shareholder-friendly stewardship.





Western Union (NYSE:WU)

Western Union (NYSE:WU) reported decent Q3 results in late October but management's guidance was troubling and caused us to reassess our view of the company. Western Union is facing increasing compliance costs and is slowing its pace of share repurchases in order to preserve its investment-grade credit rating. We decided to sell our position after digesting this news. Western Union is a good company but not a long-term grower like Home Capital. With our purchase price of $12.54 we exited with a healthy profit (+28%). Our one regret was not selling before the quarter. Had we done so, our results would have been even better.

"Many of the important things about investing are counterintuitive. Low-quality assets can be safer than high-quality assets. Things get riskier as they become more highly respected (and thus appreciate)."

Howard Marks
Oaktree Capital Management

Our Dogs

The Value Fund's worst performing holding to date is … cash. That's right, cash. In this low interest rate environment it just sits there, growing nominally and begging us to deploy it. As new clients arrive at GreensKeeper, we seek to reinvest the additional cash but many of our holdings have become less attractive due to their price appreciation. As a result, our cash position steadily builds. In the midst of a rising bull market it has been painful to drag this anchor around. We continue to seek a better home for our cash but the reality remains that we are very picky. Our preservation of capital mindset means that we want to be very confident that the opportunities that we invest in are attractive. While this approach lets us (and hopefully our clients) sleep soundly at night, it has the unfortunate side effect of causing us to miss a few opportunities along the way. On several occasions since our launch we hesitated to purchase a stock, waiting for a more attractive entry point. Unfortunately our occasional hesitation has cost us some performance.

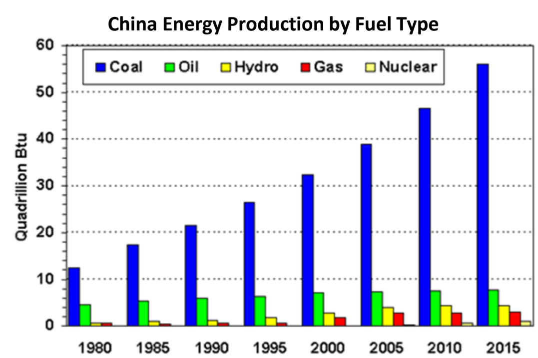
We can confidently make two promises to our clients. First, we will continue to make a few mistakes (hopefully they will mostly be errors of omission). Second, we will continue to learn from them. One of the great things about investing is the perpetual improvement that comes with age and incremental experience.

There are a few positives to carrying a cash position. First, holding some cash gives us optionality. In other words, when attractive opportunities present themselves, we can pounce. Second, the fact that cash has been our worst performer also means that every stock that we did purchase is up. Some (Home Capital and Western Union) more than others (Joy Global).

"One of the more painful lessons in investing is that the prudent investor (or 'value investor' if you prefer) almost invariably must forego plenty of fun at the top end of markets."

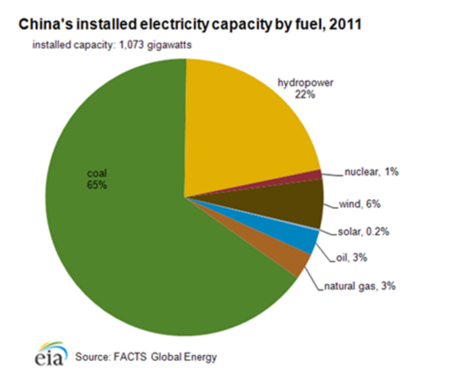
Jeremy Grantham
GMO Q3 2013 Letter

Joy Global (NYSE:JOY)



We first wrote about our investment in mining equipment maker Joy Global in October 2012 (link).[1] The company derives roughly two-thirds of its sales from coal-mining customers and the troubled state of the coal industry, particularly in the U.S., is weighing on the stock.

Coal is a dirty word these days and some wag even labeled it the "new tobacco". The Province of Ontario recently introduced a plan to ban all coal use in its power plants. Pictures of smog-shrouded Chinese cities are carried daily in the news. President Obama, through the Environmental Protection Agency, is curtailing the use of coal south of the border as well. These headwinds, along with slow economic growth across the globe have weighed on coal prices and, naturally, coal mining.



While we can debate the wisdom of North American energy policy, the reality is that we can afford to make decisions that favour the environment over the economy. Canada and the U.S. are wealthy nations. We can afford these trade-offs, even if certain policies may be ill-advised.

"Government is best when it gets out of the way of the marketplace by largely restricting its activities to limited regulation, national defense, protection of property rights and provision of public goods."

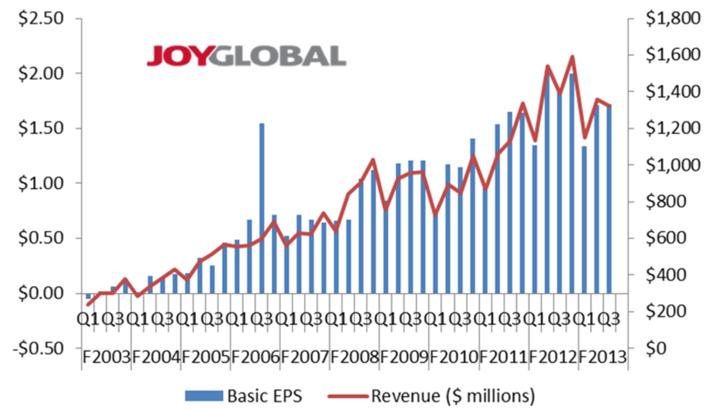
Jonathan R. Laing
Barron's

At GreensKeeper, we believe that emerging economies such as China will make different choices. And it is emerging economies that truly matter when it comes to coal. China alone consumes approximately 50% of the world's coal (it is four times the size of the US coal market). Coal is cheap, abundant and a reliable source of energy. It is used to generate 30% of the world's primary energy needs. As China's rise continues, its economy will require more and more energy to fuel its growth. India and other developing countries are no different. Like it or not, we believe that King Coal is here to stay.

[1] *"Mining equipment maker Joy Global could bring investors happiness." - Globe & Mail, October 15 , 2012.*

As one-half of a coal-mining equipment duopoly (with Caterpillar's Bucyrus division being the other half), Joy Global should continue to increase its earnings over the coming years, even if the road will not be a smooth one. And that, in a nutshell, is our investment thesis on Joy Global.

Our investment in Joy Global has been essentially flat (+4%) since we started purchasing the stock about a year ago. This is a disappointing result given the broader market's upward march over this period. Nevertheless, we remain long-term bullish on the name and are comfortable owning it in our portfolio.

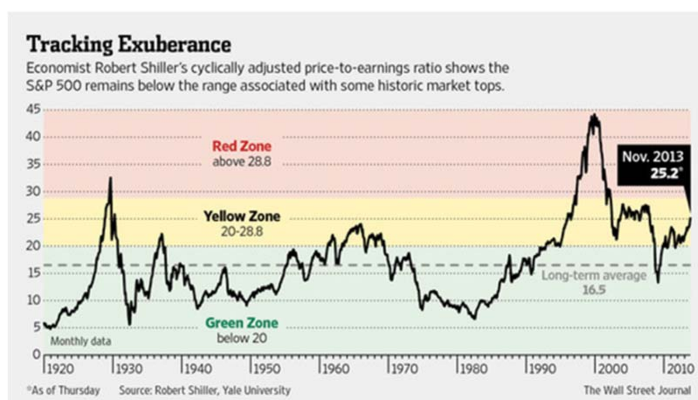


Minding Mr. Market

Long time readers already know that we don't try and time the market at GreensKeeper. We will deploy capital any time that an attractive opportunity presents itself, regardless of market conditions or the state of the economy.

However, we do follow macroeconomic trends and general market valuations to provide useful context when evaluating specific companies and industries. The pictures at right speak louder than words.

These stock barometers, technology IPO valuations and our current struggle to find attractive opportunities are all telling us the same thing. At present, it is probably better to be more fearful than greedy.



Michael McCloskey
Founder & President

"The market value of all publicly traded securities as a percentage of the country's business -- that is, as a percentage of GNP ... is probably the best single measure of where valuations stand at any given moment."

Warren Buffett
Fortune (2001)

GreensKeeper ASSET MANAGEMENT

The Scorecard

Issue #10 – September 2014

Steady Progress

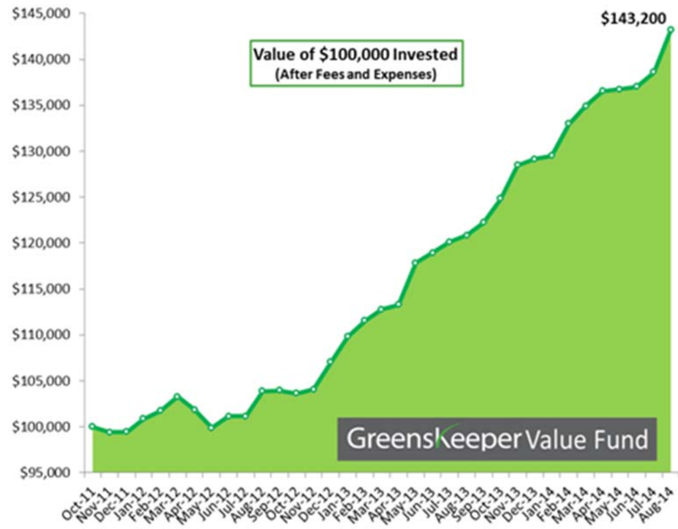
"Value investing is simple to understand but difficult to implement… The hard part is discipline, patience and judgement."

Seth Klarman
Baupost Group

As of August 31, 2014, the Value Fund is up +10.9% in 2014, 18.5% over the past 12 months and 43.2% since inception (all figures are after fees and expenses).

Since inception, we have managed to beat the S&P/TSX Index and have lagged the major US indices. Our preservation of capital mindset and a measured deployment of our initial cash position in a rising market held us back somewhat early on. However, we have since made steady progress. The investment game is a long one.

Long term we believe that we will continue to deliver attractive returns for our clients while thoughtfully managing risk and preserving capital.



Monthly Results [1]	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	-	-	-	-	-	-	-	-	-	-	-0.6%	0.0%	-0.6%
2012	1.4%	0.9%	1.5%	-1.4%	-1.9%	1.3%	0.0%	2.7%	0.1%	-0.3%	0.4%	2.9%	7.7%
2013	2.6%	1.6%	1.1%	0.5%	4.0%	0.9%	1.0%	0.6%	1.1%	2.2%	2.9%	0.5%	20.6%
2014	0.3%	2.7%	1.5%	1.2%	0.1%	0.2%	1.1%	3.3%					10.9%

Express Scripts Holding Company (Nasdaq:ESRX)

A fellow Globe & Mail columnist recently pointed out that many Canadian portfolios suffer from "home bias" (an overexposure to Canadian equities). We have a prescriptive solution.

Express Scripts Holding Company (Nasdaq:ESRX) is the largest pharmacy benefit management (PBM) company in North America. It serves thousands of clients including managed-care organizations, insurance carriers, employers, third-party administrators, public sector and union sponsored benefit plans.

The PBM industry is an obscure one and one that most people are unfamiliar with. PBM services include network pharmacy claims processing, home delivery services, benefit-design consultation, drug-utilization review, formulary management as well as medical and drug data analysis services.

Health care spending in North America continues to grow at rates well in excess of inflation and consume an ever larger share of GDP. Payers retain PBMs to help control their spending on prescription drugs. Improved patient outcomes through monitoring and error reduction are an added bonus.

"A great business at a fair price is superior to a fair business at a great price."

Charlie Munger
Berkshire Hathaway

Express Scripts uses its scale (the company processes 1.4 *billion* prescriptions a year) to negotiate favourable rates with pharmacies, pharmaceutical manufacturers, drug wholesalers and others in the drug supply chain. The company passes along most of the savings to its clients and keeps a sliver of profit from each script for itself (currently about US$5.50 per script). The size of that sliver keeps growing each year due to the operating leverage inherent in the business as the cost of processing an additional script for an existing customer is very low.

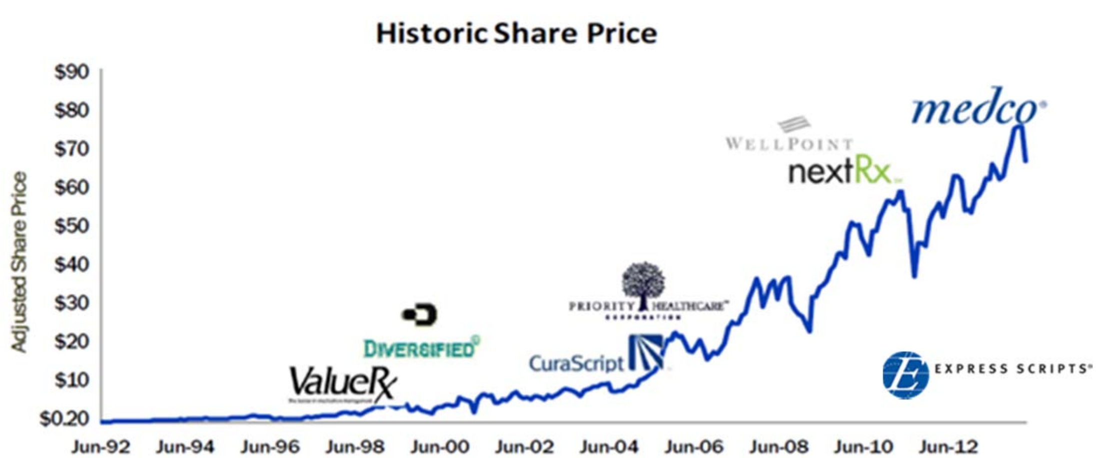
The long-term fundamentals of the PBM industry are attractive. An aging demographic provides a tailwind as drug usage will continue to climb thereby increasing the need to find ways to reduce healthcare costs. Annual drug price inflation also works in a PBM's favour.

Given the scale needed to succeed, over time the PBM industry has consolidated with a few dominant firms controlling most of the market. High customer switching costs and regulatory complexity also help these companies to continually widen their economic moats.

Express Scripts does have competitors - CVS Caremark (NYSE:CVS) and Catamaran Corp. (TSX:CCT) to name a few - and contracts are typically put out to bid at renewal. However, we suspect that the request for proposal process is largely used as a means of keeping the incumbent's pricing in check. PBMs are difficult to displace as evidenced by client retention rates that routinely exceed 95%.

Express Scripts cemented its leading position in the PBM industry with the US$29.1 billion acquisition of competitor Medco Health Solutions in 2012. However the acquisition came with a cost.

Integration efforts have taken time, distracted the company's employees and led to higher than normal customer turnover as client retention fell to 92%. This is now largely behind Express Scripts and the company's execution should improve going forward.



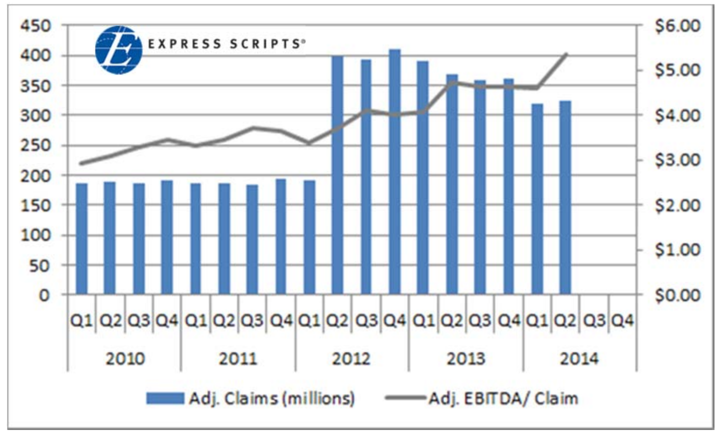
Acquisition accounting from the Medco and other transactions also gave rise to non-cash charges that reduce reported net income and understate the company's true earnings. We believe that the company's estimated free cash flow of over US$5.50 per share in 2014 is more representative of its true *owner earnings*.

Management's guidance to deliver 10%-20% annual earnings per share growth over the long-term appears reasonable to us given their historical track record.

"I will tell you the secret to getting rich on Wall Street. You try to be greedy when others are fearful. And you try to be fearful when others are greedy."

Warren Buffett
Berkshire Hathaway

At our recent purchase price of US$68.66 (less than 9 times pre-tax earnings) we viewed the stock as undervalued. Despite the stock's recent move higher (US$74.55), we still believe the stock is worth purchasing. Management seems to share our view as the company has repurchased over US$6.7 billion worth of stock over the past year and a half and reduced the outstanding share count by 9% all while maintaining the company's investment-grade rating.



Closer to home, we could have invested in Catamaran Corp. - a TSX-listed PBM. However, we prefer to invest based on the quality of the business and the attractiveness of the purchase price, not geography. When you can invest in the industry leader at a discount to both its competitors and the overall market, in our minds the preferred choice is clear: buy quality when it is on sale.

The geography of the company involved does matter but for a different reason than you may think. Our investment approach is to invest in great companies domiciled and operating primarily in shareholder-friendly jurisdictions. Canada, the United States and Western Europe all meet this test. We believe that supremacy of the rule of law combined with their global operations provides a lower risk method of gaining exposure to faster growing developing economies.

History Rhymes

Since our last newsletter the market has continued its upward climb making bargains even more difficult to find. However, we have managed to find a few quality names like Express Scripts that were selling at a discount.

"History doesn't repeat itself, but it does rhyme."

Samuel Langhorne Clemens
a.k.a. Mark Twain

IPOs of lesser quality continue to come to market, some at mind-boggling valuations. Debt covenants soften while overall leverage ratios creep higher. Historically this has not ended well.

In light of the market environment and the wise words (at top left) of someone that knows a thing or two about investment history, we will continue to own quality and remain patient for opportunities when they present themselves.

You should know that this view is not merely academic. I have over 70% of my immediate family's net worth invested alongside GreensKeeper's clients and I invest our clients capital as I do my own. Long-term, our capital preservation mindset should continue to serve us well.

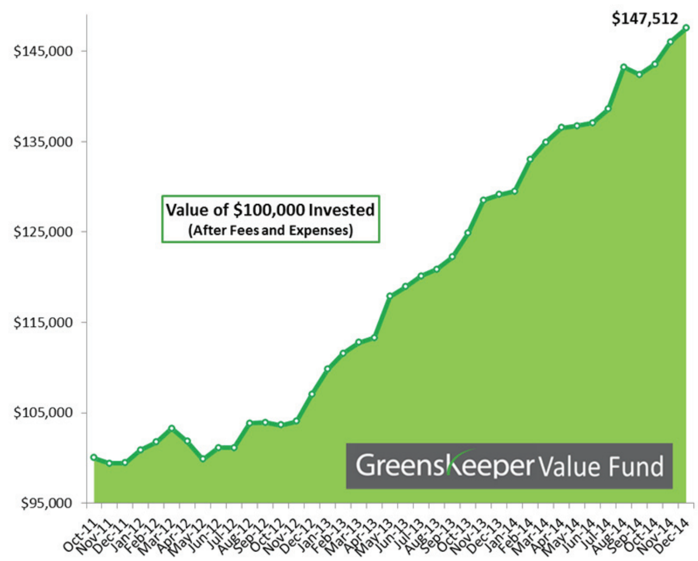
Michael McCloskey
Founder & President

Coattail Riding

The Value Fund was up +14.2% in 2014 (after all fees and expenses). Our steady progress continues through the application of our disciplined investment process.

Our 2014 portfolio turnover ratio of 10.1% was even lower than the 11.3% recorded in 2013. For those unfamiliar with the term, portfolio turnover is essentially the percentage of a fund's holdings that change during a year. For example, a 100% turnover ratio implies that a fund replaces all of its holdings in a given year.

According to Morningstar, the average mutual fund has an 89% annual turnover ratio. This implies that the average holding period for any given stock in an average fund is about 13 months.



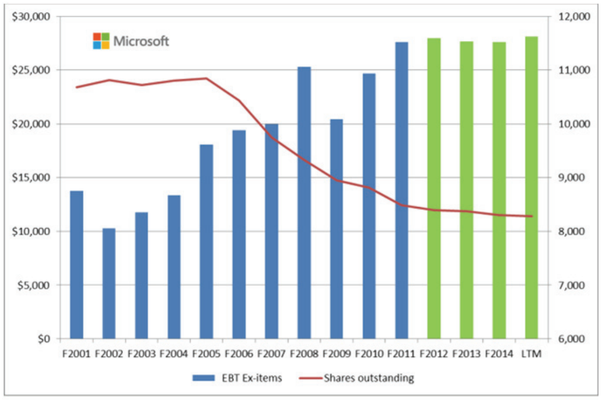
Monthly Results	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	-	-	-	-	-	-	-	-	-	-	-0.6%	0.0%	-0.6%
2012	1.4%	0.9%	1.5%	-1.4%	-1.9%	1.3%	0.0%	2.7%	0.1%	-0.3%	0.4%	2.9%	7.7%
2013	2.6%	1.6%	1.1%	0.5%	4.0%	0.9%	1.0%	0.6%	1.1%	2.2%	2.9%	0.5%	20.6%
2014	0.3%	2.7%	1.5%	1.2%	0.1%	0.2%	1.1%	3.3%	-0.6%	0.8%	1.7%	1.0%	14.2%

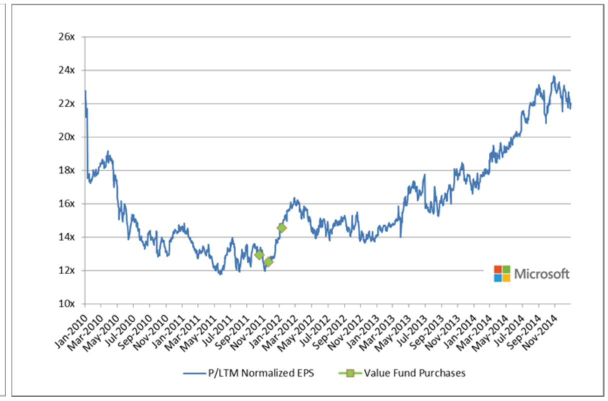
The implication of the Value Fund's significantly lower turnover rate is that we tend to hold stocks for long periods of time at GreensKeeper. An investment strategy with a high turnover incurs additional trading expenses and triggers taxable gains. As value investors, our preferred route to long-term profits is to wait patiently for very attractive investment opportunities. Once we find one, provided that the business' competitive advantage is durable and the company can continue to earn high returns on capital for years to come, the power of compounding makes a long holding period our friend.

Microsoft Corporation (NASDAQ:MSFT)

We last wrote about Microsoft in April 2012, shortly after having purchased it for the Value Fund. Here was what we wrote about our investment thesis at the time in Scorecard #3 **(link)**:

> *Microsoft has close to 80% gross margins and an unlevered return on equity in excess of 40%. The company is a cash flow machine – generating over $2 billion of free cash flow per month. We believe that Microsoft's dominant position in their key segments will continue for the foreseeable future. At our average cost of $26.58, we paid 9.7x trailing earnings (3% dividend yield) for one of the best software companies ever created. If we take into account the $45.5 billion in net cash that they had on their balance sheet at the time (we even applied a "repatriation tax" to the offshore component), the multiple was actually 8.2x.*





Fast forward to today. Microsoft's earnings have largely been stagnant but the company continues to repurchase its shares which increases per share earnings. More importantly, the multiple that the market is placing on the shares has expanded significantly. In other words, investors are more optimistic (or less pessimistic) about the company's future prospects.

We still own Microsoft although our enthusiasm for the stock is waning. Not because we believe the outlook for the company has worsened. Quite the contrary. Microsoft's new CEO Satya Nadella appears to be making headway on his plan to successfully bring Microsoft into the 21st century. And despite the company's increased capital expenditures in areas such as cloud computing, free cash flow has actually increased to $2.2 billion *a month*. The only thing that has changed, from our perspective, is the share price.

At $26.58 we were very excited to be purchasers of MSFT. But at $46.24 the stock doesn't get us excited anymore. Microsoft is currently trading at about 14x earnings once you factor in the $88.5 billion (yes you read that right) that they hold on their balance sheet. Adding in dividends received and some foreign exchange tailwinds and our total return has been about 110.6% (or 37.8% annualized) since our initial purchase. This is well in excess of market returns over that same period.

"Eppur si muove." (And yet it moves).

Galileo Galilei

Mathematician, Physicist and Philosopher

The efficient market hypothesis (EMH) posits that returns of this magnitude should not exist with a broadly held, large cap stock like Microsoft. To the EMH enthusiasts and university professors that are still teaching this junk, we would point them to the sage words (at left) uttered by Galileo 382 years ago during the Roman Inquisition.

You're Welcome Warren

In July 2014, we initiated a new position in pharmacy benefit manager Express Scripts (NYSE:ESRX). Since our purchase the stock has performed well and we are up about 31.6% in five months. The reason for writing about the stock again isn't to crow about our short-term results. No, the reason is much more amusing than that.

Warren Buffett has always been ultra secretive when it comes to his investments. Who can blame him. The man's investing acumen is superhuman and disclosing his positions only makes it harder (and more expensive) for him to build positions before "copycats" jump on the bandwagon. We suspect that there is also an element of "intellectual ownership" involved. Great investing ideas are scarce and usually take considerable effort to uncover. Why would you want to volunteer that information to others unless you had to? Warren has referred to the practice of copying another's investment ideas as "riding coattails" and it is fair to say that he looks down on it.

Which brings us now to the plot. The initial disclosure of our investment in Express Scripts was made in September 2014, a few months after initiating our position. We first mentioned Express Scripts in an article that we published in the *Globe and Mail* **(link)** and in Scorecard #10 **(link)**.

Current securities regulations in the United States require large investment managers like Berkshire Hathaway to file quarterly reports (called 13Fs) which disclose their investment positions, albeit with a time lag. Berkshire's latest filing was made on November 14, 2014, and the headlines the next day made us laugh out loud:

"You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right."

Benjamin Graham
The Intelligent Investor

We will forgive Mr. Buffett this one time for riding our coattails on Express Scripts. After all, we have benefited so much from his teachings over the years.

All kidding aside, Berkshire was clearly purchasing Express Scripts at around the same time that we were buying it for the Value Fund. Moreover, given the relatively small size of Berkshire's position ($32 million) the purchase was likely made by one of his two investment lieutenants: Todd Combs or Ted Weschler. Nevertheless we took the disclosure as confirmation that we are hunting in the right places at GreensKeeper. Obviously they saw something that they liked, as did we. Only time will tell if our investment thesis proves to be correct.

Open for Business

We now have a 3+ year performance track record with the Value Fund and are in the process of expanding our headcount (in sales). Most of our new business comes to us through referrals from existing clients and for that we thank you.

We are always looking for new clients that share our long-term approach to investing. Our existing clients understand our approach as evidenced by the fact that most of the money that we manage is in our clients' long-term investment accounts (RRSPs, LIRAs, RESPs, etc.). At GreensKeeper, we focus on investing in quality companies with shareholder-friendly management teams. The trick is to patiently wait until they go on sale for reasons that we believe are transitory.

The investment game is a long one. Long term we believe that we will continue to deliver attractive returns for our clients while thoughtfully managing risk and preserving their capital. You should know that our approach is not merely academic. Our founder has over 70% of his immediate family's net worth and 100% of his investible assets invested alongside our clients at GreensKeeper.

If our approach resonates with you, or you just want to chat about stocks in general, we would love to hear from you.

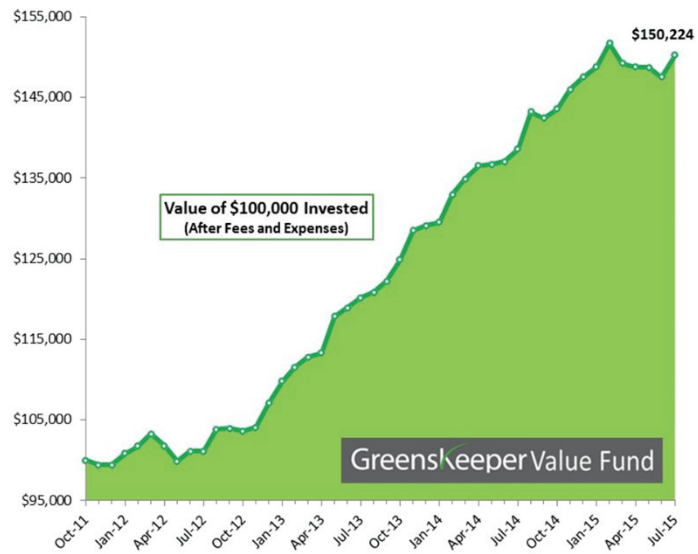
Michael McCloskey
Founder & President

The Red Dragon and King Canute

The Value Fund is up +1.8% (after all fees and expenses) in 2015 as of July 31. Our strategy of not hedging our US dollar exposure continues to benefit the portfolio.

As August draws to a close, the recent market correction and increased volatility is on everyone's mind. We thought it the perfect time to explain why down markets are actually welcomed as *good news* at GreensKeeper. This may sound counterintuitive but if you stay with us for a few pages, it will all become clear.

Needless to say our defensive positioning is serving us well and we put a material amount of our formerly idle cash to work in August. In addition to adding to a few existing positions, we also added a few new stocks to the portfolio.



Monthly Results	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	-	-	-	-	-	-	-	-	-	-	-0.6%	0.0%	**-0.6%**
2012	1.4%	0.9%	1.5%	-1.4%	-1.9%	1.3%	0.0%	2.7%	0.1%	-0.3%	0.4%	2.9%	**7.7%**
2013	2.6%	1.6%	1.1%	0.5%	4.0%	0.9%	1.0%	0.6%	1.1%	2.2%	2.9%	0.5%	**20.6%**
2014	0.3%	2.7%	1.5%	1.2%	0.1%	0.2%	1.1%	3.3%	-0.6%	0.8%	1.7%	1.0%	**14.2%**
2015	0.8%	2.0%	-1.6%	-0.3%	0.0%	-0.8%	1.8%						**1.8%**

Several stocks that we own are worth discussing briefly. AT&T (NYSE:T) completed its acquisition of DirecTV (NYSE:DTV) in July after receiving final regulatory approvals. We realized a gain of over 67% on our position in DTV including foreign currency gains. As part of the transaction we now hold a small position in AT&T as the consideration received included both cash and shares.

Home Capital Group (TSX:HCG) recently disclosed some operational challenges in its business. It seems that a number of Home Capital's mortgage broker partners were doing some naughty things. As a result, the stock sold off 40%. After we spoke with management, a few competitors and others in the industry, we concluded that the company is making the right moves to protect its franchise and that the market has overreacted. Given Home Capital's historical track record of success and the fact that the stock is selling at less than 7 times 2015 earnings, we loaded up on HCG shares for the portfolio. Time will tell if our analysis is correct, but we like our odds.

The Chinese Equity Markets

China's economic miracle continues its forward progress, despite a few stops and starts. The country's citizens are gradually getting wealthier as a result of the authorities' slow but steady embrace of a market economy (albeit with Chinese characteristics). Capitalism can be a messy business at times and China's frothy stock markets and gambling culture combined in early 2015 to draw in new retail investors. And by investors, we mean speculators.

By the summer, valuations escalated to the point that the price-to-earnings multiple of the main Chinese equity index surpassed 75. With everyone seemingly making money, margin lending and volumes peaked and, predictably, it ended badly in a 40% market collapse.

Valuing stability, China's leaders panicked and tried to prop up the equity markets by any and all means necessary. Companies were strongly "encouraged" to suspend trading of their shares and large shareholders dissuaded from selling. Pension funds were suddenly permitted to invest in equities and state controlled enterprises threw $200 billion into the market. Even Chinese journalists were harassed by police for their "irresponsible and inaccurate" reporting on the stock market. It worked for a few days but ultimately the selloff continued unabated. Which brings us to the tale of King Canute.

"An economy run by the political elite for a favored class can't advance like one that lets people change their class status by increasing their effort to obtain greater income, and by turning their income into investment capital."

Thomas Donlan

Barron's

King Canute the Great was an 11th Century king of Denmark, England, Norway and parts of Sweden. Like most powerful people, those around him praised his greatness and swore that he was all powerful. Growing tired of the incessant flattery all around him, legend has it that King Canute had his throne carried down to the seashore and commanded the incoming tide to halt. When the tide failed to obey and soaked his feet and royal robes the king leapt backwards, saying: "Let all men know how empty and worthless is the power of kings. For there is none worthy of the name but God, whom heaven, earth and sea obey". King Canute was a wise and modest king.

President Xi Jinping and Premier Li Keqiang, the current leaders of China, are undoubtedly two of the world's most powerful people. However great political power can lead to hubris as those that wield it often succumb to the illusion that they have the power to control events that they cannot. Perhaps Messrs. Xi and Li could have spared themselves some embarrassment by studying the tale of King Canute instead of the communist teachings of Karl Marx and Chairman Mao. Free markets exert an invisible economic force that pulls markets much like the moon's gravity creates the earth's tides. And any mere mortal's efforts to simply wish away the irresistible forces of markets will prove as fruitless as ordering the tide to recede.

Overvalued stocks eventually find their proper level and overvalued markets eventually correct. More importantly from our perspective, the converse is also true. Undervalued stocks eventually find their proper level and undervalued markets eventually rise. In other words, value investing works.

Down Markets are Our Friend

As disclosed at our annual meeting in June, our assets under management have grown in 43 of the 45 months since we launched the Value Fund back in 2011. As a result, the Value Fund has a constant stream of cash coming in from new clients, existing clients that invest more money with us and from dividends. As a result, we are a constant buyer of stocks provided that we can find attractive opportunities.

Market pullbacks are often where we find those opportunities. When the market is down 12.5% from its peak like it was in August, certain stocks that we track can be off significantly more than that. And when they are, we pounce.

*"If you can keep your head when all about you
Are losing theirs and blaming it on you,*

*If you can trust yourself when all men doubt you,
But make allowance for their doubting too;*

…

Yours is the Earth and everything that's in it."

**"If" by
Rudyard Kipling**

For three main reasons, we prefer down markets at GreensKeeper:

1. As a constant buyer of stocks, we like lower prices knowing that eventually the market will reward us provided that we have made smart choices. Many of our clients are similarly in asset accumulation mode and benefit from lower prices. Provided that you aren't intending to harvest in the immediate future, you should celebrate when you see markets in disarray.

2. Many of the companies that we own generate plenty of excess free cash flow. In addition to using these funds for dividends, some aggressively repurchase their own shares and are also buyers of other public companies. In both cases, lower market prices work to their (and our) advantage.

3. Bear markets and volatility create panic selling, margin calls and the flight response that causes people to sell at exactly the wrong time (when stocks are cheap). Bear markets nurture severe stock mispricing. Very few businesses lose 10-20% of their value in a month. However the market occasionally prices them like they have.

If you are still struggling with this concept of plunging markets being a good thing, let us leave you with one final example that hopefully helps you to internalize it.

Suppose that you own a growing and profitable private business that makes widgets. Every year you sell your widgets, pay your employees and all of your other expenses and are left with a profit of $50,000. Annual profit steadily increases at about 3% each year. At the end of each year, you can take those profits and (i) reinvest them in a growth initiative (e.g. increased marketing, staff), (ii) pay them out to yourself and spend it, or (iii) buy another business (maybe another widget manufacturer). Your decision is likely to be driven by what you view as the most attractive opportunity on a relative basis.

Now, suppose that next door to your widget factory there is a competitor (owned by a Mr. Jones) that also makes identical widgets. Coincidentally, his business also makes a profit of $50,000 a year and grows at the same rate.

The only difference between your respective businesses is that Mr. Jones is a very temperamental owner who loves to babble on incessantly about buying your business and selling his. Every day at lunchtime he shows up at your office uninvited in order to talk about the widget business. Some days he is euphoric and offers you $1,000,000 for your company. Most days he is fairly balanced and offers you $650,000. On occasion he is spooked by some recent event and thinks that the world, and the widget business, is coming to an end. On these days, he will gladly sell you his business for $200,000.

We suspect that most of you, being neighbourly, would listen politely to his daily chatter and then largely ignore him. However, on those days when he is panicked, you would likely consider taking the business off his hands at an attractive price. And on those days where he is offering you $1,000,000, that is probably when you would think long and hard about whether selling makes sense. Assuming that you are not ready to retire and would want to start another business, the attractiveness of his offer would be measured against the attractiveness of the other investment opportunities that were available to you. Presumably you would ask yourself: 'Am I better off selling, paying capital gains taxes and investing elsewhere or simply continuing to own and grow my business?'.

"Prediction is very difficult, especially about the future."

Niels Bohr
Physicist

As you have probably guessed by now, Mr. Jones isn't your neighbour, he is actually the stock market.(1) The difference being that instead of offering to buy or sell your widget business every day at lunchtime, you receive thousands of his offers every second of every trading day. Viewed in this way, hopefully you now understand why volatility and down markets are actually better for you in the long term. If you are long term investor in the stock market and have no plans to liquidate your holdings anytime soon, down markets are a good thing.

Now, we understand that staring at the daily stock quotations that are heading lower will give you heartburn. So our advice to you is quite simple: stop staring at the daily stock quotations.

Plunging markets provide the environment in which the seeds of future capital gains are sown. In a declining market, we acquire more earnings power for each incremental dollar invested. Accordingly, *lower prices reduce the riskiness of an investment*. Provided that we are positioned to act (we are) and can do so with equanimity (we can), fear is our friend. There will be months, and even years, where our returns are less than stellar due to the market environment. Frankly, it doesn't bother us much. For we know that it is in those environments that we accumulate the stocks that lead to long term returns for our investors. We can't predict when markets (or individual stocks) will correct. But we do know how to value certain businesses, how to spot a bargain and how to take advantage of them when they appear.

Open for Business

We are fast approaching the 4th anniversary of the launch of the Value Fund in 2011 and are pleased to announce the latest addition to our team. Gabriel Rulli joined GreensKeeper at the beginning of July. Gabriel brings over 20 years of investment industry experience to GreensKeeper. Prior to joining the firm, Gabriel was responsible for marketing, client relationships and business development at two Canadian-based boutique value managers: Lorne Steinberg Wealth Management (2010-2014) and I.A. Michael Investment Counsel (1996-2010). As our new Director, Private Clients, Gabriel will fulfill a similar role with GreensKeeper.

We are always looking for new clients that share our long-term approach to investing. Our existing clients understand our approach as evidenced by the fact that most of the money that we manage is in our clients' long-term investment accounts (RRSPs, LIRAs, RESPs, etc.). At GreensKeeper, we focus on investing in quality companies with shareholder-friendly management teams. The trick is to patiently wait until they go on sale for reasons that we believe are transitory.

The investment game is a long one. Long term we believe that we will continue to deliver attractive returns for our clients while thoughtfully managing risk and preserving their capital. You should know that our approach is not merely academic. Our founder has over 70% of his immediate family's net worth and 100% of his investible assets invested alongside our clients at GreensKeeper.

If our approach resonates with you, or you just want to chat about stocks in general, we would love to hear from you.

Michael McCloskey
Founder & President

(1) Inspired by the allegory of Mr. Market: Graham, B., & Zweig, J. (2005). The Intelligent Investor: A book of practical counsel (4th Revised Edition). New York: HarperBusiness Essentials.

GreensKeeper ASSET MANAGEMENT

The Scorecard

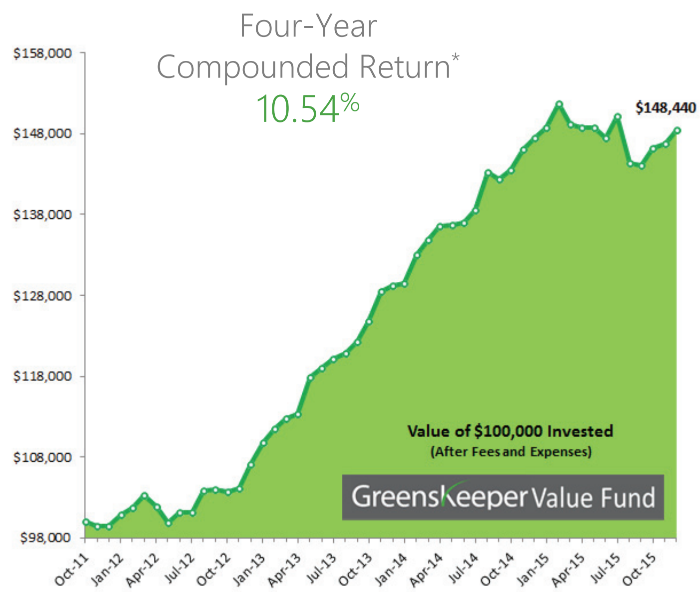
Issue #13 – January 2016

Tug of WaRx

The Value Fund finished up +0.63% in 2016 (after all fees and expenses). This was the Fund's lowest full-year return in its four-year history. Needless to say, we are happy to put 2015 behind us. Onward and upwards.

Our strategy of not hedging our U.S. dollar exposure combined with our defensive positioning, both helped us to navigate market headwinds.

Additional detail on the Value Fund's performance for the year and stock holdings will be provided to GreensKeeper clients in the coming months along with our audited financial statements compliments of KPMG.



Monthly Results	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	-	-	-	-	-	-	-	-	-	-	-0.6%	0.0%	-0.6%
2012	1.4%	0.9%	1.5%	-1.4%	-1.9%	1.3%	0.0%	2.7%	0.1%	-0.3%	0.4%	2.9%	7.7%
2013	2.6%	1.6%	1.1%	0.5%	4.0%	0.9%	1.0%	0.6%	1.1%	2.2%	2.9%	0.5%	20.6%
2014	0.3%	2.7%	1.5%	1.2%	0.1%	0.2%	1.1%	3.3%	-0.6%	0.8%	1.7%	1.0%	14.2%
2015	0.8%	2.0%	-1.6%	-0.3%	0.0%	-0.8%	1.8%	-3.9%	-0.2%	1.5%	0.4%	1.2%	0.6%

Act 1 – Scene 1: Prologue

Setting: America, modern day. A land inhabited by a giant named Health Care. He is a friendly giant, mind you, on a noble quest to cure the sick. But his voracious appetite is starting to bankrupt the land.

As you, dear reader, are likely aware, drug prices in the United States are largely unregulated. Drug prices in America are also confusing and opaque. Given the strength of the pharmaceutical lobby south of the border and the fragmented nature of the market, this state of affairs is likely to continue.

As a result of all of the foregoing, health care costs in America continue to escalate at an alarming rate, eating up a growing percentage of the nation's gross domestic product (GDP). The U.S. government does what it can to expand drug coverage while trying to prevent the giant from overtaking the land. Meanwhile, Congressional lobbyists do their best to minimize drug regulation, especially as it relates to pricing. In the absence of regulatory constraints on price increases, the industry's participants have consolidated, seeking scale to improve their relative bargaining power.

**Returns are to Dec. 31, 2015 and are net of all fees and expenses. Mutual funds are not guaranteed, values change frequently and past performance may not be repeated. GreensKeeper Asset Management Inc. assumed the investment management responsibilities of the Value Fund on January 17, 2014. Prior to that date, the Value Fund was managed by Lightwater Partners Ltd. while Mr. McCloskey was employed by that firm.*

The health care sector in America, and in other lands, is engaged in a real life tug of war. On one side are participants that benefit from higher health costs such as branded drug manufacturers. Their adversaries are the payers of health care (e.g. employers, health plan carriers) that are fighting to slow drug price inflation through generic substitution and other methods.

Act 1 – Scene 2: Enter Our Hero

The protagonist of our tale is Express Scripts (Nasdaq:ESRX). The company is the largest pharmacy benefit manager (PBM) in the U.S. and a Value Fund holding. We first wrote about Express Scripts back in September 2014 (Scorecard Issue #10). Not much has changed in the year and a half that we have owned the stock. The company has merely processed 2 billion prescriptions, continuously increased its profit per script, generated over $5 billion in free cash flow and repurchased 9.3% of its shares outstanding. Not bad. As a result, the stock is up 16% (constant currency) in a market that is flat. Express Scripts is exactly what we look for in an investment. A mundane, easy to understand business with attractive economics being run by a shareholder-friendly management team.

Long-time followers of GreensKeeper will be familiar with our investment criteria (see inset at right). We have often written about the first and third criteria. However, the second often receives less commentary, even though it is equally as important. Express Scripts and a few other actors in the drug supply chain provide a useful backdrop to illustrate the importance of investing in companies with solid management.

What we Look For

1. Select "Great" Businesses
- easy to understand
- attractive underlying economics
- durable competitive advantages

2. Solid Management
- shareholder-friendly management
- long-term track record of success

3. Margin of Safety
- wait for our opportunity
- buy at a large discount to our estimate of intrinsic value

Act 1 – Scene 3: Corporate Cannibalism

Express Scripts is the type of company that Charlie Munger refers to as a 'cannibal'. No, not that kind. Charlie is referring to corporate cannibalism: companies that 'eat' themselves via share repurchases. Express Scripts is a cash flow machine. The company generates $4.5 billion of cash a year from its operations and only needs to reinvest a sliver of that amount in tangible assets like offices and IT infrastructure.

"Look at the cannibals."

Charlie Munger
Berkshire Hathaway

If attractive opportunities present themselves, the company pounces as they did with the purchase of competitor Medco for US$29.1 billion in 2012. When they do not, the company returns the excess cash to shareholders.

Believing its shares currently underpriced, as we do, Express Scripts returns excess cash via share repurchases instead of dividends. Critics call this practice *financial engineering* as it reduces shares outstanding and, consequently, increases earnings per share, all else being equal. We call it smart business. Our preference is to own a growing share of an exceptional business in lieu of receiving taxable dividends along the way. Provided that the shares remain undervalued, our hope is that management continues this practice. If, however, the shares becoming meaningfully overvalued, returning excess cash via a dividend is the more sensible approach. At 9.5x trailing pre-tax owner earnings, we still consider the shares attractive given the company's growth prospects. Express Scripts is a prime example of a solid management team that is creating value for GreensKeeper's clients.

Act 2 – Scene 1: Tug of Wa℞

Health care is a very personal and sensitive subject. Most nations would prefer all of their citizens to have unlimited access to life saving drugs at reasonable prices. However, countries have limited means. Accordingly, difficult choices need to be made. There is another factor to consider. Pharmaceutical companies require the ability to earn an attractive profit on successful new drugs in order to be properly incentivized to continue to innovate.

Express Scripts strikes us as a company that is helping to balance these competing interests. They try to responsibly contain drug cost inflation for their clients (payers) while being compensated for doing so. Their interests are largely aligned with their clients and they are financially incentivized to continue to find creative ways to control health costs, reduce waste and improve care.

Express Scripts' business model is built on using its massive scale and buying power to negotiate better rates from the many participants in the prescription drug supply channel. Their in-house clinical experts also ensure that plan members get the prescriptions, care and advice that they need.

Act 2 – Scene 2: The Antagonists

When asked about a 5400% price increase on Daraprim*:*

"Well, you know, we needed to turn a profit on the drug."

Martin Shkreli
Former CEO,
Turing Pharma

The antagonists in this ongoing tug of war include retail and specialty pharmacies, wholesale distributors, branded and generic drug manufacturers. A few of these players have received an inordinate amount of press lately as a result of some questionable conduct.

Enter the now infamous Martin Shkreli, the 'most hated' pharma CEO in America. Martin was the former CEO of Turing Pharmaceuticals. At Turing, Martin identified a number of older drugs he believed underpriced and being entrepreneurial, bought their distribution rights. After doing so, he swiftly implemented price increases.

Hidden pricing power can be a great source of asset undervaluation. After acquiring See's Candies in 1972, Warren Buffett and Charlie Munger quickly learned that they could raise prices 10% each year while customers were largely indifferent. Unfortunately 32-year-old Martin was in a hurry and thought it perfectly proper to raise prices of Turing's drugs overnight by an obscene amount. For instance, the price of Daraprim, a decades-old lifesaving medication for parasitic infections, was increased from $13.50 to $750.00 per pill. A campaigning Hillary Clinton took note of this 'price gouging', as did the Twittersphere, and Martin's world quickly unravelled. Meanwhile, Express Scripts took note and then swift action by arranging for a third-party drug compounder to manufacture a substitute to Daraprim at a cost of $1 per capsule.

The second adversary in our tale is Canadian-headquartered Valeant Pharmaceuticals (TSX:VRX;NYSE:VRX). Valeant was a former market darling whose shares enjoyed a multi-year run. However, the recent scrutiny of Mr. Shkreli's antics combined with an aggressive attack on Valeant from a US short-seller brought unwanted attention to Valeant's business model. As a result, Valeant's shares are down some 70% from their peak.

"… In terms of the $0 option value, I think it is legal. And maybe it's unusual."

Michael Pearson
CEO, Valeant

"… the headline really should read Express Scripts continues to do it's job."

Tim Wentworth
President,
Express Scripts

Valeant was largely formed via roll-up [1] and is the product its visionary CEO Michael Pearson. Over the past eight years under his leadership, the company has identified and then acquired many older generic and specialty drug companies. Once acquired, research and development and other operating costs were slashed and drug prices raised, sometimes significantly. The strategy worked well for years but is now quickly unravelling due to a confluence of unfortunate events.

First, Mr. Shkreli's shenanigans at Turing created public scrutiny of rapid price increases on older drugs. Valeant has now received requests for information from a Congressional committee and may be required to testify before Congress. Given the current political environment, the company wisely shifted its strategy and stated publicly that its future price increases will be more modest. A prudent business decision, despite the impact on profits. Second, controversial short-seller Andrew Left of Citron Research alleged that several specialty pharmacies that Valeant dealt with were engaged in questionable and possibly fraudulent activities related to payer reimbursement.

Given the sharp pullback in Valeant's stock resulting from these events and the ownership of the stock by several value investors, we thought Valeant worth a closer look. Unfortunately, we quickly discovered that Valeant's many acquisitions have been financed primarily with debt. Minimizing equity dilution is a quality that attracts us to certain companies. However, doing so through the use of excessive leverage is not for us. The company's debt levels give us heartburn and do not meet our criteria of a prudent investment.[2]

Moreover, while Citron's allegation of impropriety doesn't make it true, Valeant admitted that it did have a business relationship with the specialty pharmacies in question. More interestingly to us, Valeant also revealed that it had previously paid $100 million for a ten-year option to purchase one of those pharmacies for $0. Read that sentence again. If you can explain to us *any* good business reason for structuring the arrangement in this manner, instead of simply buying the business outright, we would love to hear it. Now, that doesn't make the arrangement or the accounting treatment illegal in any way. It simply causes us to question what else is lurking below the surface and reaffirms our decision to stay away from Valeant as a potential investment.

Act 2 – Scene 3: The Finale

Back to the protagonist of our tale. After watching all of the foregoing unfold around Valeant, Express Scripts conducted an audit of the practices of those specialty pharmacies and other 'captive' pharmacies with ties to Valeant. Ultimately, these pharmacies were terminated from ESRX's authorized network of 70,000 pharmacies.

This constant game of cat and mouse between payers and others in the drug supply chain is where Express Scripts earns its money. Long term, we like having exposure to the pharmaceutical sector via an industry leader that is providing a net savings to the health care system, while still making an attractive return for its shareholders.

[1] A 'roll-up' is a company grown through multiple acquisitions in the same industry whereby target companies are acquired and then merged into one combined operating entity. Over time, economies of scale are expected to drive increased profitability.

[2] As an interesting aside, while Valeant's stock was melting down in November 2015, its CEO received a margin call from his broker – Goldman Sachs. It seems that Mr. Pearson borrowed $100 million from them and used his shareholdings in Valeant as collateral. When the stock imploded and he was unable to repay the loan, his position was liquidated by Goldman, resulting in a 14% decline in the stock on the day. An appetite for excessive leverage in one's personal life is a 'tell' from which we gain insight into a CEO's style.

Four Years and Counting

We recently celebrated the 4th anniversary of the launch of the Value Fund and our continued growth at GreensKeeper. On that note, we are always looking for new clients that share our long-term approach to investing. Our existing clients understand our approach as evidenced by the fact that most of the money that we manage is in our clients' long-term investment accounts (RRSPs, LIRAs, RESPs, etc.).

The investment game is a long one. Long term, we believe that we will continue to deliver attractive returns to our clients while prudently managing risk and preserving their capital. You should know that our approach is not merely academic. Our founder has over 70% of his immediate family's net worth and 100% of his investible assets invested alongside our clients at GreensKeeper.

If our approach resonates with you or anyone you know, please give us a call.

Michael McCloskey
Founder & President

GreensKeeper ASSET MANAGEMENT

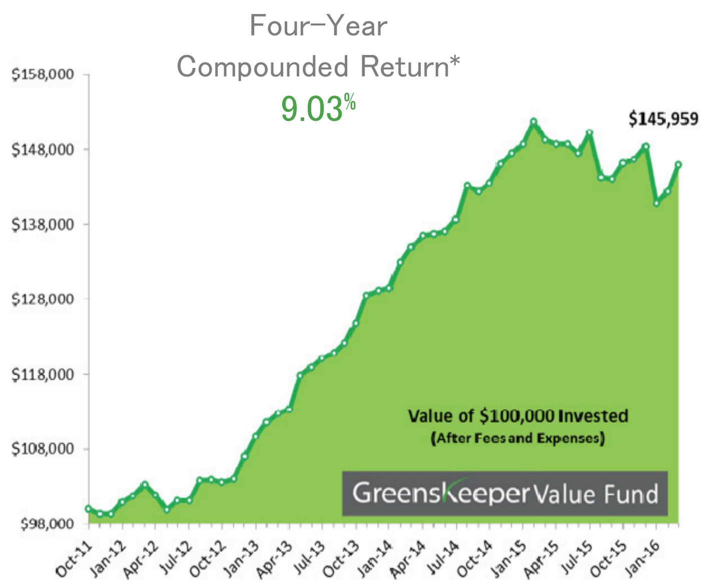
The Scorecard

Issue #14 – April 2016

Inamatus Corus

The Value Fund finished down (1.67%) in Q1 2016 (after all fees and expenses). Currencies were the main story in Q1 as the Canadian dollar surged 6.16% against the greenback. We estimate that this sharp move knocked about (4.54%) off of our returns in the quarter as we report our results in Canadian dollars. However, our stance of remaining unhedged remains unchanged.

Hedging imposes costs and acts a drag on long-term performance. We will consider hedging our currency exposures only when we believe that a currency is dramatically overvalued or undervalued. The rest of the time, we are happy to accept greater short-term volatility in exchange for longer-term outperformance.



Monthly Results	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	-	-	-	-	-	-	-	-	-	-	-0.6%	0.0%	-0.6%
2012	1.4%	0.9%	1.5%	-1.4%	-1.9%	1.3%	0.0%	2.7%	0.1%	-0.3%	0.4%	2.9%	7.7%
2013	2.6%	1.6%	1.1%	0.5%	4.0%	0.9%	1.0%	0.6%	1.1%	2.2%	2.9%	0.5%	20.6%
2014	0.3%	2.7%	1.5%	1.2%	0.1%	0.2%	1.1%	3.3%	-0.6%	0.8%	1.7%	1.0%	14.2%
2015	0.8%	2.0%	-1.6%	-0.3%	0.0%	-0.8%	1.8%	-3.9%	-0.2%	1.5%	0.4%	1.2%	0.6%
2016	-5.1%	1.0%	2.5%										-1.7%

Corus Entertainment (TSX:CJR.B)

Media stocks remain under pressure these days. It all started back in the fall of 2015 with the selloff in Walt Disney Company's stock (NYSE:DIS) due to subscriber declines in its ESPN division. The stocks of other media companies quickly followed suit.

For a time, it seemed that media analysts and pundits only wanted to talk about the negatives. Cord cutting, cord shaving, media fragmentation, over-the-top services like Netflix, skinny bundles, pick and pay and other challenges. All of which would lead to doomsday scenarios, in their opinion. Fear reigned and media stocks sold off as a group. Given the sector's history of solid free cash flow generation, we quickly took notice and got to work.

"It is said that the stock market is the only kind of market where the merchandise is put on sale and all the shoppers run for the exits."

Matthew Coffina
Morningstar

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"…most investors are not in a position to do for themselves much of what is needed to get the most from their investment funds."

Philip Fisher
Legendary Value Investor

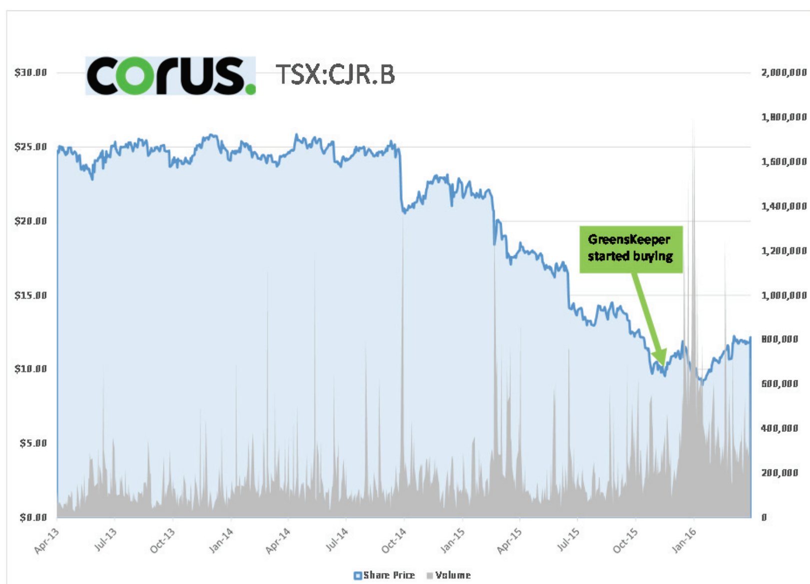
Having reviewed the financial statements of many public media companies and the regulatory landscape, we then spent some time analyzing the factors that are disrupting the industry. We spoke with a number of media participants. Our conclusion was that while media will continue to face these challenges, owners of high- quality, "must-have" content should continue to prosper.

Oddly enough, the most attractive stock that we found in our investible media universe was one that we know very well. In fact, it is right in our own backyard: Toronto-based Corus Entertainment. Corus is one of Canada's largest media and content companies. Their assets include 45 specialty TV channels (e.g. Disney Channel Canada, W Network, HGTV Canada, Food Network Canada), 15 conventional TV stations (Global) and 39 radio stations. Not only was Corus' stock cheap due to the above-noted macro concerns, recent regulatory decisions of the Canadian Radio-television Telecommunications Commission (CRTC's "Let's Talk TV") were further weighing on the stock. Add in a soft Canadian economy that was impacting the company's advertising revenues and some company-specific execution issues which led management to lower their earnings guidance in 2015 and you can understand the stock's 45% selloff for the year.

There are certain aspects of the Canadian media landscape that we find more attractive than the US competitive environment. Like many industries in Canada, the media sector is largely protected from foreign competition. Foreign ownership and control of Canadian media and broadcasting assets is prohibited under Canadian law. As a result, *regulation* is one of the **moats** that protects Canada's media companies. Add to that the importance of *scale* and unique media content (powerful *brands*) and these multiple moats work together to give companies like Corus the ability to generate attractive and sustainable profit margins.

With the stock trading at less than six times free cash flow, less than eight times earnings and sporting a 11.4% dividend yield (paid monthly no less), we believed the macro and company-specific concerns overdone. Accordingly we started accumulating the stock in December 2015. Being media, sure enough the drama quickly ensued.

Within a month of initiating our position, the company reported quarterly results that exceeded our (and analysts') expectations. However, this was entirely overshadowed by the surprise announcement of a massive acquisition of Shaw Media from Shaw Communications for $2.65 billion. The proposed acquisition was about 1.5x larger than Corus pre-transaction, added leverage and required the issuance of many Corus shares. Being a related-party transaction (Shaw and Corus are both controlled by the Shaw family of Alberta), minority shareholder approval was required.



After digesting the news, we analyzed the transaction and its impact on our view of Corus' intrinsic value and the pro-forma risk profile of the combined company. Our conclusion was decidedly mixed.

"All man's miseries stem from his inability to sit in a room alone and do nothing."

Blaise Pascal
Mathematician, Physicist and Philosopher

"Never underestimate the value of doing nothing."

Winnie-the-Pooh

On the positive side, the strategic rationale of the transaction is highly compelling. By adding scale, Corus is now the same size as Bell Media with each controlling content that represents 35% of the English TV viewership market in Canada (70% combined). Add in Corus' dominant market share with desirable audiences (Kids and Women), and the company should have pricing power with the major Canadian distributors and media buyers (advertisers).

We reckon that there were two negatives to the deal. First, the transaction added leverage to the combined company. We believe that it will take Corus two years to get its debt levels back to our preferred range, and management has signalled that using free cash flow to deleverage is their top priority. The second negative was the purchase price. The headline purchase multiple paid by Corus was fair. Not cheap mind you, but fair for high-quality media assets. However, Corus used their materially undervalued stock as currency to fund a good portion of the transaction. They did so in two ways: by issuing numerous shares to the seller and by completing a concurrent public equity offering. By doing so, they effectively paid more than the headline number suggests. Consequently, we believe that Corus transferred some of the value of the company from its existing investors (that would be us) to the seller and new investors.

Our preference would have been for Corus to pass on the deal. But once management and the majority of shareholders approved the transaction, our decision became whether to hold or sell. We believe that pro-forma the transaction, the newly combined company was trading at 6.4x free cash flow (up from 5.7x pre-deal). In other words, not as cheap as before, but still very cheap.

Having concluded that the shares remained an attractive investment, we added to our position when the stock price declined after the transaction announcement. The Value Fund's average cost is $9.90 per share. With the stock currently trading at $12.35 and having received $0.38 in dividends to date, we are up about 28% on our investment to date. But it is still far too early to come to any conclusions. We will continue to closely monitor the company's progress. Our investment thesis is largely dependent on the industry's continued monetization of media content at attractive rates, management's execution and a successful integration of Shaw Media. If this unfolds as expected, we believe that the Value Fund's investment in Corus will turn out quite nicely.

GreensKeeper Annual Meeting – June 9, 2016

Mark your calendars! GreensKeeper's 5th Annual Meeting will be held on **Thursday, June 9 at 7:00 p.m.** We are once again hosting it at the Mississaugua Golf and Country Club (invitation to follow). Clients, potential clients, friends and family are all welcome.

As per our custom, our founder will make a brief presentation on our value investing methodology and selected investments. Then the fun begins as we open the floor to attendees to ask any and all questions about the Value Fund or investing in general.

We are always looking for new clients that share our long-term approach to investing. If you know of anyone that is growing tired of their current investment returns and interested in learning more about GreensKeeper and value investing, please bring them along.

The investment game is a long one. Long term, we believe that we will continue to deliver attractive returns to our clients while prudently managing risk and preserving their capital. You should know that our approach is not merely academic. Our founder has over 70% of his immediate family's net worth and 100% of his investible assets invested alongside our clients at GreensKeeper.

Michael McCloskey
Founder & President

GreensKeeper ASSET MANAGEMENT

The Scorecard

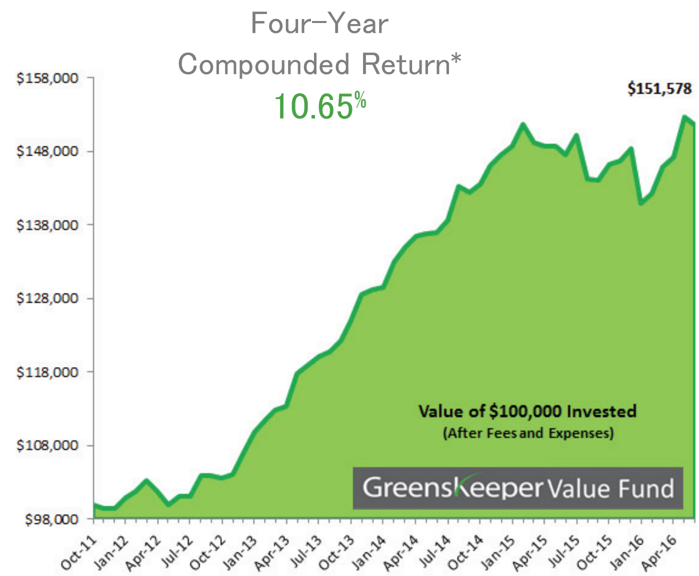
Issue #15 – July 2016

Noise

After a slow start to the year, the Value Fund finished up +3.85% in Q2 (after all fees and expenses) and is up +2.11% year-to-date (YTD).*

Our best performers for the quarter were Corus Entertainment +13.3%, Urbana Corp. +12.6% Exxon Mobil +12.1% and Express Scripts +10.4%. Our laggards were Swatch Group (15.0%), Home Capital (8.7%) and Wells Fargo (2.1%).

Fortunately our gainers outperformed our losers and also managed to overcome a (1.5%) currency headwind during Q2. The strengthening of the Canadian dollar has been about a (6.0%) headwind for the portfolio YTD. We remain unhedged given our belief that once the US Federal Reserve decides to finally raise US interest rates, this headwind will reverse and add to our future returns.



Monthly Results	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	-	-	-	-	-	-	-	-	-	-	-0.6%	0.0%	-0.6%
2012	1.4%	0.9%	1.5%	-1.4%	-1.9%	1.3%	0.0%	2.7%	0.1%	-0.3%	0.4%	2.9%	7.7%
2013	2.6%	1.6%	1.1%	0.5%	4.0%	0.9%	1.0%	0.6%	1.1%	2.2%	2.9%	0.5%	20.6%
2014	0.3%	2.7%	1.5%	1.2%	0.1%	0.2%	1.1%	3.3%	-0.6%	0.8%	1.7%	1.0%	14.2%
2015	0.8%	2.0%	-1.6%	-0.3%	0.0%	-0.8%	1.8%	-3.9%	-0.2%	1.5%	0.4%	1.2%	0.6%
2016	-5.1%	1.0%	2.5%	0.9%	3.7%	-0.7%							2.1%

Business TV

Most mornings when I wake up I turn on the business cable channels to get a sense of what is happening in the world and overseas markets before digging into the financial newspapers. CNBC's Squawk Box and Bloomberg Surveillance are my usual go-to favourites.

On days when the guests are CEOs of quality businesses, I can watch for hours. Learning about how a company is navigating the economic environment and generating future earnings is always a good use of time. However some days the viewing is less than compelling despite the entertaining personalities of the hosts and the TV is off before it is even warm. The recent Brexit referendum is a case in point.

**Returns are as of June 30, 2016 and are net of all fees and expenses. Mutual funds are not guaranteed, values change frequently and past performance may not be repeated. GreensKeeper Asset Management Inc. assumed the investment management responsibilities of the Value Fund on January 17, 2014. Prior to that date, the Value Fund was managed by Lightwater Partners Ltd. while Mr. McCloskey was employed by that firm.*

"Forecasts may tell you a great deal about the forecaster; they tell you nothing about the future."

Warren Buffett
Berkshire Hathaway

Over the past month, segment after segment was focused on the United Kingdom's referendum on remaining in the European Union (also known as "Brexit"). Now, make no mistake - this was an event of major significance to the British electorate and their economy. But whether or not they chose to leave the EU, the impact on the companies that we own in the Value Fund was largely immaterial. Speculation about the outcome of the vote and predictions about the equity markets' reaction to each outcome were discussed *ad nauseum*. So I tuned out and went back to reading financial reports and valuing businesses that we would like to own (at a price). The vote to leave the EU ultimately passed and the market sold off. The next morning I added to our positions in two companies whose operations are almost entirely based in North America. Within days markets recovered and life went on.

To be clear, I had no particular insight into which way the vote was going to go. Nor did I know how the market would react or how long it would take to recover once the market did sell off. But I do know how to recognize stocks that are undervalued and how to seize opportunities that present themselves.

At GreensKeeper, we firmly believe that the short-to-mid-term direction of the markets cannot be successfully predicted with any consistency. Yes business cable channels will always find a so-called 'expert' that made a recent prediction that was spot on. But I would posit that market Nostradamuses simply do not exist. The reason is that short-term market moves are driven by investor sentiment which is undeniably moody. But over the long-term markets do rise due to inflation and retained earnings. Long-term, what truly matters are earnings and equity valuations.

To prove our point, here is an interesting experiment that you can try. Take any reputable daily newspaper like the *Globe &Mail* or *the Wall Street Journal* and set it aside for one month. Then come back to it and see how much of the information in it is still relevant to your investment portfolio. You may be surprised at how little truly matters. While it is important to keep abreast of current events, long-term investment decisions are based on factors that generally change quite slowly. It is on those factors that we remain focused.

Environment Matters

Having worked on Bay Street for 15 years, including more than half that time in Investment Banking, I learned that when capital markets are at there extremes, it is unhelpful to be around others in the finance industry. Being "in the flow" may be helpful for day traders, but certainly not for long-term value investors.

When markets are rising and it seems like everyone around you is making money, valuations are usually lofty. In other words, it is a time to be cautious. However, we humans are social creatures and are wired to follow the crowd. Seeking safety in numbers may have helped us successfully evade predators on the savanna in prehistoric times, but it is precisely the wrong approach in investing. Unfortunately this bias is innate and simply tugs at us when we are in the presence of others. No one likes to miss any of the fun.

"The big money is not in the buying and the selling; it's in the waiting."

Charlie Munger
Berkshire Hathaway

Being around others when markets are in freefall is equally unhelpful. I recall a specific week in the fall of 2008 when markets were plummeting and the global financial sector appeared ready to implode. It was a historic time and one that is seared into my memory. Stocks in quality companies like Starbucks **(Scorecard #1)** were practically being given away and I was putting additional cash to work. It is difficult enough to have the conviction to invest in turbulent times. It is emotionally discomforting and being around others who are in panic and trying to talk you out of it only amplifies that discomfort.

Successful value investing requires being different than the crowd. Stocks are cheap only when they are unloved by the masses. Sometimes they are cheap for a valid reason. But on occasion, the market overreacts and opportunity presents itself.

Warren Buffett located his investment partnership in out-of-the-way Omaha, Nebraska for a reason. It is the same reason that GreensKeeper's headquarters were set up in Oakville, Ontario instead of downtown Toronto. Successful value investing requires extreme discipline, patience and conviction. Creating a calm environment which nurtures these attributes is helpful. By creating an environment where we can spend time reading and thinking away from the emotional pull of the crowd, it improves our odds of making intelligent investment decisions. It also keeps us focused on studying companies, their financial results, valuations and the overall economic and business environment. In other words, what really matters in investing.

Avoid the noise.

GreensKeeper's 5th Annual Meeting

Thank you to those who made it out to our 5th Annual Meeting last month. We had a great turnout and as always, we enjoyed spending time with our clients and potential clients.

We are continuing to grow both the firm and our assets under management. A heartfelt thanks to our existing clients for referring GreensKeeper to others. Please keep them coming!

Michael McCloskey
Founder & President

GreensKeeper ASSET MANAGEMENT

The Scorecard

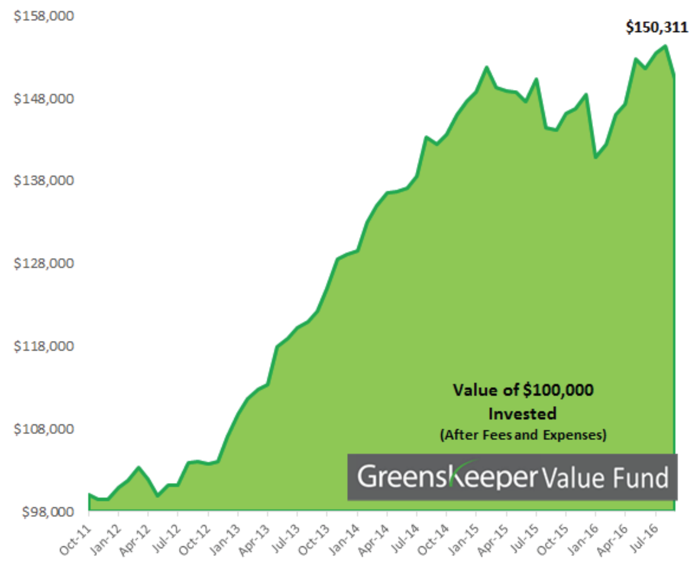
Issue #16 – October 2016

Do The Right Thing

The Value Fund finished down (0.8%) in Q3 (after all fees and expenses) and is up a modest +1.3% year-to-date (YTD).* Our best performers for the quarter were Cisco Systems +10.6% and American Express +5.4%. Our laggards were Home Capital (15.7%) and Coach (10.3%).

Our heavy weighing of US Financials (the worst-performing S&P Sector in September) and our holdings in Wells Fargo (NYSE:WFC) in particular were the primary contributors to the fund's pullback in September.

Given the recent events surrounding Wells Fargo and our holdings of the stock, it is the main topic of this quarterly Scorecard.



Monthly Results	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
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2013	2.6%	1.6%	1.1%	0.5%	4.0%	0.9%	1.0%	0.6%	1.1%	2.2%	2.9%	0.5%	20.6%
2014	0.3%	2.7%	1.5%	1.2%	0.1%	0.2%	1.1%	3.3%	-0.6%	0.8%	1.7%	1.0%	14.2%
2015	0.8%	2.0%	-1.6%	-0.3%	0.0%	-0.8%	1.8%	-3.9%	-0.2%	1.5%	0.4%	1.2%	0.6%
2016	-5.1%	1.0%	2.5%	0.9%	3.7%	-0.7%	1.2%	0.5%	-2.5%				1.3%

Spike Lee's Masterpiece

As a lover of film, I found myself reflecting on the recent passing of actor Bill Nunn who played the memorable role of Radio Raheem in Spike Lee's 1989 film *Do the Right Thing*. Having seen the movie during my formative years and given the film's cultural significance and controversial ending, I remember it well.

The film's title comes from a line given by another memorable character - DA Mayor – when he tells the film's protagonist Mookie to "always do the right thing" in life. That advice is equally useful when evaluating the management teams of companies that we are considering an investment in. After determining that a company possesses attractive economics and is also undervalued, we attempt to evaluate whether or not management is shareholder friendly. When evaluating a management team's skill, candour with shareholders and their capital-allocation decisions, we assess whether or not they 'do the right thing' for the company's stakeholders.

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Wells Fargo & Co. (NYSE:WFC)

In early September, Federal regulators fined Wells Fargo $185 million after discovering that the company's employees had been secretly issuing credit cards and other banking products to customers that hadn't requested them. Now, in any large organization, there will always be a number of employees engaged in wrongdoing. But this was different. It turns out that this fraudulent activity involved 1.5 million unauthorized bank accounts and 565,000 credit cards. Moreover, the misconduct had been going on since 2011 and the company had fired at least 5,300 employees that were involved. The scale of the problem caught our attention, and also that of the U.S. Congress in the midst of an election.

Wells Fargo Chairman and CEO John Stumpf was unceremoniously hauled before the Senate and House of Representatives to testify about the affair. As shareholders, we watched the proceedings with great interest. Despite expressing his regret for the improper activities of certain employees, Mr. Stumpf's answers to Congress left them (and me) disappointed. In short, he did not seem to grasp the gravity of the situation nor did he seem willing to accept any of the blame.

"Mr. Stumpf … evidently your definition of 'accountable' is to push the blame to your low-level employees who don't have the money for a fancy PR firm to defend themselves."

U.S. Senator Elizabeth Warren

Wells Fargo is known for its cross-selling prowess. Most consumers require numerous banking products throughout their lifetime (e.g. mortgages, credit cards, lines of credit). Whereas the average US customer has fewer than 3 products with their main bank, Wells Fargo prided itself on its industry-leading average of over six. Not being satisfied, Stumpf created an "Eight is Great" campaign to increase that metric further. This is where I believe that Mr. Stumpf lost the plot.

Incentives drive behavior and the senior management of any business is responsible for putting the proper incentives in place and defining a company's culture by setting the tone at the top. Wells Fargo employees were clearly incentivized to cross-sell which isn't bad per se. However, the stories that have since come to light demonstrate that the level of pressure being put on branch-level employees was unhealthy.

To make matters worse, several employees complained to senior management about the problem and were either ignored or fired. The fake products reportedly earned the company less than $2.6 million in fee income which has since been refunded. To give you some context, Wells Fargo earned $22.3 billion over the past year.

" Integrity is doing the right thing … when no one else is looking or will ever know…"

Charles Marshall
Author

A major goal of capturing more of a customer's banking business is to increase switching costs (e.g. making it more difficult for them to move their business elsewhere). Most consumers prefer the convenience of dealing with just one financial institution provided that they are offered competitive rates and decent service. Implicit in that relationship is that the products being offered are either desired and/or needed by the customer.

In our opinion, the entire affair has been poorly handled by both Mr. Stumpf and Wells Fargo's board of directors. This was a management and board failure that was entirely avoidable had the issues been properly addressed earlier when they first came to light. Fortunately, Mr. Stumpf finally, albeit belatedly, realized the seriousness of the situation and did the right thing by tendering his resignation. Being the CEO comes with the perks of extraordinary compensation. But it also comes with the responsibility of leadership which includes accountability when things go awry.

While Mr. Stumpf's resignation, in and of itself, will not put an end to this unfortunate chapter for Wells Fargo, it is a necessary first step in putting the matter behind the company. Wells Fargo has also committed to reimbursing affected customers and "making it right". A good start. The entire episode is disappointing to us as shareholders and has caused real reputational damage to the company. With that said, where to from here with our investment in Wells Fargo? Back to first principles.

Our Current View

Banking is largely a commodity business. In any commodity business, having a lower product cost than your competitors can be an attractive competitive advantage provided that the advantage is sustainable. In banking, scale and a low cost of deposits are two such advantages.

Wells Fargo has one of the lowest cost of deposits in U.S. banking due to their massive branch network and scale. The bank currently has $900 billion of deposits on hand with a remarkably low average cost of 0.16%. To a bank, deposits are its *cost of goods sold* as they lend those deposits out at higher rates and earn a spread known as a bank's Net Interest Margin (NIM). Wells Fargo currently earns a NIM of 2.82% on $1.73 trillion of interest-earning assets which produces about $47 billion of pre-tax net interest income.

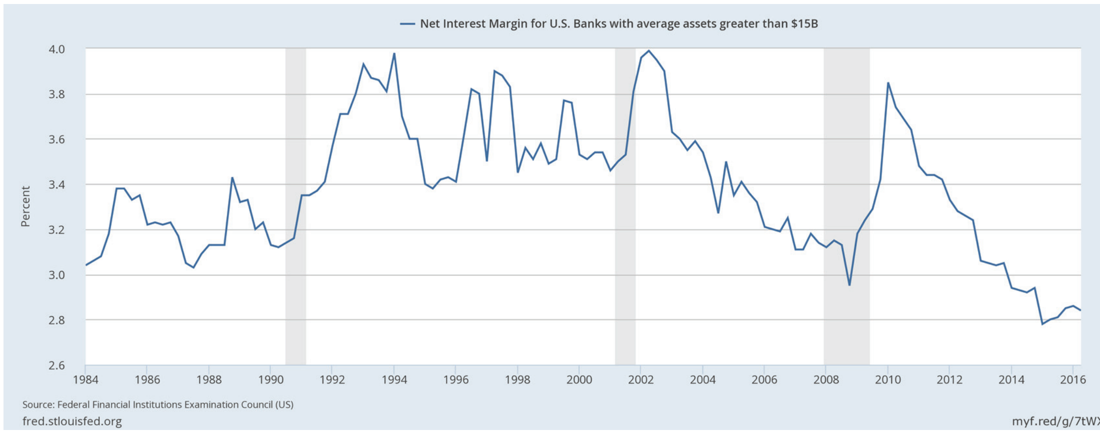
The bank is also very diversified in its business lines with lending being only about one-half of its revenues. Non-interest income (service charges, investment fees, credit card fees, etc.) from a diverse group of businesses generates another $41 billion in revenue. Add up those two income streams, deduct salaries, loan loss provisions and other operating costs and Wells Fargo generates about $33 billion of pre-tax income or about $4.00 per share (after-tax). It is a *very* good business.

However, the fake-accounts scandal has done real brand damage to the company. Banking, like investment management, is a business of trust. Wells Fargo will certainly lose some customers and some business as a result of their improper behaviour. There will be additional fines and likely additional litigation and settlements. But in our view, the core earnings power of Wells Fargo and the business franchise remains intact. Unless a material number of customers refuse to deal with Wells Fargo going forward and decide to leave the bank, we believe that this self-inflicted wound will heal in time as the headline risk dissipates. We believe that most customers that were not directly affected will be disappointed but then stay put rather than go through the hassle of moving their accounts, mortgages, etc.

Further, we have no reason to believe that the bank's conservative underwriting culture, which served them so well during the 2008 U.S. housing crisis, has been affected in any way. Loan delinquencies and charge-offs remain very low and the U.S economy remains healthy. The company's attractive return on assets (ROA) and operating leverage also appear to remain intact. At US$45.20 the stock currently yields 3.36% and Wells Fargo has consistently returned capital to shareholders through share repurchases. In this regard, the pullback in the stock is actually a positive as they can retire more shares for each buyback dollar spent.

"If something cannot go on forever, it will stop."

Herbert Stein
Economist



Equally as important to our investment thesis is our long-term view on interest rates. Eventually the US Federal Reserve will start to raise rates from their current all-time lows. Perhaps as soon as December. The result of increasing interest rates will be a widening Net Interest Margin on the company's $1.73 trillion of earning assets. A 0.25% increase in the Federal Reserve Rate will add approximately $600 million to the company's net interest income in the first year alone. As recently as 2009-2011 the company earned a NIM of 4.16% (vs. 2.88% today). We estimate that a reversion to those historical margins in a more normalized interest rate environment would increase earnings by over 70%. Now, that is unlikely to happen any time soon. But we like the fact interest rates should provided a tailwind for the company for years to come.

For all of the foregoing reasons, we remain comfortable owning the stock which we started buying in 2012 at $30.27 and have collected over four years' worth of dividends along the way. In summary, we believe that Wells Fargo's problems are surmountable and the stock modestly undervalued at current prices. Wells Fargo is a *compounder* that should continue to increase its *intrinsic value* for many years to come provided that its management team regains their focus on the customer and avoids additional self-inflicted wounds.

We've Moved

After six years we have moved offices (albeit only one building over). Please note our new address and phone number:

GreensKeeper Asset Management Inc.
2010 Winston Park Drive, Suite 200
Oakville, Ontario L6H 6P5
Tel. 905.827.1179

We are continuing to grow both our team and our assets under management. A heartfelt thanks to our existing clients for referring GreensKeeper to others. Please keep them coming!

Michael McCloskey
Founder & President

GreensKeeper
ASSET MANAGEMENT INC.

The Scorecard

Issue #17 - February 2017

"Everyone must choose one of two pains: The pain of discipline or the pain of regret."

Jim Rohn

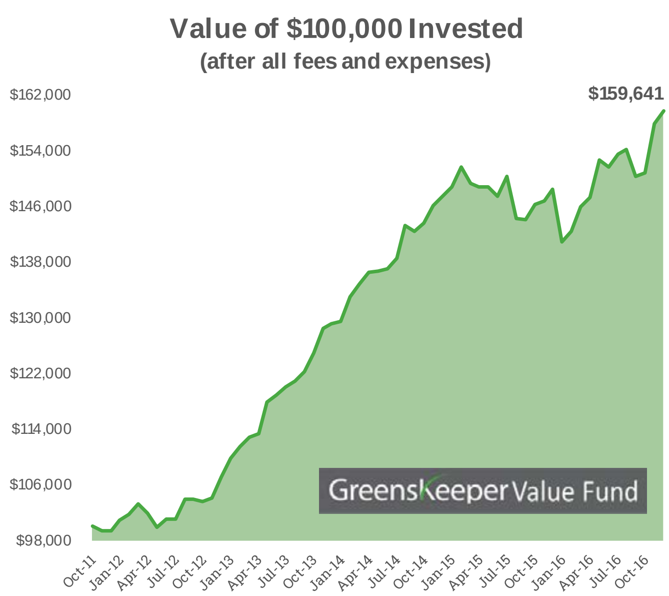
Author and Entrepreneur

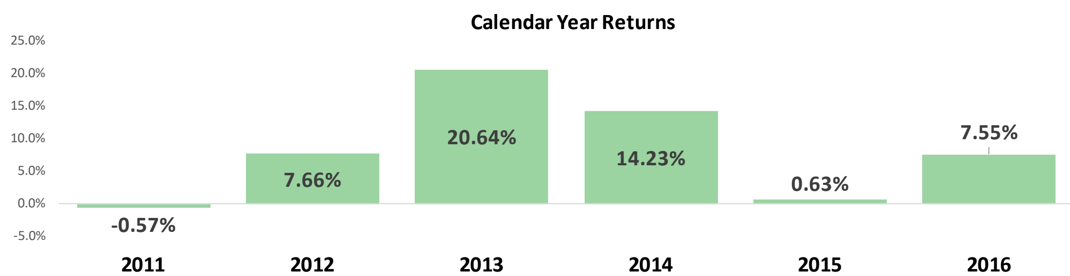
Avoiding Stupidity

The Value Fund returned +6.21% in the fourth quarter (net of fees and expenses) and we also established a number of new stock positions. Our best performers for Q4 were Urbana Corp. +34.7% and Wells Fargo +24.5%. Our worst performer was Cisco Systems (4.7%).

For the year, the Value Fund finished +7.55% (net). Currency headwinds from a strong Canadian dollar cost us about 3% of performance for the year. Overall, it was a so-so year for the Value Fund.

Additional detail on the Value Fund's performance for the year and stock holdings will be provided to GreensKeeper clients in the coming months along with our audited (KPMG) financial statements.





Notes: All returns and Value Fund details are based on Class A units and are net of all fees. The Value Fund was launched on November 1, 2011. Prior to January 17, 2014 the Value Fund was managed by Lightwater Partners Ltd. while Mr. McCloskey was employed by that firm.

Amazon.com, Inc. (Nasdaq: AMZN)

Before you jump to conclusions, we will state at the outset that we do not currently, nor have we ever owned Amazon in the portfolio. However, an examination of the company will help you to understand our stock filtering process and how we think about capital allocation at GreensKeeper.

We were inspired to write about Amazon after reading a recent newspaper article touting the stock. The author acknowledged that the company generates razor-thin profit margins and that the stock trades at a "ridiculously high" price-to-earnings multiple (171x to be exact). However, the columnist's conclusion was that despite the ridiculously high P/E, the stock was worth purchasing as it was likely to be even more pricey a year from now. That advice left us scratching our heads and eager to share a different perspective on the (un)attractiveness of Amazon as a potential investment.

" I think part of the popularity of Berkshire Hathaway is that we look like people who have found a trick. It's not brilliance. It's just avoiding stupidity. "

Charlie Munger

While the future is always uncertain, let's be generous and assume that over the next five years, all of the following things transpire at Amazon (we would characterize this as an optimistic scenario):

1. Revenue continues to grow at 20% per year;
2. Profit margins triple from 1.6% at present to 4.9%;
3. The company doesn't issue any more stock options; and
4. Amazon is able to finance its growth without issuing any additional shares.

If all of that happens, Amazon will earn approximately $32 per share in 2021 versus $4.90 today. At the current share price of $839, this implies a 26x price-to-earnings multiple on those future earnings. By comparison, one of the best retailers in the world - Costco (Nasdaq:COST) - currently trades at a 30x price-to-earnings multiple. In other words, even if things go very right for Amazon, shareholders may not earn a satisfactory return given the current stock valuation.

Now, what could go wrong? First, the law of large numbers suggest that Amazon will likely struggle to maintain its current 20% revenue growth rate for the next five years. Second, even the best of retailers struggle to earn a 4.9% profit margin. For example, Costco earns about a 2% profit margin. Finally, dilution via stock options is virtually guaranteed. From our perspective, the risk/reward proposition for Amazon is markedly unattractive.

Recommending the stock based on a different view of how the future will unfold for Amazon is perfectly legitimate.[1] However, recommending the stock because it is likely to be even more pricey a year from now isn't. In fact, it has a name in the investment industry. It's called the *greater fool theory*. We would posit that this is not investing, it is pure speculation. Amazon may ultimately turn out to be a profitable investment - only time will tell. But for GreensKeeper and our clients, we will take Charlie Munger's advice (at left) and simply pass. A component of compounding capital is avoiding unforced errors. With a broad investment universe in which to look for value, we prefer putting our money to work when the odds of a favourable outcome are decidedly in our favour.

Thinking Like an Investor

The Amazon case study also highlights another important investing concept. Despite our distaste for the stock at current prices, we wish to be clear on one point. Amazon is an amazing company. Under CEO Jeff Bezos' visionary leadership, the company continues to grow rapidly by reinventing retail and online business services. As a consumer, we are big fans as our 14 orders of the past six months will attest. It is the *valuation* that we take exception with as illustrated in the graphic below.

Source: visualcapitalist.com, Yahoo Finance and Google Finance.

[1] For example, rapid expansion of higher margin services such as Amazon Web Services could cause future profit margins to exceed our 4.9% "optimistic" assumption. Unlikely in our view, but still feasible.

Amazon belongs to that class of companies that are wonderful from the perspective of the consumer. They deliver fantastic products and services and lower costs for us all. But as an investor, that is not nearly enough. In order to meet our standards and make it past our investment screening process, we require much more.

Our Screening Process

Businesses that we invest in also need to possess attractive economics. We look for companies that generate attractive returns on the capital that they employ and that generate plenty of free cash flow. If they do not, we simply pass. If they do, we still need to be convinced that the company's profitability is sustainable. In other words, the business needs to possess a durable competitive advantage that gives us the confidence to predict that the business will continue to deliver attractive returns on its capital in the future. Capitalism ensures that high profits attract competition which tends to lower margins and profits over time.

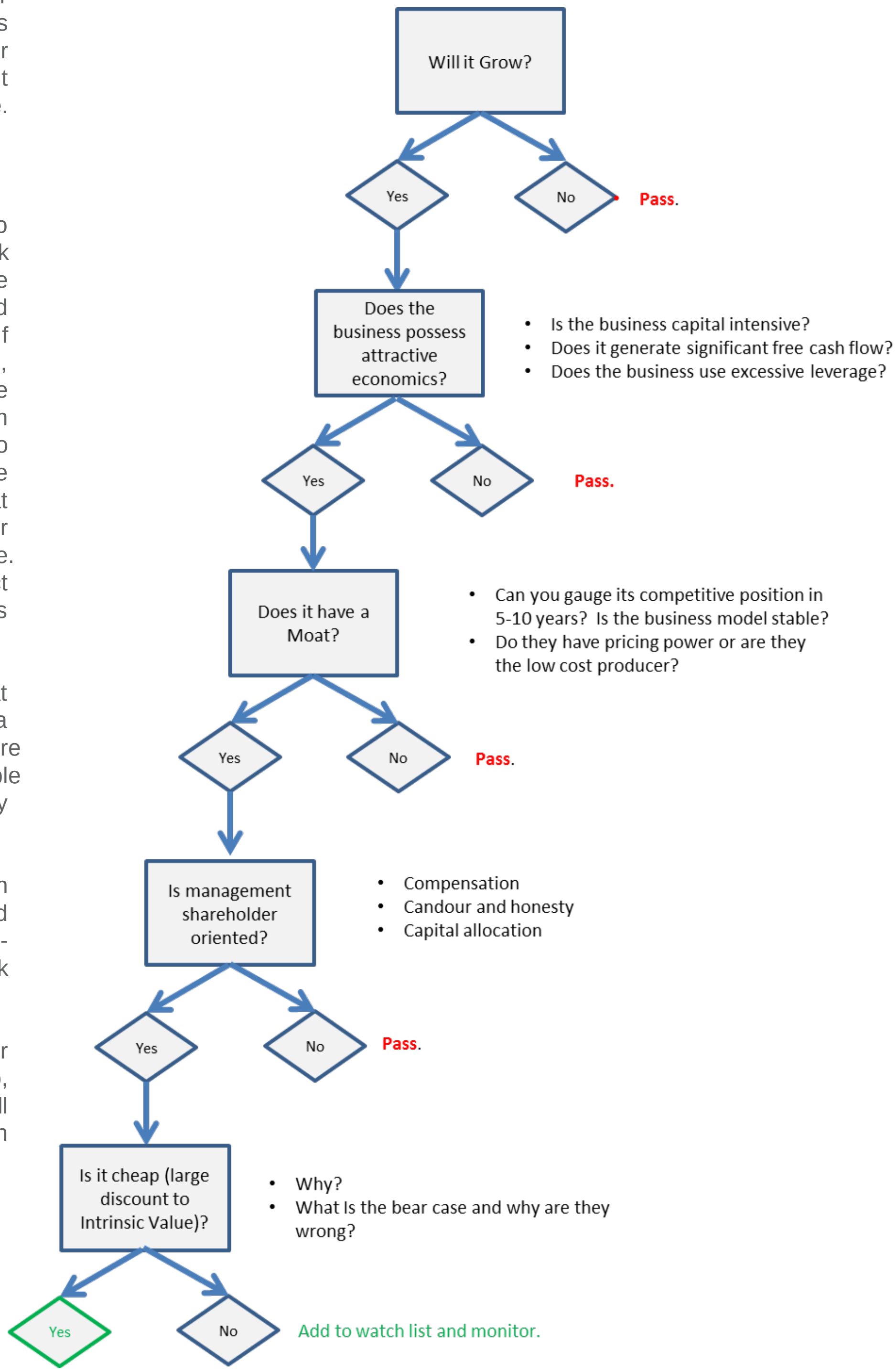
It is only certain special companies that possess both attractive economics and a moat that protect them from future competition. **Moats** come in multiple forms including patents, regulatory licenses, scale or a consumer brand.

Finally, for the few companies still in consideration, we need to be convinced that the management team is shareholder-friendly. In other words, they need to look after our interests and not just their own.

Very few companies make it through our stock filtering process. For those that do, we refer to them internally as our "All Stars". This is the fertile ground in which we hunt for opportunities.

GreensKeeper

Screening Process (Excerpt)



But being an All Star is still not enough as even the best business is not worth an infinite amount of money. The price of a stock relative to our calculation of its true worth or **intrinsic value** is critically important. It is when you can find an All Star trading at a big discount to its intrinsic value that you will experience truly superior investment returns.

When the stars all line up, not only will the business continue to deliver increasing profits for years to come, but eventually what those earnings are worth will be repriced by the market. The combination of dividends, earnings growth and multiple expansion lead to killer returns for investors. It doesn't happen often, but on occasion these opportunities present themselves like **Starbucks** did in 2008. And that, in a nutshell, is how value investors like GreensKeeper succeed in the stock market while also mitigating risk.

Five Years and Counting

On October 31, 2016, we marked the five-year anniversary of the Value Fund and celebrated by welcoming a new employee to the GreensKeeper team. Michelle Tait is now assisting us with administration, compliance and also helping out with client enquiries. Our growth would not be possible without the support of our existing clients who continue to refer new clients to us. Thank you!

For those less familiar with our firm, you should know that we invest our own money alongside our clients (in my case, over 70% of my family's net worth and 100% of our investible assets). We are employee-owned and our clients get to deal with the principals of the firm who actually make the investment decisions. We are believers in capital preservation and disciplined practitioners of a time-tested valuing investing methodology which should be a component of every investor's portfolio.

In short, we are different. If you are interested in learning more over coffee, feel free to give either Kristine Beese or I a call.

Michael McCloskey
President & Founder

GreensKeeper ASSET MANAGEMENT INC.

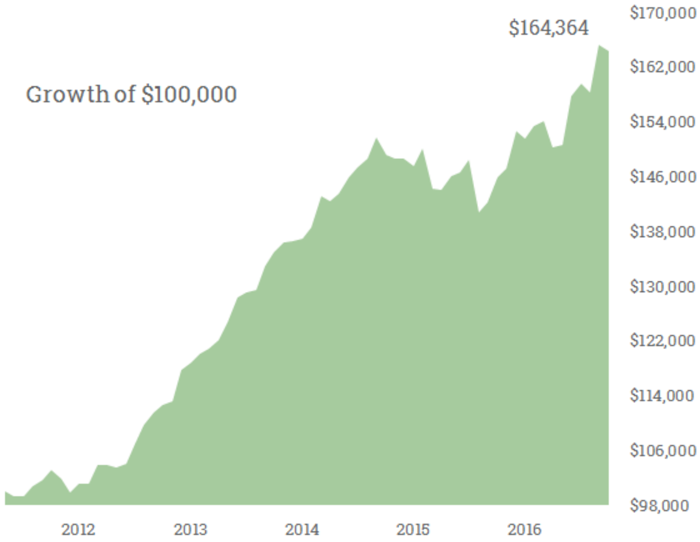
The Scorecard
Issue #18 - April 2017

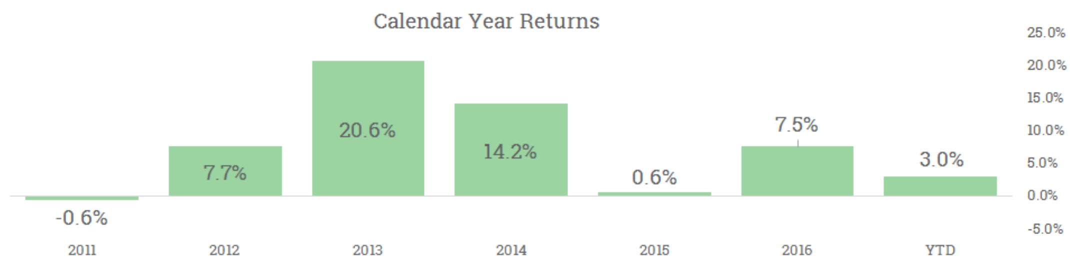
Cruel, Cruel Irony

The Value Fund returned +2.96% in the first quarter (net of fees and expenses) despite currency headwinds of approximately 0.8%.

Our best performers for Q1 by portfolio contribution were S&P Global +21.6%, Visa +13.9% and Cisco Systems +11.8%. Our laggards were our energy names, namely Exxon (9.1%) and Chevron (8.8%).

We established one new position during the quarter, added to several others and trimmed some of our year-end holdings. While the markets remain expensive, we have been able to find a few attractive pockets of value.





Notes: All returns and Value Fund details are as of March 31, 2017, based on Class A units and are net of all fees. The Value Fund was launched on November 1, 2011. Prior to January 17, 2014 the Value Fund was managed by Lightwater Partners Ltd. while Mr. McCloskey was employed by that firm.

""How did you go bankrupt?" Bill asked.

"Two ways," Mike said. "Gradually and then suddenly."

Ernest Hemingway

The Sun Also Rises

Home Capital Group Inc. (TSX:HCG)

Over the past year, Home Capital's stock is down (84%) and the company has lost over $2 billion of market value. Over a billion dollars of that decline happened *in the past 7 days.* The reason? A classic run on the bank. From my prior investment banking experience, I know the sector and the company very well. However, it has been so long since a bank failed in Canada that I actually had to look it up (1996 it seems).

Before delving into what is causing the current meltdown, let me first repeat what I wrote in our 2016 Annual Report about the company:

> During 2016 we also fully exited our position in Home Capital Group (TSX:HCG). This is a stock that we have purchased and sold on several occasions over the past five years. At one price we viewed it is attractive, and at another less so. More recently there have been two main issues that have factored into our decision to exit the stock. First, as the media reminds us daily, the Canadian housing market is not cheap.

> That doesn't mean that a selloff is inevitable. However, it does mean that the risk for mortgage lenders like Home Capital is heightened. Second, there have been a number of company-specific issues that gave us pause. Third-party mortgage broker fraud, the retirement of the founding CEO and slowing mortgage origination. We concluded that we were better off taking profits and investing elsewhere.

For the Value Fund and all of our clients, we are watching Home Capital safely from the sidelines. But we are still watching it closely as there are many lessons worth learning and we may yet be provided with a direct (or indirect) opportunity as a result of the current panic.

Banking 101

At its heart, banking should be a fairly simple business. Banks accept depositors' savings and recycle them into loans for credit-worthy borrowers. In this way, banks serve a useful capital allocation function like the equity markets. Banks borrow from depositors at a rate below their lending rate and pocket the difference (referred to as a bank's net interest margin). Banks repeat this process many times and by growing their assets and adding leverage to their equity base they can earn attractive returns for shareholders.

One prominent feature of this arrangement is that depositors can withdraw their money on demand (hence the term demand deposits) yet banks make loan commitments for much longer periods of time. Banks borrow short (and cheap) and lend long. In order to avoid bank runs and to maintain stability, governments around the world invented deposit insurance to assure retail depositors that their money was safe.

Given this arrangement, bank runs and panics are things that governments prefer to avoid as they end up holding the bag. Hence they regulate banking activity through several means including limits on a bank's ability to use leverage.

"Liquidity is like oxygen: when it's abundant you don't notice, when it's not, it's all you notice."

Warren Buffett

Cruel, Cruel Irony

Due to this funding model, *banks are creatures of the public's confidence*. Once that confidence is lost, a bank's ability to continue to do business is put in jeopardy as it needs to constantly attract deposits in order to fund its business. Several years ago, Home Capital encountered a major mortgage fraud issue in its business which the market had previously learned about and digested. However, one week ago the Ontario Securities Commission (OSC) released allegations[1] of misleading disclosure relating to that incident against the company and some of its current and former officers. One of the OSC's mandates is to maintain public and investor confidence in the integrity of the capital markets which is presumably why they brought the allegations forward. Ironically, their actions have had the effect of spooking Home Capital's investors and exacerbating the stock's selloff.

Similarly, Home Capital's board fired its former CEO Martin Reid one month ago given the company's financial underperformance and the board's view that the company should be doing better. In a more recent statement, the board pre-released decent Q1 financial results and stated that they "recognize that we have had our share of challenges recently and the confidence of our stakeholders has been understandably shaken." Both board actions were meant to bolster confidence, but ironically seem to have heightened investor concerns about the company. Ratings agencies also took notice of the management changes and the OSC investigation and downgraded the company.

Canada's banking regulator is the Office of the Superintendent of Financial Institutions or "OSFI" as it is more commonly known. Part of OSFI's mandate is to control and manage risk and ensure that Canadian banks are sound. Unlike the US, Canada's banking sector sailed through the Great Recession with flying colours.

[1] None of the allegations have been tested or proven at a hearing or in court and the company has responded that they are without merit and will be vigorously defended. We make no comment regarding the veracity of the allegations.

With OSFI's reputation intact, Home Capital is certainly front and center with Canada's banking regulator at the moment. A little-known fact is that several years ago OSFI encouraged Home Capital to broaden its funding sources by growing demand deposits. Historically, almost all of Home Capital's funding came from fixed-term deposits (GICs) which were locked in and closely matched to the term of the company's assets (mortgage loans). Demand deposits represented $2.5 billion of Home Capital's funding at the end of 2016 (vs. only $0.1 billion in 2012). In the past month, $591 million of those demand deposits have in fact been demanded by customers and are now gone. Even though they are fully guaranteed by the Canadian government (via the CDIC), depositors are fearful and withdrew their money creating a funding issue for Home Capital.

As a result, yesterday morning Home Capital announced a one-year funding deal with a major institutional investor. Under the facility, $2 billion will be available to the company but at an interest rate of 10%. In addition, the loan comes with a $100 million non-refundable commitment fee. For perspective, Home Capital earned $247 million in all of 2016. This secured loan has an effective interest rate of at least 15% and would represent only a fraction of the company's $16 billion of deposits and GICs. Compare that rate with the 2% that Home Capital was paying on its deposits and the fact that the company earned an average of 4.24% on its assets in 2016. In other words, they can't earn a spread borrowing at 15% and lending at lower rates. You can now understand the equity market's reaction. The irony here is that OSFI's goal of reducing risk by having Home Capital diversify its funding sources may have perversely have contributed to the current run on the company's funding. Term deposits may not be renewed, but generally aren't payable on demand.

Over the past few years, a number of short sellers have been betting on Home Capital's demise. Some have been suggesting that the company is an outright fraud while others have made inflammatory statements in an effort to make mountains out of financially-immaterial molehills. The reality is that the shorts have a perverse economic incentive to try and incite panic as deposit-taking lenders are vulnerable to runs. Another reality is that most of these investors have been shorting Home Capital because of Canada's expensive housing market, the fact that Home Capital is a "pure play" on the Canadian housing market and their prediction of a Canadian housing price crash.

We concur that housing is overvalued in Canada. However, to date housing prices have continued to appreciate without any meaningful blip allowing Home Capital to make enormous profits along the way. In fact, Home Capital just pre-released that it earned $58 million in Q1. They were and remain a good lender. Over the past week, these short bets turned out to be very profitable, but ironically for different reasons than most short sellers anticipated. Their investment thesis was focused on perceived problems with the company's assets (loans), whereas the stock's recent collapse has been caused by the company's liabilities (deposits). The shorts got it right, but for the wrong reasons, and their actions likely contributed to the current bank run.

The Next (Final?) Chapter

So how does the Home Capital saga, which is still very much in progress, ultimately play out? We can foresee several possibilities. But unfortunately we do not believe that we can properly assign probabilities to each scenario or determine with enough certainty the valuation of the company's shares in each case. As a result, we plan to continue to watch Home Capital from the sidelines (but as always, reserve the right to change our minds as the facts change).

Scenario 1 – Home Capital manages its way through the crisis, albeit badly scarred. This will take plenty of time as deposits aren't the only current challenge. The company requires a new CEO and needs to regain the confidence of third-party mortgage and deposit brokers that refer business to them. The company's earnings will be severely diminished (or worse) in 2017 and a short-term dividend suspension likely. But in time, they may recover and hopefully preserve the company's >$20 per share of book value and live to fight another day.

"History doesn't repeat itself, but it does rhyme."

Mark Twain

Scenario 2 – OSFI arranges for a major Canadian bank to buy Home Capital, possibly with a regulatory backstop protecting the buyer against losses for a period of time until the business is stabilized. This makes the situation "go away" as long as the buyer is large enough that its solvency isn't brought into question as a result. This scenario reminds me of the acquisition of Bear Stearns by JP Morgan in 2008. Jamie Dimon of JP Morgan was allegedly willing to pay $4-5 per share but the deal was ultimately done at $2. The reason? Former Treasury Secretary Hank Paulson was reported to have insisted on a lower price to avoid the moral hazard of using public funds to bail out private shareholders. Remember Mark Twain's advice (at left).

Scenario 3 – OSFI puts Home Capital into resolution mode – in other words, they provide enough short-term liquidity to Home Capital and oversee an orderly liquidation of the bank's assets and the full and orderly repayment of depositors. But this doesn't fully deal with a key problem. The company's $11 billion of non-prime mortgages will come up for renewal in the next few years. If Home Capital isn't around to renew them, who is? The company built its business lending to borrowers that the major banks wouldn't or couldn't lend to.

There are likely other scenarios that I haven't even considered. But I am certain that the significance of properly managing this situation is not lost on anyone involved. Home Capital's main competitor Equitable Group Inc. (TSX:EQB) has seen a 40% decline in its shares over the past few weeks. Other smaller financial services companies shares are selling off and even the larger banks started to wobble yesterday. Contagion is very dangerous in banking and it can happen very quickly.

The latest chapter in the Home Capital saga is a sad one. In 1986, a talented real estate lawyer named Gerry Soloway decided to become an entrepreneur by founding a Canadian mortgage company called Home Capital. In the company's first year, Home Capital had revenue of less than half a million dollars and the company lost a nominal amount of money. Last year, Home Capital earned profits of almost $250 million on its $29 billion of assets under administration. Over the decades, Home Capital had been one of the best performing stocks on the TSX. How this ultimately plays out is too tough for us to handicap. But we do hope that it ends well for everyone involved. That visionary founder and the company's many honest and hard-working employees deserve a better ending to what had been a wonderful Canadian success story.

Annual Meeting

GreensKeeper's 6th Annual Meeting will be held on Thursday, June 1 at 7:00 pm at the Mississaugua Golf & Country Club. Additional details will follow shortly via separate invitation.

For those less familiar with our firm, you should know that we invest our own money alongside our clients (in my case, over 70% of my family's net worth and 100% of our investible assets). We are employee-owned and our clients get to deal directly with the people who actually make the investment decisions. We are believers in capital preservation and disciplined practitioners of a time-tested valuing investing methodology that should be a component of every investor's portfolio.

In short, we are different. If you are interested in learning more over coffee at our Oakville office or downtown Toronto, feel free to give me a call.

Michael McCloskey
President & Founder

April 27, 2017

GreensKeeper ASSET MANAGEMENT INC.

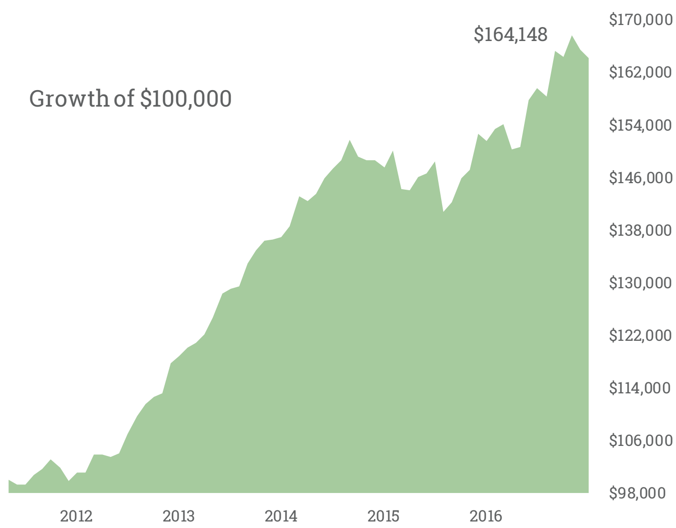
The Scorecard

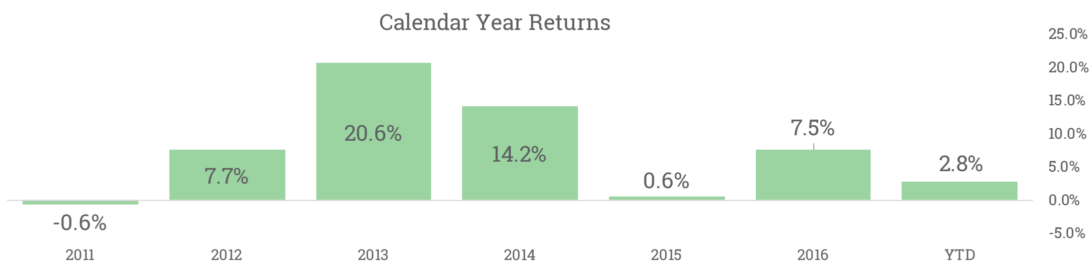
Issue #19 - July 2017

Twin Pandemics

The Value Fund was down (0.13%) in the second quarter and is up 2.82% year to date. The continued weakening of the US dollar and our US-centric holdings have held back our returns when measured in Canadian dollars (the Value Fund's reporting currency).

Our best performers for Q2 by portfolio contribution were Novo Nordisk +25.1% (discussed in detail on page 2), American Express +6.5% and Anthem +13.8%. Our biggest laggards were IBM (11.7%) and Chevron (7.4%).





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"The intelligent investor is a realist who sells to optimists and buys from pessimists."

Benjamin Graham

The Intelligent Investor

We are finding a few underpriced situations these days and made a timely addition of a new consumer discretionary stock to the Value Fund in Q2. Solid earnings followed and we are off to a good start. As we may still accumulate additional shares, we will disclose this new holding in a future letter. During the quarter we fully exited our holdings in Express Scripts (NYSE:ESRX). We had assumed that the company would be unable to renew its largest customer – Anthem (NYSE:ANTM) – when the contract comes up for renewal in 2020. However, we underestimated how profitable that contract was to the company which they finally disclosed to the market. Based on previous communications with the company's management, we felt misled on that point. Having profitably trimmed our holdings previously, we ended up with a small loss on our overall investment in the company.

We also fully exited our holdings in Bed, Bath & Beyond (Nasdaq:BBBY). The juggernaut that is Amazon (Nasdaq:AMZN) is making life difficult for most retailers these days. While Bed, Bath & Beyond remains very cheap by conventional metrics (6.9x trailing P/E as of the date of writing), we believe that their moat is being drained and their future profitability at risk due to changing consumer shopping habits. Given our initial assessment of the risks involved, our position size was always modest at less than 3.5% of the portfolio. Overall our investment cost us (0.35%) of performance. The lesson learned: determining the *durability* of the competitive advantage(s) of our investee companies is incredibly important. Chalk this one up to experience.

Novo Nordisk A/S (NYSE:NVO)

Value Fund holding Novo Nordisk is the world leader in diabetes care with a global market share of 27% by value (46% by insulin volume). The company was founded in 1925 and is headquartered in Denmark. However, its origins have a uniquely Canadian connection.

In the early 1920s, Dr. Frederick Banting and Charles Best conducted pioneering research on animal pancreases at the University of Toronto. Their research eventually led to the discovery of insulin and earned Dr. Banting the 1923 Nobel Prize in Medicine. Prior to their discovery, the treatment of diabetes consisted of a severely restricted diet which usually led to death within a year or two of diagnosis. And while a cure for diabetes remains elusive to this day, the advent of insulin has dramatically improved both life expectancy and quality of life for those stricken with the illness.

Dr. Banting and his colleagues patented their invention but considered the idea of profitable commercialization unseemly. Their goal was to make their life-changing invention safely available to as many diabetics as possible. Consequently, they sold their patent to the University of Toronto for $1 (you read that right). However, it quickly became apparent that the University did not have the ability to produce insulin in the quantities needed to meet the growing demand. Ultimately commercial licenses were granted to several pharmaceutical companies including a predecessor to Novo Nordisk.

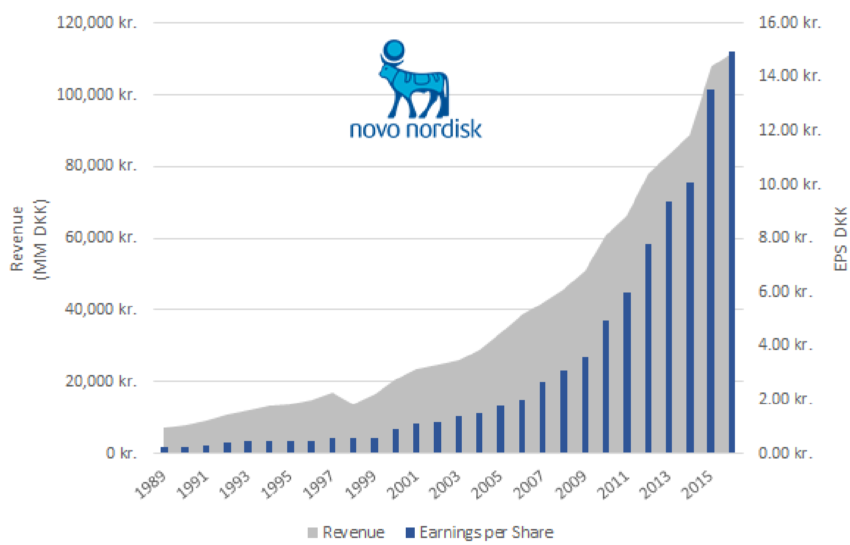
Novo Nordisk's Economic Moat

Fast forward almost a century and today the diabetes industry is dominated by a three-firm oligopoly consisting of Novo Nordisk, Eli Lilly (NYSE:LLY) and Value Fund holding Sanofi SA (NYSE:SNY). These three companies have managed to continually innovate by creating more effective and safer iterations of insulin and delivery devices that benefit diabetics. Each new innovation also gives them additional patent protection which has kept potential competitors at bay and allowed them to continually increase prices.

The economic moat enjoyed by the "Big 3" extends beyond mere patent protection. The manufacture of insulin is a complex process involving trade secrets and a significant initial investment in manufacturing facilities. For example, Novo Nordisk will spend US$1.5 billion this year to expand its production facilities in the US and Europe. In addition, insulin is manufactured biologically. Unlike small-molecule pharmaceuticals (most drugs), the molecular structure of biologics is large and complex as they are derived from living sources. Biological "copies" are not identical, they are merely bio-similar. This is a relatively new area of medicine and the regulatory framework is still evolving such that getting a biosimilar approved is more complicated than with generic drugs. Given the complexity of manufacture, discounting on biosimilars is unlikely to be as aggressive as with traditional drugs thus limiting pricing pressure.

The advantage of scale production and the need for scale in distribution (Novo Nordisk has a sales force of 16,000+) lends itself to an industry with just a few, large competitors.

Finally, once a diabetic finds an insulin that works well for them, they tend to stick with the same brand creating a consumer switching cost that locks in customers. The longstanding reputation (brand) of these companies also helps to perpetuate the status quo. Doctors and their patients want to know that they can trust the quality of the insulin being injected.



Limited competition, patent protection, brands, customer switching costs and barriers to entry – combine them all and you can understand why the Big 3 have enjoyed pricing power and have been able to increase prices frequently. The result? Novo Nordisk enjoys 85% gross margins, 42% operating margins and returns on equity approaching 100%. This is an incredible business.

The Opportunity / Investment Thesis

Novo Nordisk has a debt-free balance sheet, net cash of US$1.08 per share and pays a healthy dividend. Historically, Novo Nordisk has traded at price-to-earnings multiples over 20x. But the stock has had a major selloff due to two cuts to profit guidance which led to recent management changes. The company's current (lowered) guidance is for annual operating profit growth of at least 5% (down from its historical 15%).

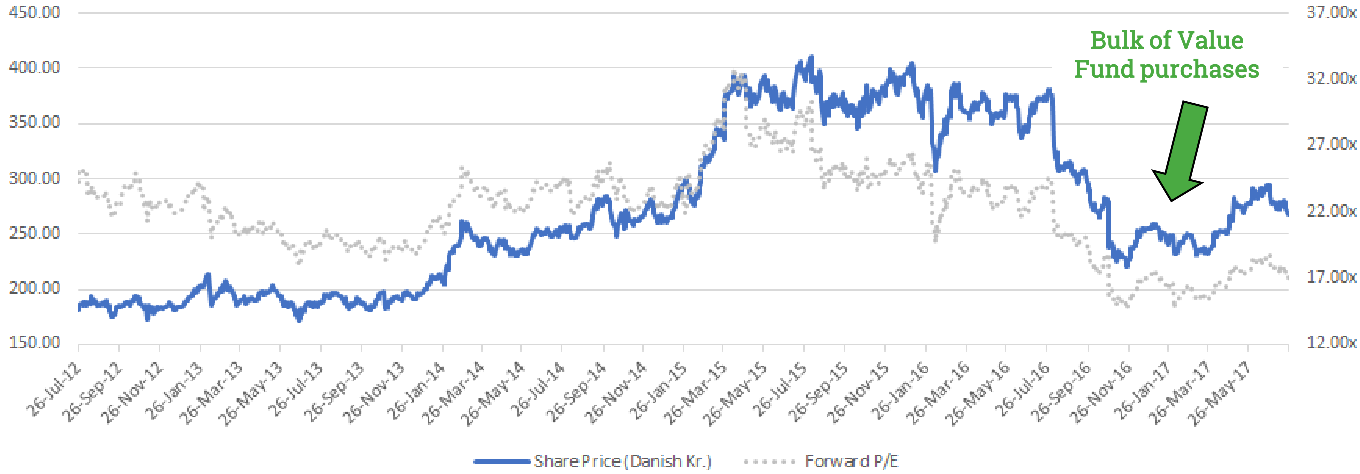
The company's recent stumbles were caused by pharmacy benefit managers (PBMs), governments and other payers in the US using their growing clout to aggressively demand discounts and play off the Big 3 against each other or risk formulary exclusion. In addition, biosimilar products are slowly but surely being introduced to the market. This changing dynamic makes it increasingly critical for the Big 3 to make meaningful improvements to next-generation insulins in order to continue to demand premium prices.

Despite improvements in the treatment of diabetes, it remains a global pandemic. According to the World Health Organization (WHO), over 422 million people worldwide suffer from the disease. And as populations age in developed economies and improving standards of living lead to greater obesity levels in developing countries, the number of type 2 diabetics in particular will continue to grow. As a result, the Big 3 will have a huge tailwind at their back for many years to come.

Novo Nordisk gets solid marks for shareholder-friendly capital allocation. The company is a prodigious generator of free cash flow and has a demonstrated track record of returning almost all that money to shareholders through a combination of dividends and share repurchases.

Novo Nordisk's shares trade on a number of European exchanges however we prefer to own the American Depository Receipts (ADRs) that trade on the New York Stock Exchange (NYSE:NVO). We started accumulating shares in the Value Fund beginning in late 2016 and added to our position on several occasions in 2017. Our holdings in the company represented approximately 4.6% of the portfolio at June 30.

With an average cost of US$35.89 per ADR (or 229 Danish Kroner per share) we were able to buy the stock at a below-market 15x earnings multiple – in our minds a bargain for an above-average company likely to grow faster than both the economy and most companies. We are currently up +19.5% on our investment however it is far too early to declare victory. We anticipate that our investment thesis will play out over many quarters (and years). Given Novo Nordisk's business economics, history of continual innovation and success at managing the business over the past 92 years, we like our chances.



"What the wise do in the beginning, fools do in the end."

Warren Buffett

Exchange-Traded Funds (ETFs)

We are bombarded daily with advertisements for the latest iteration of exchange-traded funds (ETFs). Created by Vanguard pioneer Jack Bogle back in 1976, the concept has more than taken on a life of its own. I am often asked for my opinion on ETFs which I can boil down to a few salient points.

Select high-quality ETFs can have a place in any equity investor's portfolio. But most investors don't understand what they are buying or that the major market indices that many track are price weighted. In other words, the more expensive a stock, the more of it you end up owning in an index-ETF. This is the exact opposite of our more rational value investing approach. As stocks sell off they actually become more attractive, not less so. We think that the next major market correction, whenever it comes, will bring a few unpleasant surprises to ETF holders.

Secondly, there are a lot of poor-quality companies out there that we prefer to avoid. For example, at its peak valuation, Valeant Pharmaceuticals (TSX:VRX) accounted for 6.1% of Canada's S&P/TSX Composite Index. Shades of Nortel circa 2000. Again, we prefer to mitigate investment risk by owning high-quality businesses at undervalued prices and avoid the rest.

Finally, diabetes isn't the only pandemic currently spreading around the globe. As the Oracle so aptly put it: "What the wise do in the beginning, fools do in the end." Do investors really need a Global X Millennials Thematic ETF (NASDAQ:MILN), a tiny $6 million fund that targets companies that they deem attractive to Millennials? Or how about the Nashville Area ETF (NYSE:NASH) which owns diverse companies that happen to be located in Nashville, Tennessee? No doubt there will be additional thematic and multi-leveraged ETFs coming to market in the near future. Whenever there is market demand, the investment industry is sure to keep feeding it while it lasts. We would also posit that these are vehicles for speculation, not investing.

Okay, rant over. But I should mention that instead of investing via ETFs, I prefer to invest my own money directly alongside GreensKeeper's clients (in my case, over 70% of my family's net worth and 100% of our investible assets). We are believers in capital preservation and disciplined practitioners of a time-tested valuing investing methodology that should be a component of every investor's portfolio.

In short, we are different. If you are interested in learning more over coffee at our Oakville office or downtown Toronto, feel free to give me a call.

Michael McCloskey
President & Founder

GreensKeeper ASSET MANAGEMENT INC.

The Scorecard

Issue #20 - October 2017

"The single greatest edge an investor can have is a long-term orientation."

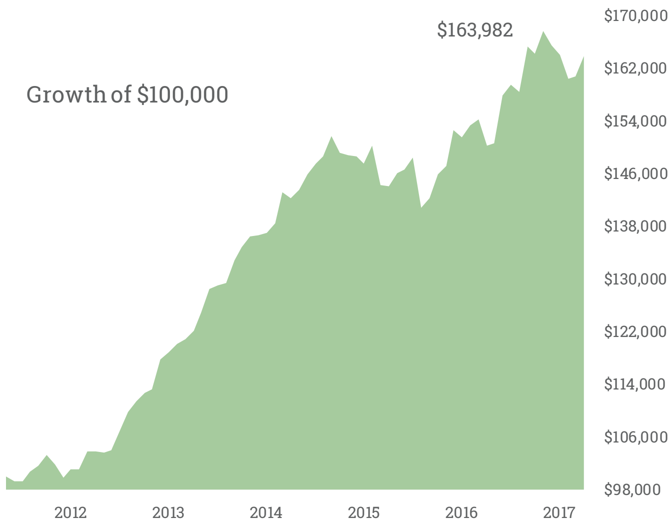
Seth Klarman

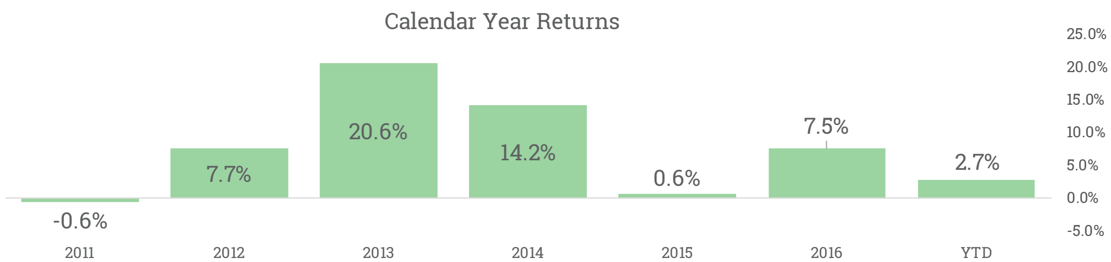
Baupost Group

A Money Making Machine

The Value Fund was flat (0.10%) in the third quarter and is up 2.72% year to date.

Currency movements were immaterial during Q3. The Canadian dollar has started weakening since September 11 and we are now recapturing some of the (6.5%) in performance that its previous rise has cost us this year (Canadian dollars are the Value Fund's reporting currency). We purposely accept this currency volatility in exchange for saving the hedging costs along the way.





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Our best performers for Q3 by portfolio contribution were **Berkshire Hathaway** +8.2%, **American Express** +7.4% and Novo Nordisk +12.3%. Our biggest laggards were **Allergan** (15.7%), **Coach** (14.9%) and **Nike** (12.1%).

During Q3 we added **CVS Health** (NYSE:CVS) to the portfolio. You are likely familiar with their retail pharmacies but may not know that CVS also owns a major pharmacy benefit manager (PBM) that competes with former Value Fund holding Express Scripts. Many retail stocks are currently underperforming due to the threat posed by **Amazon**. More specifically, there are reports that Amazon is contemplating a move into the online pharmacy space which is weighing on CVS' stock – hence the opportunity. We believe that pharmacy – a highly regulated business - is more difficult to tackle than selling general merchandise. In addition, CVS' PBM is an underappreciated jewel and it recently won a major PBM contract with health insurer **Anthem** (NYSE:ANTM). We like CVS' long-term prospects and the risk/reward at these prices.

In August we sold about half of our position in **Corus Entertainment** (TSX:CJR.B) due to price appreciation and our view of the stock's intrinsic value. Factoring in dividends, we were up about 49% in 18 months and decided to take some profits. Subsequent to quarter end, we added a new European-based company to the portfolio. As we may still accumulate additional shares, we will disclose this new holding in a future letter.

GreensKeeper
ASSET MANAGEMENT INC.

The Scorecard
Issue #20 - October 2017

Visa, Inc. (NYSE:V)

Value Fund holding Visa, Inc. is the world leader in retail electronic payments. Visa, along with competitor **MasterCard**, form a global duopoly in the sector. Visa is an incredible business. The company grows steadily without much capital reinvestment required, adds value to both consumers and retailers and is very difficult to compete against. Visa is truly a money-making machine.

A simplified overview of Visa's business model is warranted as it is often misunderstood. You have probably never given Visa's business much thought despite having a Visa-branded card in your wallet. While often thought of as a credit-card issuer, Visa is actually a technology company. Visa owns and operates VisaNet – a highly secure and reliable global network that authorizes, clears and settles financial transactions. Visa operates an open loop or four-party system consisting of (i) Issuers, (ii) Merchant Acquirers, (iii) Retailers and (iv) Consumers (cardholders).

In an open-loop system, credit and debit cards are actually issued by banks (e.g. RBC, Scotiabank) – known as Issuers. Visa authorizes these banks to issue Visa-branded cards and the Issuers agree to follow Visa's rules and pay Visa certain fees.

Retailers that wish to accept Visa as a payment method enter into an agreement with a Visa-authorized bank (called Merchant Acquirers) who agree to help the retailer process and settle transactions. Merchant Acquirers ensure that Visa's rules are followed and pay Visa certain fees.

When a card is presented by a consumer for purchase at a retailer, VisaNet routes the payment request for authorization to the Issuer bank. VisaNet's algorithms simultaneously analyze the transaction to detect and prevent fraud. Within one or two seconds the transaction is approved (or not) and the settlement of funds takes place between the two banks and the retailer within a few days.

An often misunderstood point is that Visa does not take any credit risk – that risk sits with the Issuing Bank that grants you the card, sets your credit limit and sends you your monthly statement. Visa simply sits in the middle - facilitating payment transactions and collecting a modest fee from Issuers and Merchant Acquirers that averages about $0.18 per transaction. That may not sound very impressive until you realize that VisaNet processes over 116 billion transactions every year or more than 3,700 *per second!*

The Four-Party System
(Open Loop)

Visa's Economic Moats

Visa is such a good business that you would think that others would try and replicate it. Easier said than done. Visa's business is protected by multiple competitive advantages or moats. The first is brand. Trust is extremely important when it comes to payments. Many years of usage by consumers and investment in security by the company gives all parties involved the confidence to use a Visa card. Second, Visa benefits from a network effect. Consumers want to use cards that are accepted by most merchants and merchants want to accept cards carried by most consumers. This virtuous circle is very powerful and difficult to replicate. To date, alternative payment providers, even those started by reputable and powerful companies (e.g. Apple Pay, PayPal) have generally partnered with Visa and MasterCard. Replicating their global payment networks and technological prowess is not a small feat.

Visa also benefits from switching costs. It is a major undertaking for an Issuing bank to switch all of its credit card customers to another branded card. Finally, Visa benefits from scale. Visa is largely a fixed-cost business. The incremental cost of processing an additional transaction is close to zero. Operating margins at Visa are currently 66% *and rising!* As a result, the company sensibly focuses on driving cards in circulation, card usage and volume.

Business Tailwinds

Visa also benefits from a number of macro trends. Cash usage continues to decline as consumers around the world are choosing to pay more often using plastic as incomes and standards of living rise. The secular trend of online commerce also plays into Visa's hands as online payments are all non-cash. According to the Nilson Report, Visa currently represents about 54% of all global payment transactions and Mastercard another 26% (or 80% combined). Given their dominance, both companies possess pricing power and regularly increase their prices.

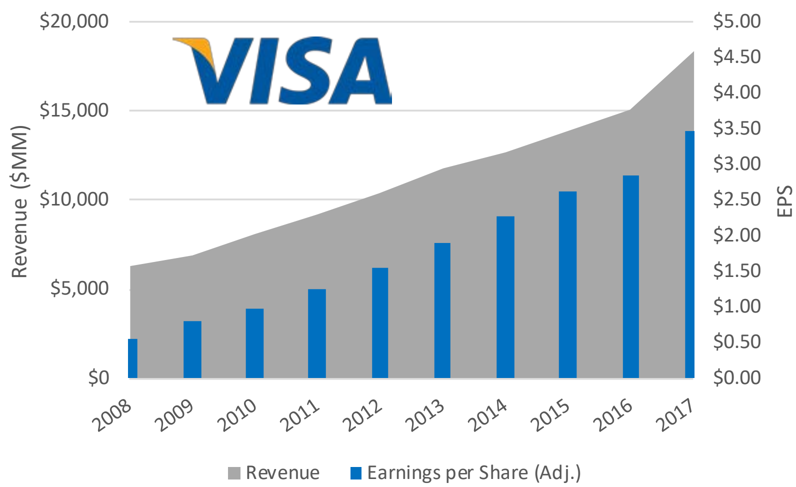
Visa acquired Visa Europe for over $20 billion in mid-2016. Visa Europe was previously owned by European financial institutions and operated as a not-for profit enterprise much like Visa was prior to its initial public offering (IPO) in 2008. We expect that the integration of Visa Europe over the next few years will follow Visa's historical path of expanding volumes and margins given Visa's experience and global scale.

Valuation

As a result of all these factors, Visa has been able to consistently grow its revenues at double-digit rates and earnings even faster through operating leverage. Over the past five years, Visa earned a cumulative $24.7 billion in earnings and paid out *all of it* to shareholders through a combination of rising dividends and share repurchases.

Without question, Visa is a remarkable business. But even great businesses are not worth an infinite amount. We believe that Visa will earn at least $4.00 over the coming year and should comfortably grow earnings per share at a double-digit pace for some time. Combined with the quality of the business and its capital-light nature, we believe the stock is worth at least 25x earnings or about $105. Many people think that value investing is all about low price-to-earnings (P/E) multiples. It is not. Value Investing is about buying something for less than its intrinsic value. A fast growing and high quality company is worth a lot more than a slower growing and inferior business. It is the comparison of price to intrinsic value that matters, not simply the relative P/E ratios.

We started buying Visa in late 2016 at a P/E in the low 20x range and our average cost is $79.38. Visa is our fifth-largest position in the Value Fund but with the stock trading at close to $110, we believe it fully valued at present and do not plan to add to our holdings at these prices. However, we are happy to allow our unrealized capital gain to compound at a reasonable rate unless and until a better opportunity presents itself.



*"Investing should be more like watching paint dry or **watching grass grow**. If you want excitement, take $800 and go to Las Vegas."*

Paul Samuelson
late U.S. economist and
Nobel Prize winner

Risks

There is risk in any investment and Visa is no exception. Regulation is probably the biggest risk facing the company. Visa's dominance and market power make them an easy target for regulators who prefer to cap their prices and shape rules that Visa imposes on Issuers and merchants choosing to participate in the Visa ecosystem. Class action lawsuits by consumers and merchants for monopolistic practices are another related risk.

Cybersecurity is another critical risk faced by the company. A data hack similar to the one engulfing **Equifax** would be very damaging to Visa's business. Fortunately, the company knows this and spends a lot of time, effort and money on that front. Consumer spending is cyclical and while a recession wouldn't expose Visa to credit risk, it would certainly slow payment volume growth. Finally, a disruptive technology could come along and create added competition. We believe that this is unlikely, but not impossible. We will continue to monitor these and other risks but remain long-term bullish on our investment in Visa.

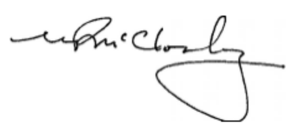
Talk is Cheap

In a world of extremely low interest rates and an overvalued Canadian real estate market, we believe that equities remain an attractive asset class for Canadians. However, market valuations remain elevated – which is why we don't own the market.

Instead, we seek to invest in high-quality but undervalued companies with solid balance sheets. In the present environment we are very focused on risk mitigation and capital preservation when selecting investments.

These are not merely empty statements. We take the responsibility that comes with managing people's money very seriously. We are humbled by the trust that our clients place in us and work hard to ensure that that trust is continuously deserved. You should also know that I have over 70% of my family's net worth and 100% of our investible assets invested alongside the firm's clients. We walk our talk at GreensKeeper and believe in aligning interests.

In short, we are different. If you are interested in learning more over coffee at our Oakville office or downtown Toronto, feel free to give me a call.



Michael McCloskey
President & Founder

Greenskeeper ASSET MANAGEMENT INC.

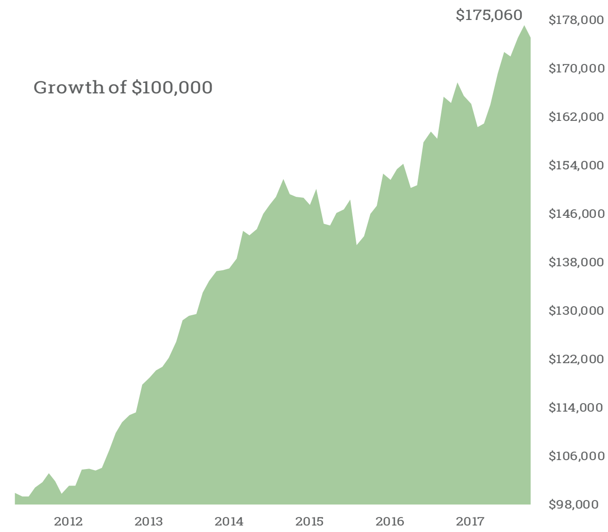
The Scorecard

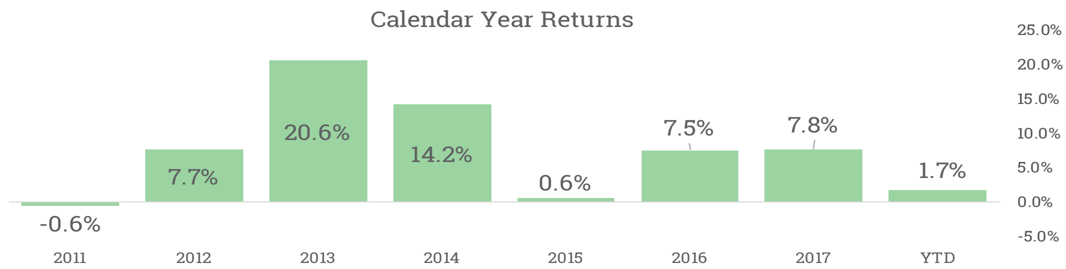
Issue #21 - April 2018

Compounding Knowledge

The Value Fund was up +1.75% in Q1 vs. the S&P/TSX which was down -4.52% and the S&P500(CAD) which was up +1.74%.

Markets are off to a rough start in 2018 and volatility is on the rise. The prior calm lulled a number of "investors" to short the VIX (fear index), presumably because they believed that turbulent markets had been abolished. Their investments were recently wiped out. Regular readers will not be surprised to learn that we avoided this folly (and the Bitcoin mania as well).





Notes: All returns and Value Fund details are as of March 31, 2018, based on Class A units and are net of all fees. The Value Fund was launched on November 1, 2011. Prior to January 17, 2014 the Value Fund was managed by Lightwater Partners Ltd. while Mr. McCloskey was employed by that firm.

The U.S. dollar – which hurt us last year – strengthened and provided a 2.4% tailwind in Q1. These ups and downs tend to even out over time.

Our best performers for Q1 by portfolio contribution were **Booking Holdings** (Nasdaq:BKNG) +19.7% - a new position that we added to the portfolio in Q4 2017 when it was known as **Priceline Group** - and portfolio stalwart **Cisco Systems** (Nasdaq:CSCO) +12.0%. Our biggest laggards were **Wells Fargo** (NYSE:WFC) -13.6% whose challenges continue and **American Express** (NYSE:AXP) -6.1%. We also fully exited our position in **Corus Entertainment** (TSX:CJR.B) after they reported disappointing results. Overall, Corus was a good investment for us as we bought cheap, sold most of it last August at $13.92 and earned monthly dividends along the way. But the media industry is rapidly changing and the risks of continuing to own the name have increased so we decided to move on.

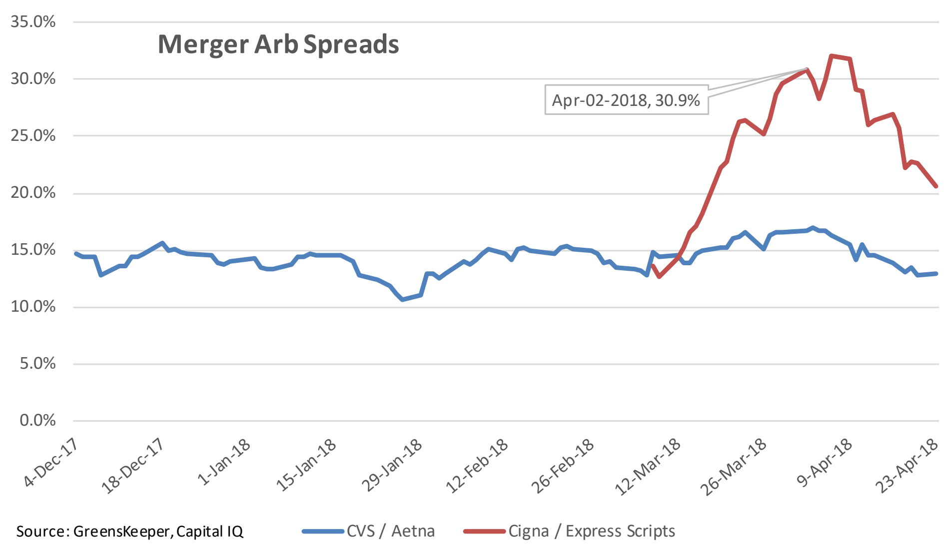
Express Scripts Holding Co.

We purchased shares in **Express Scripts** (Nasdaq:ESRX) in March. Longtime readers will recall that we have owned the stock previously and our previous articles on the company can be found here and here. But our reason for owning it this time is entirely different. Here's what changed.

On March 8, 2018 Express Scripts announced that it had agreed to be acquired by health insurer **Cigna Corporation** (NYSE:CI) in cash and stock merger. If the deal closes, a holder of an ESRX share will receive about $91.00 in value, or a 31% premium to where the stock was trading at the time. As expected, Express Script shares rose on the news and Cigna's declined. But then something interesting happened.

In merger situations like this, the target company (Express Scripts) will typically trade at a modest discount to the deal price to reflect the risk of the transaction not closing and time value (sellers don't get their consideration until the deal closes). The discount is referred to as the merger arbitrage spread and it generally declines over time as closing becomes more certain and imminent.[(1)]

What is interesting is that the spread on this transaction ballooned to over 31% in early April and Express Scripts started trading at a price *lower* than the undisturbed price that the stock was trading at prior to the deal announcement. Read that sentence again. We think the proposed transaction is similar to the pending combination of **CVS Health** (NYSE:CVS) and **Aetna** (NYSE:AET). But that second deal has consistently traded at a more reasonable spread of 15% or less. We have yet to hear of a compelling reason why the Express Scripts spread is so wide. So we promptly analyzed the situation and bought Express Scripts for the portfolio on April 2. Here's our rationale.



There are only two possible outcomes:

A. The transaction closes and we earn a 30% return. We have assumed that the transaction takes a year to close but if it closes by year end (management's view), our annualized return will be closer to 40%.

B. The transaction doesn't close. In this scenario, Express Scripts stock will sell off, but likely not much lower that where it is currently trading which is also close to our estimate of the stock's intrinsic value absent the deal. But Cigna will be obliged to pay Express Scripts a break fee of up to $2.1 billion if the deal fails. A nice consolation prize which further mitigates our risk.

What are the odds of each outcome? As the financing for the transaction has been secured, there are only two feasible reasons why the transaction doesn't close. First, the shareholders of both companies need to approve the deal. Express Scripts' shareholders will certainly approve it given the deal premium. Cigna shareholders may not like the deal. But Cigna management initiated the deal and will do their best to garner support. In addition, Cigna's shares are broadly held with the largest shareholders being passive index funds who are likely to follow management's lead.

(1) *Often, investors in Merger Arbitrage situations will go long (buy) the target and short (sell) the acquirer's stock. By doing so, they benefit as the spread narrows but can lose heavily if the deal doesn't close. We don't short and even if we did, our investment thesis supports a long-ESRX position without a corresponding short position in Cigna.*

The real risk is if regulatory approval from the U.S. Department of Justice is not obtained. We see no compelling policy reasons to block the deal, but you never know.

We think the odds of a successful closing are at least 50% (several analysts believe it is much higher, but we like to be conservative). If it does close, we earn a terrific, low-risk return. If its doesn't, we may suffer a modest loss. The asymmetric payoffs and our familiarly with Express Scripts and its industry gives us comfort in making this calculated bet. To date, the spread has narrowed and we are up +10.9%. But it is early and only time will tell how this situation ultimately plays out.

If you are interested in learning more, our investment thesis in Express Scripts was published by Barron's a few weeks ago. For hard core stock analysts, a more detailed investment memo containing our analysis can be found here.

We generally prefer investments in companies that will compound their value over time. However, in an expensive market where bargains are hard to come by, special situations like this can greatly enhance returns while still mitigating risk. To paraphrase Charlie Munger (at left), you need to look for bargains wherever they present themselves. Finally, it is worth pointing out that we were in a position to act quickly on this opportunity because of our prior work on Express Scripts. Investment knowledge, like interest, compounds over time.

"The two rules of fishing are to fish where the fish are, and don't forget the first rule."

Charlie Munger

2018 Annual Meeting

GreensKeeper's 7th Annual Meeting will be held on **Wednesday, June 13 at 7:00 p.m.** at our usual spot - the Mississaugua Golf & Country Club. Additional details can be found here.

If you are interested in learning more about investing, come join us! The meeting is open to clients, potential clients, friends and family. After a brief presentation, we open the floor to Q&A so please bring some tough questions with you.

If you plan to attend, just RSVP to either myself or Michelle Tait via email to help us to plan the logistics.

April 23, 2018

Michael McCloskey
President & Founder

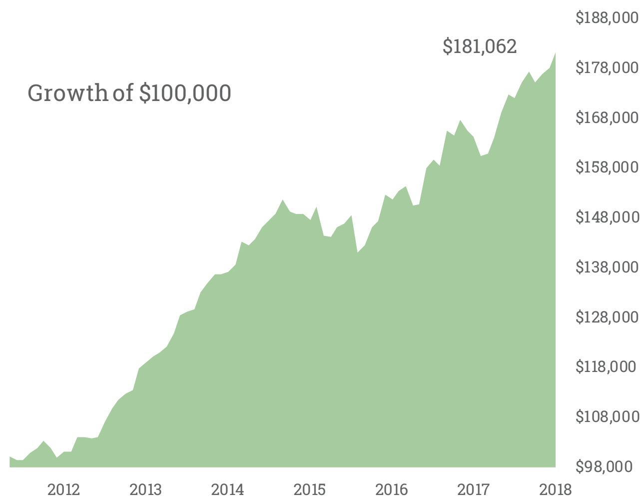
GreensKeeper ASSET MANAGEMENT INC.

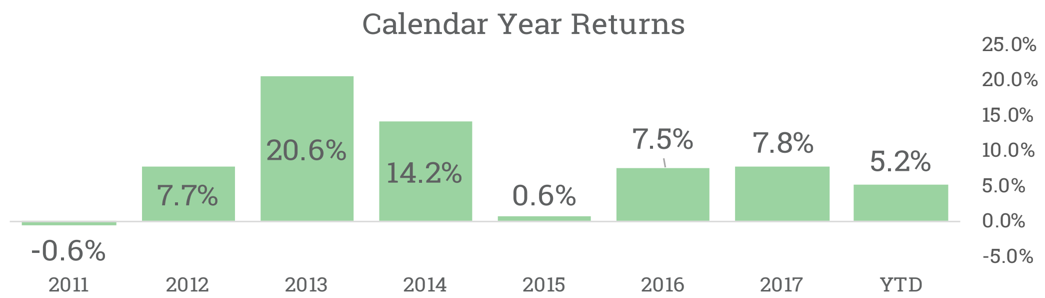
The Scorecard

Issue #22 - July 2018

Index Surgery

The Value Fund gained +5.2% (net of fees) for the six-months ended June 30, 2018. During this period the S&P/TSX Total Return Index gained +1.9% and the S&P500 gained +2.6% including dividends (+7.4% measured in Canadian dollars – the Value Fund's reporting currency).





Notes: All returns and Value Fund details are as of June 30, 2018, based on Class A units and are net of all fees. The Value Fund was launched on November 1, 2011. Prior to January 17, 2014 the Value Fund was managed by Lightwater Partners Ltd. while Mr. McCloskey was employed by that firm.

Currency movements that lowered our returns in both 2016 and 2017 reversed and have helped us so far in 2018. At times these movements will make us look brilliant and at other times foolish. Our view is that neither description is deserved. Currencies generally move within broad ranges and short-term movements are largely noise. We purposely accept this volatility in exchange for forgoing the hedging costs along the way. Our currency strategy remains unchanged and has been written about at length.

Recent Annual Meeting

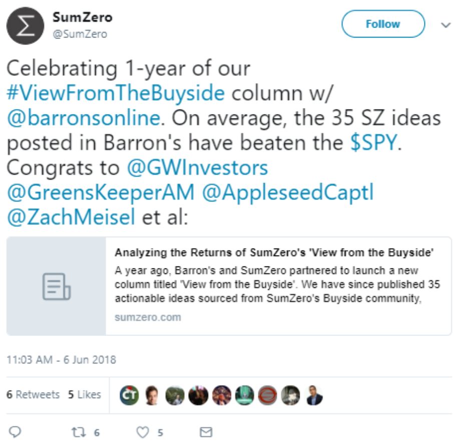
Thank you to the 40 people that attended our Annual Meeting on June 13. For those who weren't able to join us, a copy of the presentation along with a video recording of the event is now available on our website.

Portfolio Review

At mid-year, 97% of the portfolio was invested in 22 common stocks (1% Canadian and 96% foreign) and 3% was invested in cash and equivalents.

Our top three contributors year-to-date were all technology stocks: online travel agent **Booking Holdings** (Nasdaq:BKNG) +16.7%, credit card network **Visa** (NYSE:V) +16.2% and industry stalwart **Cisco Systems** (Nasdaq:CSCO) +12.3%.

Our large bet (6.8% weighting) on **Express Scripts** (Nasdaq:ESRX) is performing according to plan with the stock up +16.4% since we purchased it in April. Our recent writeup of our investment thesis for Express Scripts can be found in **Scorecard #21**. Our idea was published in Barron's and was recently ranked as one of the best performing ideas from the View From The Buyside column. In an expensive market, good ideas are hard to find. But they are out there. It just takes a lot of effort to uncover them. We remain bullish on our investment in ESRX as we continue to believe that the announced merger with **Cigna** (NYSE:CI) will receive regulatory and shareholder approvals and eventually close. Consequently, we expect the stock to gradually move towards the $92.00 deal price (vs. $79.45 today).



Our biggest performance detractors for the first half of the year were diabetes care leader **Novo Nordisk A/S** (NYSE:NVO) -14.1% and telecom giant **AT&T** (NYSE:T) -17.4%. Novo Nordisk remains well positioned to benefit from the growing number of people worldwide that are afflicted with the disease. Diabetes is truly a global pandemic. We are sitting on a decent gain on our investment and view the recent pullback as temporary. The future for AT&T is less certain. We inherited the stock as part of the consideration received on the takeover of our prior investment in **DirecTV** (we took some cash on the deal as well). The media and telecom landscape continues to change rapidly and AT&T is trying to adapt as evidenced by their recent acquisition of Time Warner. We like the 6.1% dividend yield but their balance sheet and industry shifts both make us cautious. We are closely monitoring the company's progress.

During the first half of 2018 we also initiated a few new positions including **Alphabet** (Nasdaq:GOOG) - also known as Google. Their dominance in search (>90% market share) is unlikely to be disrupted despite regulatory attempts to punish the company for abusing its market power. When people use the Google search engine, the company has a window into what is on our minds at that precise moment in time. That is a very valuable asset and advertisers are willing to pay to get in front of us at these critical moments. Google's AdWords is the gatekeeper and the company should continue to monetize its search traffic at high margins for years to come. The company's "Other Bets" like self-driving cars (Waymo) are less certain but we aren't counting on them as part of our valuation for the company. If they do pan out it's gravy. That said, we wouldn't bet against the company when it comes to innovation. Google has a winning culture underpinned by its top-notch engineering talent and its reliance on data-driven decision making. For those interested in learning more about the company, we recommend the book *How Google Works* written by former CEO Eric Schmidt and former SVP Products Jonathan Rosenberg.

Finally, during the first half of 2018 we fully exited our positions in **Allergan** (NYSE:AGN), **Corus Entertainment** (TSX:CJR.B), **Gilead Sciences** (Nasdaq:GILD), **Pandora A/S** (CPSE:PNDORA) and **Swatch Group** (SWX:UHR).

We finished the period with unrealized gains on our equity investments of approximately $5.8 million. The Value Fund is well positioned as the companies that we own are of high quality and should continue to increase their intrinsic value over time. A snapshot of the entire portfolio at June 30, 2018 can be found on the Schedule of Investment Portfolio on page 5 of the Financial Statements provided to GreensKeeper clients in our 2018 Half-Year Report.

Index Surgery

We have previously mentioned in passing a few of the shortcomings of the major stock market indexes but some recent market events justify dissecting them further.

Going back to first principles, the first stock market index was introduced in 1896 by Charles H. Dow as a barometer of how the equity markets were performing. Mr. Dow's eponymous index is still in existence today, however its small number of constituent stocks (30) and calculation based on price weighing(1) vs. market capitalization make the Dow Jones Industrial Average (DJIA) a less-reliable gauge of how the broader markets are faring.

A more widely followed index is the S&P500 whose constituents comprise the 500 largest companies listed on the major US stock markets as measured by market capitalization. While this is arguably a better measuring stick for the US equity markets than the DJIA, the S&P500 Index has its own shortcomings.

For example, as a company's shares rise in price and the valuation becomes more expensive, its weighting in the S&P500 Index increases. Index investors end up owning more and more of expensive companies and less and less of cheaper ones. **Amazon** (Nasdaq:AMZN) alone accounted for 33.4% of the S&P500's gains through June 30, 2018 (see table below). As we previously wrote in the *Globe and Mail*, while Amazon is a gift to consumers, we have no interest in owning the stock at its current valuation. We are of the same opinion for another top index contributor and market darling: **Salesforce.com** (NYSE:CRM). With the company trading at a valuation of 65x forward earnings (232x trailing), we just don't get it and will take a pass. Best to leave pricey stocks like this to others who think that we are missing something.

S&P 500 Total Return Index

Top Contributions YTD (to June 30, 2018)

COMPANY	Index Contribution	Total Return
Amazon.com Inc	**33.41%**	45.35%
Microsoft Corp	**17.79%**	16.31%
Apple Inc	**17.15%**	10.25%
NetFlix Inc	**13.73%**	103.91%
Mastercard Inc 'A'	**6.94%**	30.23%
Facebook Inc Cl'A'	**6.91%**	10.12%
Visa Inc'A'	**5.64%**	16.55%
Adobe Systems	**5.60%**	39.13%
Cisco Systems	**4.45%**	14.09%
NVIDIA Corp	**4.39%**	22.58%
UnitedHealth Group	**4.30%**	12.05%
Boeing Co	**4.10%**	14.93%
salesforce.com inc	**3.87%**	33.42%
NIKE, Inc'B'	**3.75%**	28.12%
Alphabet Inc'A'	**3.58%**	7.19%

Stocks owned in the Value Fund

Source: S&P Dow Jones Indices

Having a growing portion of your portfolio invested in expensive stocks is the exact opposite of what we would argue is our more rational value investing approach. As stocks decline in price, they actually become more attractive (and less risky). Overvalued companies can also sell off quickly when market sentiment changes. For example, **Facebook** (NYSE:FB) issued results last week that were below expectations and the stock sold off (17.2%) in one day. Given the company's size - and hence large index weighting - it accounted for almost all (86%) of the S&P500 Index's decline for the day.

(1) Price-weighted indices like the Dow Jones Industrial Average (DJIA) are calculated such that higher-priced stocks have a greater index weighting than lower-priced ones, even if the lower-priced stock is in a company with a market capitalization that is larger than the higher-priced stock.

Markets have been rising for some time so passive index investors tend to become complacent and forget about the risks that they are taking. As we wrote in Scorecard #19:

> *"… there are a lot of poor-quality companies out there that we prefer to avoid. For example, at its peak valuation, Valeant Pharmaceuticals (TSX:VRX) accounted for 6.1% of Canada's S&P/TSX Composite Index. Shades of Nortel circa 2000. Again, we prefer to mitigate investment risk by owning high-quality businesses at undervalued prices and avoid the rest."*

The foregoing observations should not be taken to mean that market indices aren't useful to investors. Index levels and their movements are useful barometers of broader market conditions. Our main point is that investors need to dig beneath the headline numbers to understand what is really going on before reading too much into them. Which leads us to one final observation about indexes.

The massive fund flows into passive index investments strike us as herding behavior that has yet to be tested by a market panic. Markets occasionally do extraordinary and unexpected things on short notice and we humans are emotional creatures after all. Panic selling of stocks will likely induce index redemptions which will in turn force certain index funds to sell stocks in order to fund them thereby creating a negative feedback loop. We have no desire to be market Cassandras, but this setup vaguely reminds us of the portfolio insurance phenomenon of the 1980s that played a role in the 1987 market crash. We think that the next major market correction, whenever it comes, will deliver a few unpleasant surprises to passive index investors. Caveat emptor.

A Different Approach

In a world of extremely low interest rates and an overvalued Canadian real estate market, we believe that equities remain an attractive asset class for Canadians. However, market valuations remain elevated – which is why we don't own the market.

Instead, we seek to invest in high-quality but undervalued companies with solid balance sheets. In the present environment we are very focused on risk mitigation and capital preservation when selecting our investments. We walk our talk at GreensKeeper and believe in aligning interests which is why I have over 70% of my family's net worth and 100% of our investible assets invested directly alongside GreensKeeper's clients. In short, we are different.

If you are interested in learning more over coffee at our Oakville office or downtown Toronto, feel free to give me a call.

July 30, 2018

Michael McCloskey
President & Founder

GreensKeeper's view on Cryptocurrencies:

"Speculative assets like Bitcoin attract capital, aggressive promoters and then fraudsters. We prefer to simply stay away."

Annual Meeting
June 13, 2018

Fear and Courage

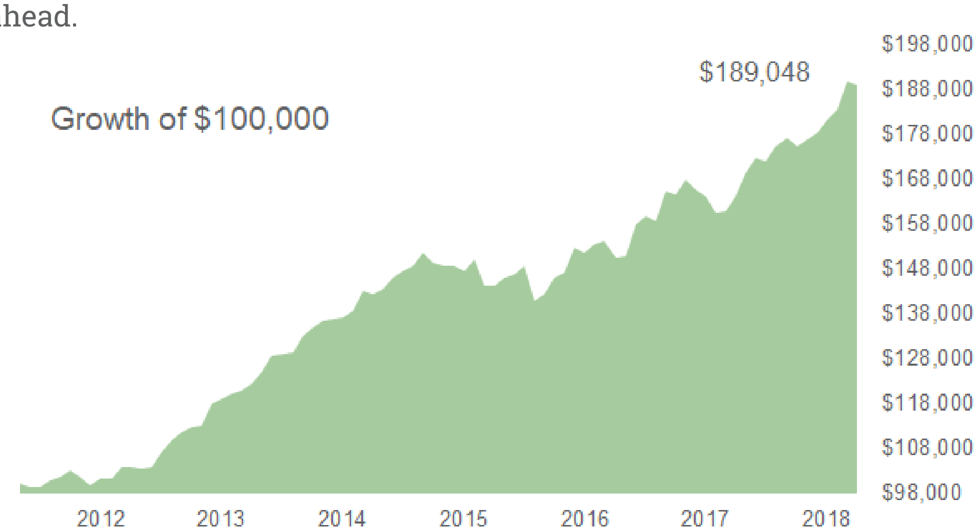
The Value Fund gained +4.4% in Q3 and is up +9.9% for the nine-months ended September 30, 2018. Year-to-date the S&P/TSX Total Return Index has gained +1.4% and the S&P500 is up +10.6% (+13.7% measured in Canadian dollars – the Value Fund's reporting currency). Currency moves lowered our returns in Q3 but have helped us modestly in 2018.

Before diving into a portfolio review, the October market selloff is worth discussing. As of October 27, the S&P/TSX is down -7.4%, the S&P500 -8.8% and the Nasdaq -10.9% for the month. So why are we so sanguine? It isn't just due to the fact that we are faring better than the major indices as we have during past pullbacks (we are down -5.5% this month). The real reason is that as longtime students of the market we have seen this movie play out before and plan to take advantage of it.

Every day for the past decade, CNBC, BNN Bloomberg and others have paraded a stream of intelligent guests voicing strong opinions about the equity markets' next move. Occasionally their predictions were right. Often they were wrong. In our opinion, they are all missing the point and playing the wrong game (but it does make for entertaining TV).

When asked about the current market selloff and our prediction of the future market direction we simply shrug and admit that we have no idea. We also believe wholeheartedly that no one else does either. That may not make for great television – but we believe it to be true.

In order to be a successful equity investor, one must: (i) be able to accept the fact that markets will do crazy things from time to time and (ii) be able to keep one's wits about one when they do. Volatility is the price one pays for equity-like returns. With risk-free (treasury) yields averaging about 2% since we launched the Value Fund, you could have invested $100,000 without any worry and watched it grow to ~$114,680. Instead, we have taken the bumpier ride and even with the recent decline have grown it into ~$178,670. Even with the occasional severe pullback, we are still much farther ahead.



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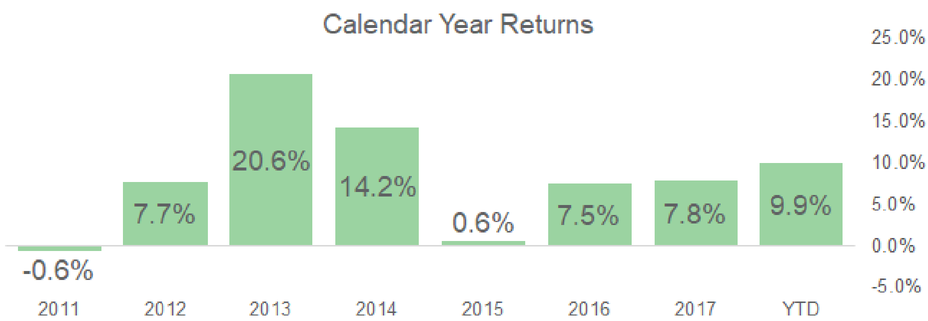

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We also know that when markets are frothy, it is best to avoid folly. In bull markets, it is tempting to invest in Bitcoin and emerging industries such as the Canadian cannabis sector, especially when everyone else seems to be making money doing it. At the risk of missing out on all the fun, we have been and will remain disciplined. While the cannabis sector will certainly grow, current valuations led us to conclude that it will end badly for most "investors".

There is a concept in cycling that has been adopted by famed value investor Tom Russo that resonates with us – namely the **capacity to suffer**. There will be times when our prudent value investing approach will be out of step with the markets and we will experience the pain of looking foolish for ignoring expensive and/or poor-quality stocks. But our long-term and patient approach when things aren't going our way serves us well when panic returns. The ability to endure short-term pain (be it psychological, emotional and/or physical) often leads to long-term rewards. Buffett has often said that temperament is more important than intelligence in investing. Fortunately we were wired a certain way that happens to be helpful in the investing arena.

We can't predict *when* markets (or individual stocks for that matter) will correct. But we do know for a fact that they will. Markets continuously oscillate between greed and fear, albeit with varying frequencies. We also know that over the long term, markets rise due to inflation and the accumulation of retained earnings. That is a rising tide that we wish to take advantage of for many years to come.

"Prediction is very difficult,
especially about the future."

Niels Bohr– Physicist, Nobel Laureate

While we can't time short-term market moves, we do know how to value certain businesses, how to spot a bargain and how to take advantage of them when they appear. Plunging markets provide the environment in which great opportunities (the seeds of future capital gains) are found.

In a declining market, we are able to acquire additional earnings power for each incremental dollar invested. Accordingly, lower stock prices actually *reduce* the riskiness of an investment. When the market is down 7-10% from its peak, certain stocks that we track can be off significantly more than that. And when they are, we pounce. For long-term investors, widespread fear is our friend.

Portfolio Review

In Q3 we closed out our position in **Express Scripts** (Nasdaq:ESRX). We have previously laid out our investment thesis in detail. Given our familiarity with the company, our conviction on the M&A situation and our assessment of limited downside risk, we made a large bet (6.8% weighting) that the acquisition by **Cigna** (NYSE:CI) would successfully close. Once all regulatory and shareholders approvals were obtained, the deal spread narrowed significantly and we fully exited the stock. We ended up with a +23% return on our Express Scripts investment in just over five months.

During the quarter, we also fully exited our previously-undisclosed position in **Williams-Sonoma** (NYSE:WSM). Our investment thesis was straightforward. In late 2016 the stock sold off significantly due to fears of emerging competition in furniture and home goods from online competitors **Amazon** (Nasdaq:AMZN) and **Wayfair** (NYSE:W). With the economy healthy and the housing market in good shape, we viewed the selloff as overdone and acquired the stock at $48.52 per share.

Our view was that WSM's strong brands (including Williams-Sonoma, Pottery Barn, West Elm, etc.), physical stores and customer loyalty would enable the company to successfully fend off these emerging online competitors. Importantly, WSM has also fully embraced online selling for consumers that prefer that option. Over 50% of the company's sales are through its online (higher-margin) channel. The company's debt-free balance sheet also gave WSM the ability to maneuver.

Fast forward 20 months and the company delivered revenue growth, decent margins and increasing dividends. The market rerated the stock and we sold out in August at $71.21 per share. Our overall gain was +52.3% with dividends included. Even today, the market remains enamored with fast-growing but unprofitable online companies such as Wayfair. We find the valuation discrepancies mindboggling:

	WILLIAMS SONOMA	wayfair
Market Capitalization	$4,584	$9,751
Sales	$5,457	$5,697
Net Income	$264	-$358
Adj. EPS	$3.96	-$2.91
Share Price*	$56.90	$108.73
P/E (trailing)	14.4x	nm

Currency in millions of US$ (except per share items).

* As at October 27, 2018

In addition to our sales of ESRX and WSM, our top three contributors for Q3 were **Berkshire Hathaway** (NYSE:BRK.A) +14.7%, **Cisco Systems** (Nasdaq:CSCO) +13.1% and **Visa** (NYSE:V) +13.3%. Our laggards for the quarter were **Wells Fargo** (NYSE:WFC) -5.2%, **S&P Global** (NYSE:SPGI) -4.2% and **Booking Holdings** (Nasdaq:BKNG) -2.1%. Subsequent to the quarter we have trimmed a few existing positions and started adding a few new names that have been selling off steeply in October. We will save a discussion of these latest moves for a future newsletter.

Bookshelf

I recently had the pleasure of attending an investment conference in Toronto where the keynote speaker was Bill Browder - the author of *Red Notice* which is one of my favourite books on the investment industry.

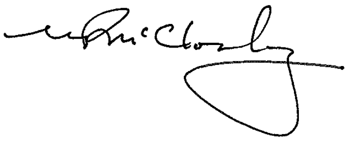
Red Notice is a gripping and sad but true story about corruption in post-Soviet Russia and the author's quest to deliver justice to the family of his former accountant Sergei Magnitsky. Mr. Magnitsky was murdered by the Russian state while wrongfully incarcerated in prison.

The book reinforced in my mind why we avoid investments in countries like Russia, China and Saudi Arabia that fail to embrace the rule of law. Beyond taking in the book's investment lessons, I was inspired by Mr. Browder's courage in trying to right a grave injustice despite his long odds and powerful adversaries. To date, he has been successful in getting a "Magnitsky Act" enacted in the US, Canada and several other countries to punish those responsible.

Unfortunately Mr. Browder's fight has come at a tremendous personal cost. His considerable security detail is a stark reminder that Mr. Browder will likely live the rest of his life in constant fear of being killed by the Russian state. I highly recommend Red Notice to finance and non-finance professionals alike.

We recently updated the Bookshelf section of our website with some of our favourite reads. We are voracious readers at GreensKeeper but can't read everything. If you come across something that is noteworthy, please drop me a note.

October 27, 2018



Michael McCloskey
President & Founder

Facebook Redux

The Value Fund returned +5.3% in 2018 net of fees and expenses (or approximately +7.1% gross). We managed to outperform both of our benchmarks in 2018. The S&P/TSX Total Return Index finished down -8.9% for the year. The S&P500 Total Return Index was down -4.4% for the year. Measured in Canadian dollars (the Value Fund's reporting currency) the S&P500 Total Return was up +3.9% for the year.

This was our seventh consecutive year of positive returns. An aging bull market finally turned ugly in Q4 with steep declines in both October and December. The major North American stock indices sold off about 20% during the quarter. It was in this panicked environment that our portfolio shone. High quality companies that are undervalued tend to hold up under stress much better than former market darlings that trade at crazy valuations. Patience and hard work eventually pay off. Preserving capital by thoughtfully managing risk remains a cornerstone of our investment framework at GreensKeeper.

Given our significant U.S. stock holdings, the 8.6% appreciation of the US dollar in 2018 helped us. It basically retraced most of the 9.4% decline of the prior two years which lowered our returns in both 2016 and 2017. Exchange rate impacts on returns tend to be a wash over the long term. A more detailed explanation of our view on currency hedging (and our bias for not doing so) can be found here.

Reflections on the Market

The business media constantly tries to dissect, in painstaking detail, the root causes of market volatility and to predict the market's future direction. Especially when markets are selling off. We are often asked for our own opinion on the subject. As longtime students of the market and investor psychology, we have come to the following conclusions.

Humans are genetically hard-wired to look for patterns and to come up with tidy narratives to explain complex events. Unfortunately, this predisposition often leads us to see patterns where none actually exist. It is our way of dealing with uncertainty. Uncertainty makes us uncomfortable. So we come up with explanations for each market move because attaching a plausible story to them makes us feel better. But that doesn't make these stories true.

The way that we process memory also causes us to think short-term.[(1)] We take current events and extrapolate them far into the future. As social creatures, we are also heavily influenced by the actions of others (crowd behavior). As a result, both fear and euphoria tend to be contagious. At its extremes, markets are driven purely by investor sentiment (fear and greed).

When fearful, investors focus on all the world's problems (trade wars, rising interest rates, etc.) which supports their gloomy narrative. As a result, they become risk averse and willing to part with stocks at almost any price. When euphoric, investors see the world through rose-coloured glasses. This confidence leads them to become risk-seeking and willing to purchase stocks at irrationally-high prices. During bullish periods, investors forget about risk.

When we find our emotions at either of these opposite extremes, we need to recognize it and to be cognizant of our blind spots. We need to keep calm and rely on analysis and logic, not emotion. The right temperament is essential to being a successful investor. One of our investing heroes put it this way:

> *If you're not willing to react with equanimity to a market price decline of 50% two or three times a century, you're not fit to be a common shareholder and you deserve the mediocre result you're going to get… compared to the people who do have the temperament and who can… be more philosophical about these market fluctuations.*
>
> *Charlie Munger*

Longer term, valuations drive market prices. Rising stock prices may make us feel good in the moment, but they also increase the risk of owning equities. Plunging prices make us fearful so we try to avoid pain by selling (fleeing) despite the fact that lower prices actually make owning equities less risky. Learning to fight these innate human emotions are critical to investment success. It is hard. Without possessing the proper temperament, it is nearly impossible.

The market selloff of Q4 2018 created opportunity for us. Certain stocks that we follow sold off more severely than the market indices. As a result, we started several new positions late in the year, added to a few existing positions and exited others as better opportunities arose. We are not usually this active with the portfolio but try our best to react with equanimity when opportunity knocks.

(1) See, for example, Chapter 13 "Availability, Emotion and Risk" of *Thinking Fast and Slow*, by Daniel Kahneman – Nobel Prize winner in economics. For other recommended reading, please visit our bookshelf.

Portfolio Review

Our biggest contributor to the portfolio in 2018 was our investment in **Express Scripts** (NASDAQ:ESRX). This was a "special situation" investment related to Cigna's pending (now completed) acquisition of the company which we wrote about in detail previously. When stocks are expensive, finding value often leads us to unconventional corners of the market. Given our familiarity with Express Scripts based on a prior investment, our conviction on the M&A situation and our assessment of limited downside risk, we made a large bet (6.8% weighting). We ended up with a +23% return on our Express Scripts investment in just over five months and the investment added about 1.2% to the portfolio returns for the year.

Our second-largest contributor for the year was furniture and home-goods retailer **Williams Sonoma** (NYSE:WSM). As reported in Scorecard #23, we bought the stock after a steep selloff in late 2016. After reporting strong results in September 2018, the market rerated the stock and it started trading above our estimate of fair value. As a result, we swiftly and fully exited our position. We rarely time stock purchases or sales perfectly, but in the case of WSM we nailed it. Our exit price of $71.21 was close to the stock's high for the year. Including dividends, our investment in WSM added about 1.1% to our returns for the year.

Technology stalwart **Cisco Systems** (Nasdaq:CSCO) was our third-largest contributor, adding about 1.1% to portfolio returns for 2018. We have continuously owned Cisco since inception of the Value Fund in 2011. While popular during the dot-com era of the late '90s, the stock was unloved and trading at less than 10x earnings ex-cash when we started buying it (below $18.00). Cisco may be slow growing, but it is a cash machine and uses that cash to acquire emerging technologies and rewards shareholders through a combination of growing dividends and share repurchases. Eight years on from our initial purchase, we are sitting on a sizable capital gain in an investment that we contend has been low risk given the quality of the business and our attractive entry price.

Rounding out the top five contributors for the year were **Visa** (NYSE:V) and **Berkshire Hathaway** (NYSE:BRK.A/B). These high-quality companies continue to grow earnings and should thrive for many, many years to come.

On the negative side of the ledger, **Wells Fargo** (NYSE:WFC) continued to disappoint and was our worst performer in 2018. We were initially attracted to the company due to its historical track record. At its core, Wells Fargo is a well-diversified bank with a prudent lending culture and low-cost deposit base. As a result, the company has historically delivered high returns on assets (ROA) and returns on equity (ROE) leading to attractive returns for shareholders. Unfortunately management lost the plot. In an effort to accelerate growth, senior management put undue pressure on employees which led to multiple scandals that hurt customers, damaged the company's reputation and provoked a regulatory backlash. We believe that Wells Fargo will get through this period intact but remain disappointed as this was an entirely self-inflicted wound. Our investment in Wells Fargo detracted (0.8%) from portfolio returns in 2018.

Another disappointment during 2018 was our remaining stake in **Corus Entertainment** (TSX:CJR.B). We set out our investment thesis for Corus in Scorecard #14. At the time of purchase, our analysis led us to conclude that it was one of the cheapest media stocks in North America. Despite a few twists and turns, the company delivered reasonable results and we sold half of our position at a sizable gain in 2017. Unfortunately we should have sold it all. In January 2018 Corus delivered very disappointing results and we sold the balance of our position at a loss. The gains that we made on Corus in 2017 plus the significant dividends received along the way were five times greater than the losses incurred in 2018. So overall Corus was a very profitable investment for us (buying cheap usually leads to decent results). However, when we sold the first-half of our position, Corus was only modestly undervalued. In other words, our margin of safety had largely disappeared. We try and learn from our mistakes and in hindsight, should have sold it all in 2017 and invested the proceeds elsewhere. (Hard) lesson learned.

Lest we finish this portfolio commentary on a sour note, 2018 was a good year for the Value Fund. We outperformed both of our benchmarks and almost every major asset class in an environment that was downright ugly at times. More importantly, many of our investee companies increased their *intrinsic value* at an attractive rate. We don't mind the recent market chaos as it gives us an opportunity to find bargains. In addition, many of our companies generate excess cash which they use to repurchase their own shares. Lower stock prices allow them to get more value for each dollar spent and should lead to superior long-term results provided that these companies continue to execute well on their core businesses.

We finished the year with a net cash position of about 9.9% and unrealized gains on our equity investments of approximately $4.6 million on a $25.8 million portfolio. Additional portfolio disclosures including performance statistics can be found on the pages immediately following this letter. Once KPMG completes its audit of the Value Fund's Financial Statements in March, we will provide clients with a more detailed snapshot of the entire portfolio at year end.

Facebook

One of the stocks that sold off significantly more than the market in 2018 was **Facebook** (Nasdaq:FB). With stock off as much as 40% from its peak, we took note and established a position.

We previously wrote about Facebook at the time of its initial public offering (IPO) back in 2012. Here's what we had to say about the company at that time:

> *Facebook may be an amazing social utility, but it is too early to tell if it will evolve into a cash generating machine like Google. Facebook is approaching 1 billion users, a truly astonishing feat. However, its business model is still evolving as the company struggles to find ways to monetize this traffic.*
>
> *So how do you value a business like Facebook? I would argue that it can't be done. In my opinion, you cannot predict with any degree of certainty how much money the company will make in the coming years or whether or not they will be displaced by a newer technology. In other words, prudent investors should stay away.*

At the time, Facebook was trading at $30 a share versus $150 today. Were we wrong in not purchasing? Perhaps. But as prudent value investors, we stand by our earlier assessment that it was too early at the time to know how Facebook would unfold (at least in our minds). But six years on, many of our questions have now been answered. In any event, the company's current challenges combined with the market selloff gave us an attractive entry price in Q4 2018.

Since its IPO, Facebook has made massive strides. Monthly active users of the platform went from 0.9 billion to 2.3 billion today. The company's IPO revenue run rate of $4 billion now exceeds $50 billion and what was a modestly profitable company will earn over $21 billion this year. Facebook has become a cash machine. The company has successfully migrated from the PC era to mobile. Emerging competitors were either eliminated via acquisition (Instagram, WhatsApp) or their popular features copied and integrated into Facebook's offerings (e.g. Snapchat). Facebook and its sister platforms are now *the* dominant social media networks and given the quality of its wide moat via network effects, that will likely be the case for many years to come.

Facebook also benefits from the increasing percentage of advertising spending that is allocated to digital platforms. Despite Facebook's significant size, these tailwinds helped the company to grow its revenues by an impressive 35% in 2018. This growth rate will inevitably slow, but at our average purchase price of $141.29 per share, we paid about 16.5x current year earnings ex-cash. For context, this is lower than the overall market multiple for a high-quality company that is growing much faster than the market.

The Facebook selloff from its July 2018 peak was due to several well-reported scandals. The company's platform was used by bad actors to influence the 2016 US presidential election. The company also has a history of paying less attention to user privacy than they should and the Cambridge Analytica scandal is but the latest incident.

Users are mad (as they should be). Mark Zuckerberg and Sheryl Sandberg have made mistakes. But they are smart, determined to fix the issues plaguing the company and we believe that they will get through this difficult period.

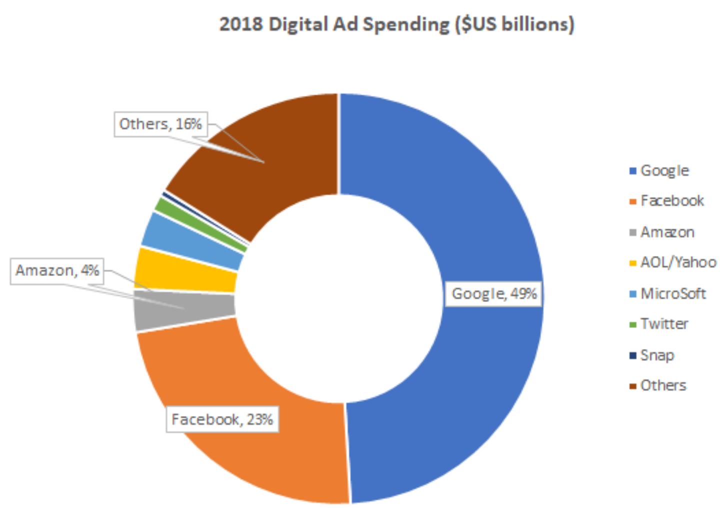
Angry users of the platform will vent. But given the utility of the free service and the amount of time, effort and content that users have invested into the platform, our bet is that they will stay. Habits are hard to break. The latest user trends do not suggest that people are abandoning the platform. In fact, the number of users of Facebook-owned platforms is still growing. Given the number of users and the highly-personalized data that the company has on its users, advertising dollars will continue to flow to Facebook.

Another oft-voiced concern raised is the emergence of Amazon as a competitor for digital ad dollars. Yes, Amazon is attracting ad dollars but the actual numbers speak volumes. As the table and chart below illustrate, Facebook and Google are completely dominant. In fact, over the past two years these two companies have captured practically *all* of the incremental digital advertising spending in the world.

The reason is quite simple. Given the quality and vastness of the data that these two companies have amassed on their billions of users, advertising on the platform can be highly targeted and is thus very effective. In fact, a recent survey of US digital ad buyers reported that Google and Facebook platforms delivered the highest returns on advertising investments for 86% of respondents.(2)

Digital Ad Spending - $US Billions

	2015	2016	2017	2018E
Digital Adverising				
Google	$67	$79	$95	$116
Facebook	$17	$27	$40	$55
Amazon	$2	$3	$5	$8
AOL/Yahoo	$5	$5	$5	$8
MicroSoft	$5	$6	$7	$7
Twitter	$2	$2	$2	$3
Snap	$0	$0	$1	$1
Others	$53	$56	$54	$38
TAM - Digital	$151	$178	$209	$237
Digital as % Total Ad Spend	32%	36%	41%	44%
TV	$175	$182	$178	$183
Other Media	$141	$133	$122	$119
Total Ad Spend	$466.4	$493.0	$509.3	$538.6
Capture of Incremental Digital Spend				
Google		43%	53%	74%
FB		35%	43%	54%
		79%	96%	129%



Sources: GreensKeeper estimates, Statistica, MAGNA; Recode; eMarketer

Facebook is doing the right thing by hiring thousands of additional employees to address its challenges. The additional costs associated with these initiatives will cause margins to compress over the short term. But with gross margins of 85% and operating margins of 48%, the company has margin to give and growing revenues will mitigate the impact of margin compression. Eventually, artificial intelligence (AI) will automate many of the less-efficient procedures currently being used. Unlike other media companies, content is provided by users - for free! Instagram and WhatsApp are only beginning to be monetized. Facebook has rapidly matured into a great business.

The risk of regulatory intervention is real and one that we will be monitoring closely. We think that it will be more difficult to regulate social media companies than people think. Especially by politicians that fail to comprehend basic facts such as how these platforms actually work. As with all of our investments, we reserve the right to change our mind as the facts and the future present themselves.

(2) Cowen and Company - December 2017 survey.

We like the fact that the company has over $41 billion of cash and no debt. We also like the fact that management has started to aggressively repurchase its shares ($14 billion worth over the past year) and the stock's selloff allows them to reduce their share count even faster. We agree with management's focus on increasing user engagement and make investments in the long-term health of their platforms at the expense of short-term profitability.

Our bet is that Facebook will successfully navigate their current challenges and those that will inevitably arise in the future. We also believe that the company will be making materially higher profits five and ten years from today. If they do, the combination of revenue growth, rising profits and a lower share count should turn Facebook into a highly profitable long-term investment for the Value Fund.

2019 and Beyond

My capacity to devote an even greater percentage of my time to analysis and stock selection has dramatically improved with the addition of Michelle Tait to the GreensKeeper team two years ago. Michelle does a fantastic job handling client enquiries, regulatory compliance and other administrative functions which frees up my time to do what I love most. Thank you Michelle!

I also want to thank all of our clients for the trust that you have placed in us. Investing your money (alongside our own) is something that we take very seriously. We are also appreciative of the referrals that you send us. We grew our assets under management (AUM) once again in 2018, as we have every year since inception, thanks to you.

Eight years in, My Painting (also known as the Value Fund) is not yet finished, nor will it ever be. My passion for reading and lifelong learning drive me to hone my craft in order to deliver attractive returns to the firm's clients. We will remain consistent and disciplined in our approach for many years to come.

Michael P. McCloskey

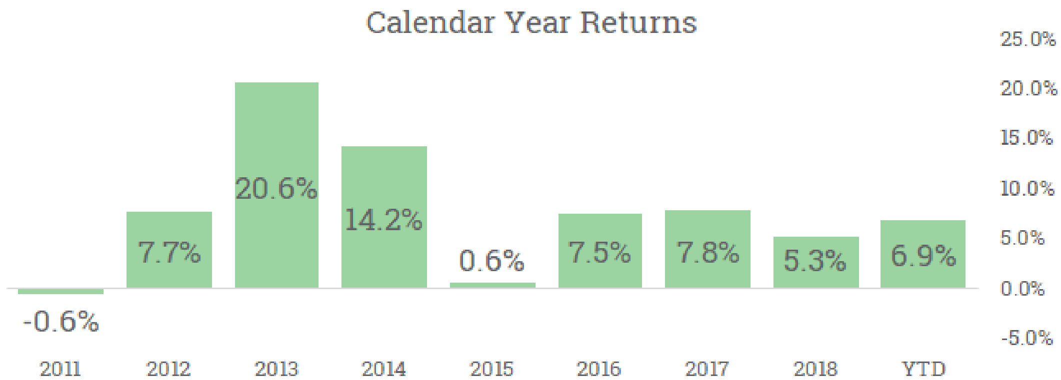
President, Founder &
Chief Investment Officer

Booking.yeah

The Value Fund returned +6.9% in Q1 2019 net of fees and expenses (or approximately +7.9% gross). Currency movements lowered our returns in Q1 by just over 2% as we hold a large portion of the portfolio in U.S. dollar-denominated stocks whereas our reporting currency is the Canadian dollar.

Our top performing stocks for Q1 were **Facebook** +27.2% (Nasdaq:FB), **American Express** +14.7%, (NYSE:AXP), **Apple** +20.4% (Nasdaq:AAPL) and **Visa** +18.4% (NYSE:V). Given the strength of the overall market, we only had two stocks that were down for the quarter: **Berkshire Hathaway** -1.6% (NYSE:BRK.A/B) and **Tapestry** -3.7% (NYSE:TPR).

Our Q1 returns were attractive on an absolute basis. However, we lagged our benchmarks for the quarter (having beat them in 2018). Markets have been buoyant and we remain mindful of risk given market valuation levels. We tend to really shine when markets are ugly. Which is a good segue into a discussion of where we are in the market cycle.



Mastering the Market Cycle

I recently read Mastering the Market Cycle by legendary value investor Howard Marks of Oaktree Capital. Having read his investment memos over the years, I know that Mr. Marks is a deep thinker and generously shares his useful insights on the financial markets.

In the book, he analyzes the economic cycle, cycles impacting stock, real estate and credit markets and investor psychology. He also offers advice on how best to position investments in response to these cycles.

What was most interesting from my perspective is that Oaktree, like GreensKeeper, is not a market timer. Mr. Marks shares our view that being able to gain an edge by consistently timing market cycles cannot be done. However, this doesn't mean that market cycles can or should be ignored.

The nuance is that by keeping your eyes open, one can get a sense of the relative valuation of assets, where investors are on the greed-versus-fear continuum and overall risk levels.

For example, the current economic expansion that began in 2009 is getting very long in the tooth. Unless you believe that recessions are a thing of the past—a view that we do not share—we are likely to encounter a recession in the coming years. The economic cycle will eventually turn – we just don't know exactly when. But the point is that we don't need to. We just need to be approximately right and ensure that our portfolio and the companies that we own are positioned to weather that future storm when it arrives.

Looking at another cycle, the stock market has been practically straight up for the past decade. As bull markets age, companies of lesser quality often come to market at rich valuations. I have been investing long enough to remember the dot-com mania leading up to the year 2000 and how badly it ended. In that era, an exciting business plan and not much more was a golden ticket to a multi-billion-dollar IPO valuation.

Looking at the current generation of tech companies that are now coming to market in droves, we would concede that they generally have more established businesses than the prior generation. For example, ride sharing services Uber and **Lyft** (Nasdaq:LYFT) actually provide a useful service and an improved user experience compared with traditional taxis. As a consumer, I am a user and a fan.

That said, Uber's and Lyft's business models and paths to profitability are suspect. The market environments of 2000 and today may not be identical. But as Mark Twain was reported to have said: history doesn't repeat itself but it often rhymes.

Lyft completed its IPO last month and the oversubscribed offering valued the company at $72 per share giving Lyft a valuation of more than $20 billion. Yes the company's revenues are growing quickly, but so are its expenses. Last year the company *lost $911 million* on revenues of $2.2 billion. Analysts estimate that the company will not be profitable at any time over the next four years. It doesn't surprise us that despite an initial pop, the stock has now sold off close to 20% just weeks later.

When we step back and take a look around at the current market environment, what do we see? We see many other unprofitable companies coming to market at nosebleed valuations.(1) We see insider selling. We see unprofitable Canadian marijuana companies trading at ridiculous levels of revenue. Tilray (Nasdaq:TLRY) is down over 50% from our bearish call of six-months ago. It is still wildly overvalued.

The current market environment strikes us as one where people have let down their guard and forgotten about risk (and history). It is never a good idea to forget about risk, especially for investors. When markets are frothy, it becomes even more important as risks are heightened and severe reversals can lead to painful consequences. We are always mindful of risk but especially so when others are not.

We are prepared to put capital to work in any market environment provided that the specific opportunity is paying us appropriately for the risk assumed. In the current market environment, those opportunities are few and far between. But we keep turning over rocks, monitoring companies that we would own at a certain price and remaining patient. If we don't find something intelligent to do today, we will simply bide our time.

"The two most powerful warriors are patience and time."
Leo Tolstoy

(1) Lyft Leading Wave of Startups That Will Make Debuts With Giant Losses: *The Wall Street Journal* – March 25, 2019.

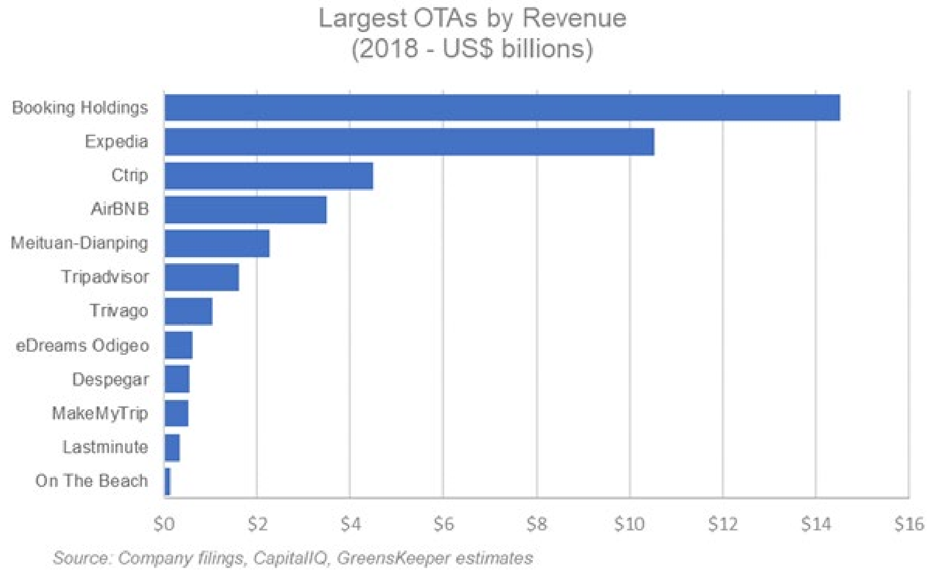
Booking Holdings

We made our initial investment in **Booking Holdings** (Nasdaq:BKNG) in late 2017 and recently added to our position. While we have previously disclosed that we owned the stock, we have not discussed its business in any detail. Here is a snapshot of our investment thesis.

Booking Holdings Inc. ("Booking Holdings" or the "Company") is the largest online travel agency (OTA) in the world by hotel rooms booked and revenue. The Company was formerly known as Priceline Group and renamed in 2018 to better reflect its dominant brand and its growing booking platforms in new market verticals.

The Company operates in more than 220 countries and territories through six primary brands: Booking.com, KAYAK, Priceline, Agoda, Rentalcars.com and OpenTable. Collectively, Booking Holdings operates in more than 40 languages across Europe, North America, South America, the Asia-Pacific region, the Middle East and Africa. The Company is headquartered in the United States, but generates 89% of its revenues internationally with Europe being its largest market.

We acquired our initial position in Booking Holdings in Q4 2017. In February 2019 the Company reported its 2018 year-end results that beat both their guidance and consensus. However, the Company's Q1 2019 guidance was lower than expected due to slowing bookings in Europe—by far its largest market—caused by a slowing economy and Brexit. With the stock selling off over 10% we updated our models and increased our position.



At the current stock price of $1,844, the stock is trading at a below-market multiple for an above-average company in terms of quality and future growth prospects. Organic growth combined with significant share repurchases should result in intrinsic value compounding at double-digit rates for years to come.

We will stop our discussion there as we prefer to keep our quarterly Scorecards to a reader-friendly length. For those interested in a deeper dive into the Company, please refer to our in-depth report on Booking Holdings.

2018 Annual Meeting

GreensKeeper's 8th Annual Meeting will be held on Monday, June 17 at 7:00 p.m. at our usual spot - the Mississaugua Golf & Country Club. Additional details can be found here.

If you are interested in learning more about investing, please join us! The meeting is open to clients, potential clients, friends and family. After a brief presentation, we open up the floor to Q&A so please bring some tough investment questions with you.

If you plan to attend, just RSVP to either myself or Michelle Tait to help us to plan the logistics.

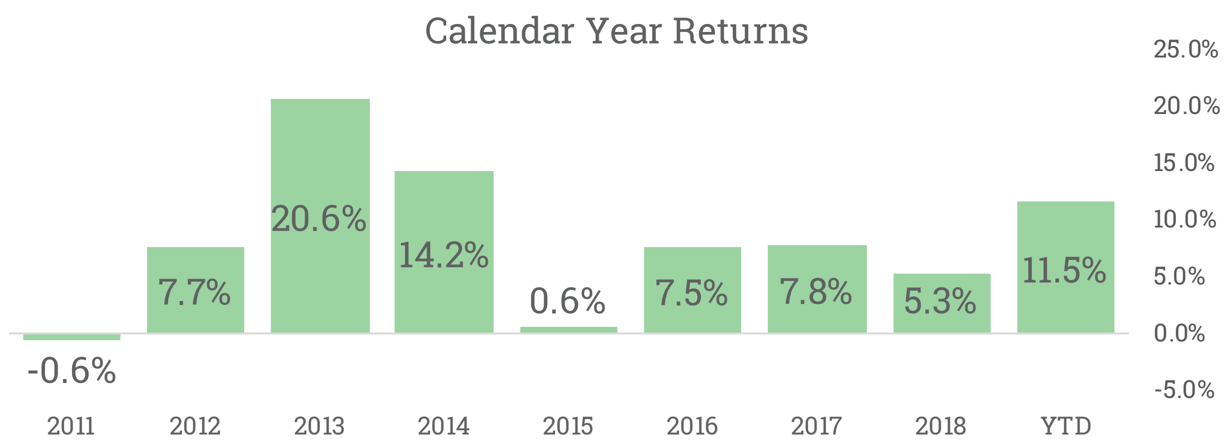
Michael P. McCloskey

President, Founder &
Chief Investment Officer

The Drug Oligopoly

The Value Fund has gained +11.5% year-to-date (as of July 31, 2019). During this period the S&P/TSX Total Return Index (including dividends) gained +16.6% and the S&P500(CAD) gained +16.3% (measured in Canadian dollars – the Value Fund's reporting currency). Currency movements lowered our returns by 3.3% year-to-date. Our currency strategy remains unchanged and has been written about at length.

In frothy markets like the present, we tend to lag given our conservative positioning and willingness to hold cash when attractive opportunities are scarce. This is the price we pay for being prudent and patient. When the tide goes out - like it did in Q4 of last year – we tend to outperform and react by putting our idle cash to work.



Two of our largest contributors year-to-date are stocks that we bought during last year's Q4 selloff: **Facebook** (FB) +48.2% and **Apple** (AAPL) +35.1%. Our long-term compounders **Visa** (V) +34.9% and **American Express** (AXP) +30.5% were our other top-performing stocks through July 31.

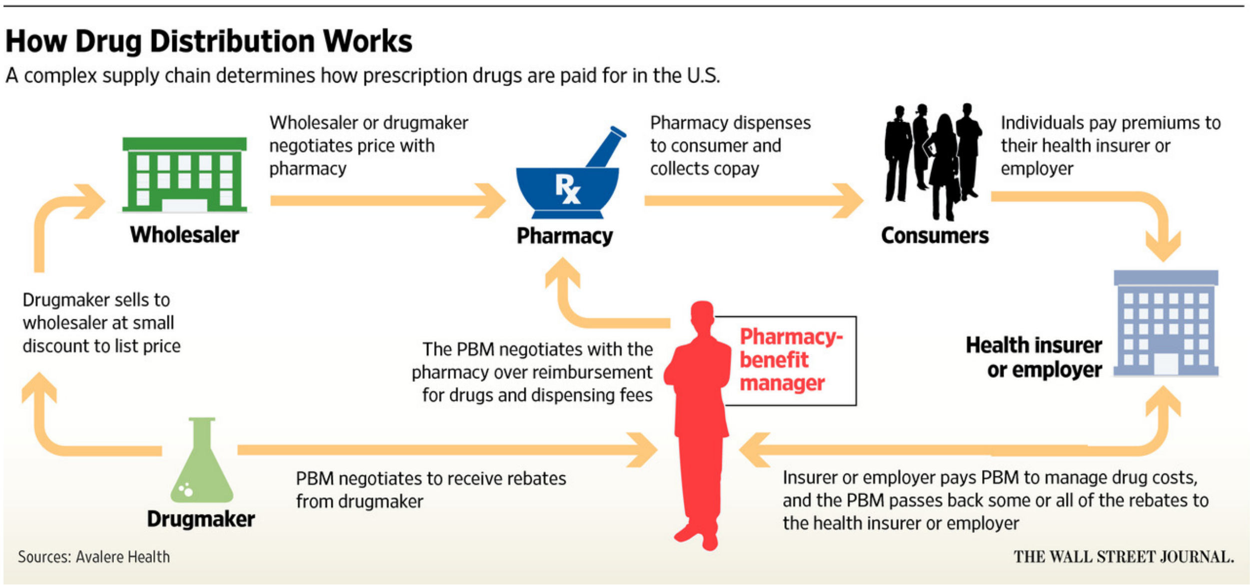
Only two portfolio holdings were down year-to-date and they were small holdings representing about 2.0% of the portfolio: **Tapestry** (TPR) -8.4% and **Sanofi** (SNY) -3.9%. Given our concerns about the economic cycle and the challenges facing both companies in the current environment, we recently exited both holdings.

We did not initiate any new positions during the first half of 2019. We opportunistically added to five of our existing holdings and trimmed our position in **American Express** (AXP). We loaded up on AXP shares when the company lost the Costco business in 2015 and are still big fans of the company. But given the significant run up in the shares they are now closer to fairly-valued and AXP was becoming too large a position in the portfolio. It remains a core holding with a 6.0% weighting as of June 30.

The Value Fund's historical portfolio turnover has been low by industry standards. In other words, we hold stocks for a long time (over 5 years on average). This benefits clients by minimizing transaction costs and deferring the triggering of capital gains. Many of the stocks that we own are also "compounders" that increase their intrinsic value over time through growing earnings, dividends and share repurchases. Like many value investors, our biggest challenge is finding attractive entry points for these great businesses – especially in an expensive market.

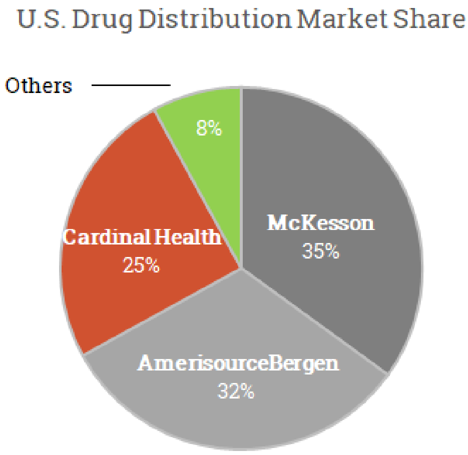
Drug Distribution

When most people walk into their local pharmacy to fill a prescription, they probably don't think about how those drugs made their way from the manufacturer to pharmacist. We do. Wholesale pharmaceutical distribution isn't a sexy business. But it is a good one and during the selloff in late 2018 we initiated positions in the two largest U.S. distributors - **McKesson Corporation** (MCK) and **AmerisourceBergen** (ABC). They are controversial and hence cheap when purchased.



We like to invest in industries with long-term tailwinds and pharma distribution checks that box. An aging population will lead to increased drug utilization, drug price inflation increases revenues as does the introduction of new drugs. The "Big 3" - McKesson, AmerisourceBergen and Cardinal Health – are a distribution oligopoly with over 90% market share in the United States.

We believe that these dominant distributors will be very difficult to displace due to multiple sustainable competitive advantages (moats):



Source: Drug Channels Institute estimates (2017)

Regulation: Drug distribution – like the rest of the drug industry – is heavily regulated making entry difficult for newcomers.

Customer switching costs: Pharmacies typically enter into multi-year distribution agreements with a preferred wholesale distributor.

Scale: The massive scale and volumes of drugs distributed by the Big 3 allow them to operate profitably on razor-thin margins. For example, last year McKesson's U.S. distribution revenue was $168 billion while its operating profit was a slim $2.5 billion (1.5% operating margins are normal).

The Big 3 have slightly different business models but at their core, they are identical. We will discuss the largest (McKesson) in greater detail to illustrate our investment thesis.

McKesson Corp (MCK)

In addition to its core U.S. distribution business, McKesson also operates related businesses including distribution operations and retail pharmacies in Europe and Canada (Rexall) and a medical-surgical distribution business.

Given its scale, McKesson consistently generates significant free cash flow which it uses to make acquisitions, increase dividends and repurchase its shares. The company also recently spun out a minority stake in a non-core business – Change Healthcare (CHNG) – into a separately traded public company. McKesson should spin out the rest of CHNG to its shareholders tax-free within the next 12-18 months.

McKesson will generate $3 billion of free cash flow this year. At our average purchase price of $114.50 we acquired MCK shares with an owner earnings yield [(1)] of close to 14%. We also indirectly received about $14.30 worth of CHNG shares for free.

[(1)] Earnings yield is the inverse of the P/E ratio. A 14% earnings yield is equivalent to a P/E of 7.1x

Based on MCK's current earnings estimates, we paid less than 8x earnings for this high-quality business. Drug distributors like MCK have historically traded at around 14x earnings. So, what's the catch? There are three major concerns currently weighing on the shares, two of which we believe will prove unfounded.

Politics and Regulation. Drug price inflation is a political piñata in the U.S. with plenty of heated rhetoric and an upcoming election. Various proposals are being floated by the Trump administration and Congress to get healthcare spending under control. We believe that drug distributors will be able to adapt to whatever changes are made and be paid fairly for the critical distribution function that they play in the U.S. drug supply chain. There will be challenges and given the political climate, investor sentiment will likely remain bearish. We believe this will pass in time.

New competition. Amazon's recent purchase of online pharmacy PillPack has many speculating that they plan to take on the wholesale distributors given Amazon's success in other areas. Our view is that while Amazon has disrupted retail and other industries by undercutting incumbents, those industries didn't run on 1.5% operating margins or have customers that were under multi-year contracts. Again, we believe this threat to be overblown.

Opioid Litigation. The opioid epidemic in North America is tragic and there is plenty of blame to go around. Manufacturers like Purdue marketed their products aggressively while playing down the risks. Many physicians wrote countless scripts for personal gain that "pill mill" pharmacies were happy to fill. The distributors should have done a better job of flagging and reporting pharmacies that were purchasing inordinate volumes of opioids relative to the size of their communities. Finally, the FDA had the data from all industry participants but failed to act. All players bear some blame for the human suffering and addiction resulting from these failures.

The participants are being sued for billions of dollars via thousands of lawsuits filed by State Attorneys General, cities and private citizens. The drug distributors clearly have exposure. For example, MCK recently settled with West Virginia – a hard-hit area – for $37 million payable over five years. Bloomberg recently reported that the Big 3 proposed a $10 billion settlement and that the National Association of Attorneys General countered with $45 billion.(2) The drug distributors will incur liability, even if they are less culpable than others. Plaintiffs usually target deep pockets and the Big 3 fit the bill.

The opioid litigation reminds us of the tobacco master settlements from 20 years ago. Plaintiffs will need the Big 3 to keep operating in order to receive damage payments as drug distributors don't carry much in the way of fixed assets or excess cash. Society needs the distributors to continue to distribute drugs nationwide (albeit in a more responsible manner). Our best guess is that this will take years and plenty of hard-fought litigation to resolve (MCK is spending $150 million on opioid-related litigation this year alone). We believe that a global settlement is the most likely outcome.

(2) https://www.bloomberg.com/news/articles/2019-08-06/opioid-distributors-propose-10-billion-to-end-state-lawsuits

The distributors will likely end up paying something up front and the balance over time out of their prodigious cash flows. Let's assume that MCK alone ends up paying $10 billion. That would represent about a $53 loss in per share intrinsic value. The more likely scenario is a lesser reduction of intrinsic value due to the payout being made over many years.

Applying a normal 14x price-to-earnings ratio and adjusting for the CHNG shares and the litigation exposure we derive a fair value of over $142 per share for MCK which is where the stock is currently trading. We aren't adding to our position at current levels, but at our purchase price of $114.50 we figured that we had an adequate margin of safety even if our estimate of the litigation exposure turns out to be low. We also conducted a similar analysis for ABC and bought shares as part of a pharma distributor "basket". Given the potential risks and uncertainties we kept our position-sizes modest. We plan to closely monitor the situation and react as things unfold.

Outlook

Markets have been good for a very long time and we are getting late in the economic cycle. The Value Fund is well positioned as the companies that we own are of high quality and should continue to increase their intrinsic value over time.

In addition, many of the companies in our portfolio are aggressively repurchasing their own shares (e.g. Apple repurchased $75 billion last year and are on track to do the same again this year). Lower prices help long-term investors as these corporate cannibals retire more shares for each dollar deployed as prices decline. Berkshire Hathaway is currently sitting on a $120 billion cash hoard and just itching for a chance to put it to work.

"The big money is not in the buying and selling … but in the waiting."

Charlie Munger

Markets are bullish, valuations are dear and almost every stock is up. Time to be cautious in our minds. But to be clear, we have no idea when a real market correction or an economic recession will materialize. In fact, we do not believe that either can be reliably predicted *by anyone*. But whenever opportunity arrives, we are ready to take advantage.

Michael P. McCloskey

President, Founder &
Chief Investment Officer

GreensKeeper
ASSET MANAGEMENT INC.

The Scorecard
Issue #27 - October 2019

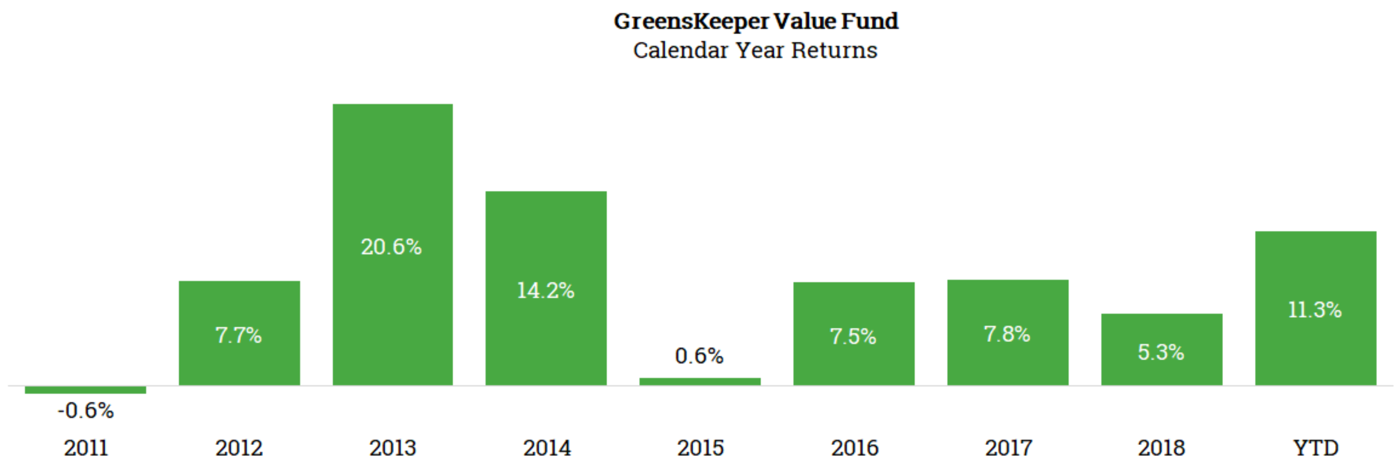
Fundserv Launch

Market Commentary

For the third quarter the Value Fund returned +2.0% net of fees and is up +11.3% year-to-date. The weakening US dollar has lowered our returns by -3.0% year-to-date.

Equity markets have rebounded strongly since the Q4 2018 selloff and are approaching all-time highs. The U.S. economy has expanded for over 10 straight years since the Great Recession. This is now the longest economic expansion in U.S. history. We suspect that a recession will materialize at some point in the next few years. But to be clear, we have no idea exactly when or what the trigger will be. In fact we believe that these things cannot be reliably predicted by *anyone*.

Instead of wasting out time trying to be modern-day Nostramuses, we simply assume that we are late cycle and factor that into our analysis when valuing companies. Future earnings may become challenged (for cyclicals in particular) and this is a time to be especially vigilant when it comes to balance sheets. Many highly-indebted companies are able to service their debt burdens at present, but that may not always be the case.



Portfolio Commentary

We meaningfully increased our exposure to the U.S. health insurers by adding to our position in **Anthem** (ANTM) and initiating a new position in **UnitedHealth Group** (UNH). Democratic presidential candidates Elizabeth Warren and Bernie Sanders are touting "Medicare for All" and propose an outright ban of private health insurers. The heated rhetoric on the campaign trail led to a sector selloff which we took full advantage of. Our view is that the prospects of Medicare for All actually coming to pass are *extremely* low given the price tag (likely >$40 trillion), political opposition and the challenge of securing enough votes to enact the requisite legislation which would upend a major segment of the American economy.

UnitedHealth and Anthem are the two largest publicly-traded health insurers in the U.S. The health insurance market is best described as a natural oligopoly given the scale advantages required to succeed. Both companies have some pricing power and their businesses are "capital light" meaning that they have few fixed assets needed to operate. This powerful combination allows Anthem and UnitedHealth to earn attractive returns on capital and generate buckets of free cash flow. Both companies recently reported solid quarterly results and we remain long-term bullish on the sector.

While we are typically not very active with the portfolio, in Q3 we fully exited five positions. Two (**Coca-Cola European Partners** (CCEP), **McKesson** (MCK)) reached our target prices and we decided to take profits. Two (**Sanofi** (SNY) and **Tapestry** (TPR)) were smaller positions and we lacked the conviction to make them meaningful holdings given the current environment. The final stock (**AT&T** (T)) remains cheap but has a balance sheet that gives us heartburn. Given the economic backdrop discussed above, we believe there are better places to invest at the present time.

During the quarter we added to several positions (**Alphabet** (GOOG), **Wells Fargo** (WFC)) and trimmed our holdings in **Urbana** (URB.A). Our cash position stood at 13.2% at the quarter end and while we remain cautious given the market environment, we are eager to put it to work when we find attractive opportunities.

The Value Fund's top 10 holdings – representing over 60% of the portfolio at the end of Q3 – were as follows:

GreensKeeper Value Fund

Top 10 Holdings *

Berkshire Hathaway Inc.	11.2%
Facebook, Inc.	6.5%
Apple Inc.	6.2%
Visa Inc.	6.2%
Wells Fargo & Company	5.6%
American Express Company	5.5%
United Parcel Service, Inc.	5.1%
Booking Holdings Inc.	5.0%
Anthem, Inc.	4.9%
Novo Nordisk A/S	4.3%

**As at September 30, 2019. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.*

Business Update

November 1st marks the 8th anniversary of the launch of the Value Fund. It has been an amazing journey so far and we are still in the early innings. Our firm's assets under management have grown every year since inception largely due to referrals from our existing clients. Thank you for spreading the word!

In order to fuel GreensKeeper's next leg of growth, we are excited to announce the pending launch of the Value Fund on the Fundserv platform in November. Our Fundserv listing will allow selected dealers and investment advisors to offer units of the Value Fund directly to their clients. For dealers and investment advisors that would like additional information, please reach out to us directly.

We are passionate about investing and recognize the trust that clients place in us to prudently grow their hard-earned savings. We take this responsibility seriously and view our relationship with our clients as one of investment partnership – because it is. My household has over 70% of our net worth and 100% of our investable assets invested alongside the firm's clients. This is as it should be.

I look forward to compounding your savings, along with my own, for many years to come.

Michael P. McCloskey

President, Founder &
Chief Investment Officer

October 26, 2019

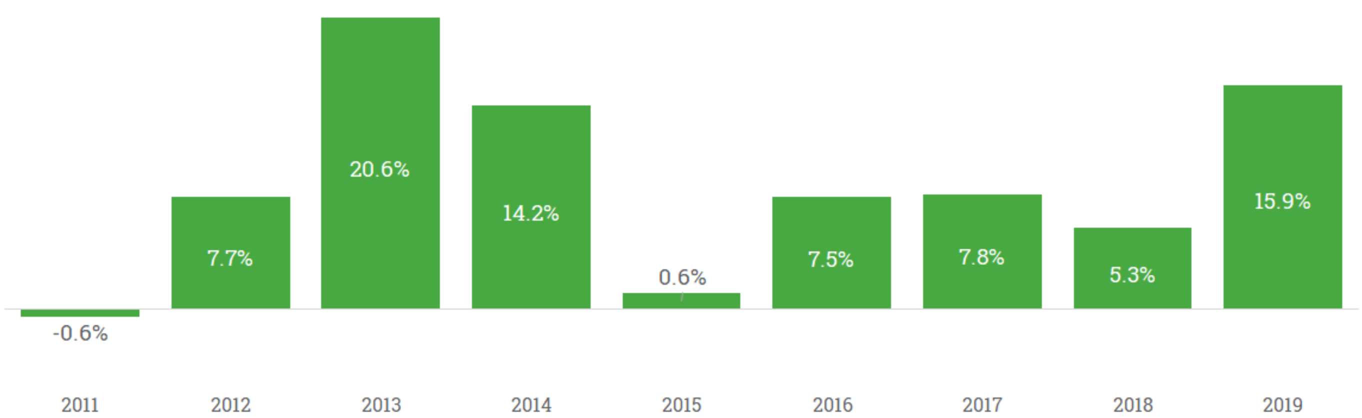
Momentum

The Value Fund returned +15.9% in 2019 net of fees and expenses and has returned +9.5% net since inception on November 1, 2011. This past year was our eighth consecutive year of positive returns.

The panicked selloff of Q4 2018 now seems like a distant memory as investor mood quickly swung to euphoria last year driving equity markets higher across the globe. Given our conservative bent and willingness to hold cash when stocks are expensive, we trailed our benchmarks in 2019. The S&P/TSX Total Return Index finished up +22.9% and the S&P500 Total Return Index, measured in Canadian dollars (the Value Fund's reporting currency) was up +25.1% for the year.

We tend to outperform in ugly markets as we did in 2018. High quality companies that are undervalued tend to hold up better under stress. Risk management and preserving capital is a cornerstone of our investment framework at GreensKeeper. As American race car driver Rick Mears so aptly put it, "to finish first, you must first finish". Our goal is to prudently compound your capital (and ours) and avoid costly pile ups that set so many investors back. So far, so good.

Given our significant U.S. stock holdings, the 5% appreciation of the Canadian dollar in 2019 lowered our returns by approximately the same amount. The loonie was the best performing major currency in the world last year versus the U.S. dollar. We view these swings as entirely unpredictable and largely noise. Exchange rate impacts on portfolio returns tend to be a wash over the long term. A more detailed explanation of our view on currency hedging (and our bias for not doing so) can be found here.



Market Outlook

So what will equity markets do in 2020? I was asked that exact question by a group of professional money managers in Toronto recently. My response left them wanting. I don't have any idea and firmly believe that neither does anyone else. Those that profess to know like the daily pundits on CNBC or BNN Bloomberg TV may be entertaining to listen to, but don't mistake their commentary for wisdom. Making investment decisions based on market projections has proven time and time again to be a fool's errand.

It shouldn't surprise you that our investment heroes (Munger, Buffett, Graham) share our view. As bottom-up value investors we simply look for great businesses that are selling cheap regardless of market conditions. When we find one that meets our criteria, we pull the trigger. In fact, selloffs tend to be fertile hunting ground for us. When investors panic, opportunity presents itself as it did for the Value Fund portfolio in Q4 2018.

Portfolio Review

Our two biggest contributors to the portfolio in 2019 were our investments in **Apple** +58.8% (AAPL) and **Facebook** +56.6% (FB), both of which were purchased during the Q4 2018 selloff. Those two stocks contributed about 4.8% to our 2019 returns. Just a few meaningful and timely decisions can make a big difference to portfolio returns.

When we were buying Apple, investors worried that the company had reached peak iPhone volumes and sales to China were also declining rapidly due to the US/China trade war. Fast forward to today and what has changed? Consensus 2020 earnings for the company is currently $13.12 per share. This is *lower* than the $13.43 consensus at the time of our purchase. In other words, Apple's business isn't materially different today. What has changed, to a remarkable degree, is investor sentiment about the stock.

With an average purchase price of $155.30, we bought the stock for 11x earnings plus cash. In other words, absent a material change in Apple's business, this was not a risky investment. At the current share price of $317.70, investors are now prepared to pay 22x earnings for the same company only one year later. We fully exited our position in Apple late in the year as we believe the stock is more than fully-valued at current prices.

Apple is a strange case study. We made a handsome return on one of the most well-followed companies on the planet in about 10 months. Since selling the stock it has continued its upward rise unabated. So perhaps we sold too early as value investors trying to manage risk often do. Or perhaps investors are getting a little carried away again, just in the opposite direction. As a consolation, we still have plenty of exposure to the company through our shareholdings in **Berkshire Hathaway** (BRK.A/BRK.B). Assuming the Oracle hasn't sold any shares, Berkshire holds about $79 billion worth of Apple stock.

We wrote about our investment thesis for **Facebook** at length in last year's annual report. The company is still the favourite whipping boy of regulators and politicians. But in a US campaign year, where do your think that politicians are spending much of their campaign dollars? The number of users on the company's platforms (Facebook, Instagram, WhatsApp) continues to grow. Profits are massive and the cash keeps piling up. At our average cost of $141.29 per share we are currently up 57% on our investment but unlike Apple, we haven't sold a share.

We believe that Facebook has the potential to be a compounder – a company that increases its intrinsic value for many years to come. The Instagram app is only starting to be monetized and from what we can tell, WhatsApp doesn't generate any meaningful revenue despite billions of active users.

Our bet is that over time the company will find a way to monetize these users and that earnings will continue to increase at a handsome pace.

Our only beef with **Facebook** is management's questionable capital allocation decisions. We don't mind them investing in people, servers and data centers to service their customers and grow the business. But with $52 billion of cash on the balance sheet and no debt, we just wish they would repurchase their stock more aggressively, especially when it's cheap.

Our next largest contributors for the year were our credit card network investments: **Visa** +42.4% (V) and **American Express** +30.6% (AXP). These high-quality compounders continue to grow earnings and should thrive for many, many years to come. Accordingly, absent a material disruption to their business or an obviously superior investment alternative, we view these positions as core holdings.

Rounding out the top 5 for 2019 was our investment in **S&P Global** +60.7% (SPGI). The company's main business is its credit rating agency – Standard & Poor's. Oligopolies tend to be great businesses and S&P and Moody's are the dominant firms providing credit rating services to issuers worldwide. Pricing power combined with a capital-light business makes them free-cash-flow machines with very high returns on capital. The Federal Reserve's recent decision to lower interest rates also encourages debt issuance which provides a helpful tailwind for the company. We believe that the formation of debt capital markets in new geographies (e.g. Asia) should provide future growth opportunities for S&P Global for decades to come.

While it is still early days for our stock positions in the US health insurers – **UnitedHealth Group** (UNH) and **Anthem** (ANTM), so far so good. The stocks are up 18.6% and 28.6% respectively since our purchases in Q4. It seems that the market is coming around to share our view that Medicare for All is unlikely to happen.

Given the overall bullish markets, we only had two stocks that were in the red for the year. **Tapestry** -19.7% (TPR) – formerly known as Coach – lowered our returns by (0.3%) in 2019. We fully exited the stock in Q3. Tapestry was a disappointing investment for us. The reason? We simply got this one wrong. It looked cheap when we bought it, but the company was overly promotional and did some lasting damage to the brand. Add in growing competition from Michael Kors and the rise of fake merchandise via ecommerce and we ended up with a poor result.

Brands and retail in general are both changing rapidly due to technology making it easier for new competitors to reach consumers directly. Lesson learned.

We also fully exited our investment in **Sanofi** -8.1% (SNY) during the year. Sanofi was a small legacy investment for the Value Fund. We were originally attracted to the company given its exposure to the diabetes market – a large and growing segment. Diabetes care is largely an oligopoly comprised of **Novo Nordisk** (NVO), **Eli Lilly** (LLY) and **Sanofi**. While we sold our position in Sanofi at a profit, it was a mediocre investment. We still like the diabetes sector and have plenty of exposure via our stake in market-leader Novo Nordisk (4.7% weighting).

During the year we also profitably exited our positions in **Coca-Cola European Partners** (CCEP) and **McKesson** (MCK) as both stocks reached our target prices. We also fully exited our position in **AT&T** (T) but for different reasons. The stock remains cheap but has a balance sheet that gives us heartburn. Given our view that we are late in the economic cycle, we believe there are better (and safer) places to invest at the present time.

Overall 2019 was a solid year for the Value Fund. We finished the year with a net cash position of 17.3% and unrealized gains on our equity investments of approximately $8.2 million on a $34.8 million portfolio. Additional portfolio disclosures including performance statistics can be found on the pages immediately following this letter. Once KPMG completes its audit of the Value Fund's Financial Statements in March, we will provide clients with a more detailed snapshot of the entire portfolio at year end.

The Value Fund's top 10 holdings, representing over 63% of the portfolio at year end, were as follows:

GreensKeeper Value Fund

Top 10 Holdings *

Alphabet Inc.
American Express Company
Anthem, Inc.
Berkshire Hathaway Inc.
Booking Holdings Inc.
Facebook, Inc.
Novo Nordisk A/S
United Parcel Service, Inc.
Visa Inc.
Wells Fargo & Company

**As at December 31, 2019. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.*

2020 and Beyond

The past year was a year of record growth for the Value Fund and our Managed Account portfolios. To fuel our next leg of growth, we launched the Value Fund on the Fundserv platform in November. As a result, selected investment advisers can now offer Value Fund units to their clients directly through their brokerages.

Earlier this month, we also announced an exciting addition to the firm's leadership team. After successfully completing the requisite coursework and being duly licensed by the Ontario Securities Commission, my brother James joined the firm as Senior Vice President - Sales. James brings over 15 years of sales experience with high-net-worth individuals to GreensKeeper and I am looking forward to continuing the firm's growth with him by my side. James and I be in touch later this year regarding an investor meeting, but in the meantime please feel free to reach out to either of us with any questions.

Finally, I would like to take a moment to thank all our clients for the trust that you continue to place in us and for referring others to GreensKeeper. We will continue working hard to grow your capital alongside our own

Michael P. McCloskey

President, Founder &
Chief Investment Officer

GreensKeeper
ASSET MANAGEMENT INC.

The Scorecard
Issue #29 – Q1 2020

April 6, 2020

The Bear

The Value Fund was down -12.3% in Q1 and the major market indices declined even further: TSX -20.9%, DJIA(CAD) -16.2%, S&P500(CAD) -12.8%. Along with COVID-19, the bear market has officially arrived. It seems that COVID-19 pulled a bear market out of hibernation and humanity took its place.

Given our significant U.S. stock holdings, the weakening of the Canadian dollar (the Value Fund's reporting currency) provided some shelter. In times of market panic, investors tend to flock to the greenback. A more detailed explanation of our view on currency hedging (and our bias for not doing so) can be found here.

> **COVID-19 pulled a bear market out of hibernation and humanity took its place.**

A Useful Mental Framework

Before diving into the portfolio, let's briefly address the current pandemic. We decided to share the cartoon above for several reasons. First, we can all use a little levity to help get us through this trying time. COVID-19 is taking a tragic toll on the vulnerable, disrupting economies, creating unemployment and heightening anxieties. This is a difficult and disorienting time. But the cartoon also contains an important message. The source of (mis)information on this novel pathogen should be scrutinized by each of us. Our preference is to listen to the experts, namely the medical and scientific community. We also recognize that there is much that they do not yet know about this new pathogen.

With that said, we are not epidemiologists, we are capital allocators. Accordingly, we will refrain from adding to the cacophony of voices shouting for attention on the best way forward.

But we will share with you a source of timeless wisdom that we find very helpful at present. The ancient Stoics lived through pandemics and many other hardships in their own time. What advice would they offer us at present? Try to focus on the things within our control, namely our response to the events we are faced with.(1)

At GreensKeeper, that means keeping our employees and their families safe via self-isolation, spending our time analyzing companies and valuations and monitoring the progress of the pandemic and its impact on our investment portfolio.

Despite the dreadful headlines, we remain very optimistic that things will improve. We are all fortunate to be living in this modern age. Earlier plagues caused tens of millions of deaths, were poorly understood and medical treatment ranged from the primitive to the non-existent. Below is a photo of an actual 16th century leather plague mask worn by doctors at the time. Personal protective equipment (PPE) and the rest of science has come a long way since then.

German Museum of Medical History

(1) For those interested in learning more about Stoicism, this link is to a presentation given by our founder on the topic at an investment conference in January 2020. Suggested books for further reading on Stoicism can also be found on our bookshelf webpage.

The entire world is focused on finding solutions to the coronavirus pandemic The best scientific minds are hard at work and will not lack for resources. Modern medicine will find a solution. Governments are stepping in to provide financial support to those most affected as they should. For those reasons and a few others, we remain rationally optimistic.(2)

The Value Fund Portfolio

Here's how we are thinking about our investment portfolio in the current environment.

The current disruption to certain businesses is real and has likely reduced earnings for many companies for 2020. As a result, market valuations should be lower. But the overall change to the intrinsic value of many companies is likely to modest. For example, we are confident that **Visa's** earnings will be materially higher five and ten years from now.

It is important to remember that stocks represent ownership interests in real businesses. The value of those businesses typically changes slowly as it is based on the lifetime of the future cash flows that they will provide to their owners (shareholders). Over 95% of the value of most companies has nothing to do with their earnings this year.

At the same time, we need to acknowledge that the coronavirus' impact on companies will vary. Some businesses will see limited impact (e.g. pharmaceuticals). A few companies may even experience a short-term benefit (e.g. supermarkets and food producers). But in general, most businesses are being harmed due to forced closures and reduced customer demand.

Companies with highly-leveraged balance sheets and small businesses without reserves to see them through the current lockdown may never recover. We are on heightened alert to ensure that these businesses never find their way into our portfolio. Owning them often leads to a permanent loss of capital when an unexpected shock arrives.

We continue to upgrade the portfolio opportunistically by selling fully-valued positions and replacing them with stocks that are cheaper. For example, we recently trimmed our holding in **Novo Nordisk** (NVO) and added two other high-quality pharmaceutical companies that offered what we believe are more compelling valuations.

We are also prepared to change our minds if our thinking changes regarding the economic impacts of the current pandemic on a stock or industry. For example, we recently sold our entire position in **Booking Holdings** (BKNG) at a loss. Air travel is a coincident indicator for the hotel business which is where Booking Holdings makes virtually all its profit. Airline volumes are down 90% at present and we suspect that things will only gradually get better over the remainder of the year.

Booking Holdings is an amazing company. Its balance sheet and ability to trim variable costs like advertising should see it through to better times. In fact, its services will be even more valuable to hotels looking to drive occupancy once travel recommences. But at the current stock price we believe that investors are over-optimistic about how quickly travel demand will return and at what level.

(2) We highly recommend *The Rational Optimist : How Prosperity Evolves* by Matt Ridley.

Glenn Fogel — Booking Holding's CEO — was recently interviewed on CNBC and hinted that the company may reduce future business travel given how effective the shift to working remotely has been. When a travel company makes that statement, we take it at face value. While we believe that leisure travel will eventually get back to and then surpass prior levels, business travel is likely to be structurally lower for several years due to changing habits and budget tightening.

We would be happy to own BKNG stock again at a lower price. But at current levels we believe that expectations are still far too high. Coming to terms with the pandemic is very difficult for people to absorb psychologically. There are various degrees of denial taking place as people try to comprehend the extent of the impact. That is understandable given the scale of this tragedy. We are doing our best to accept that the world has changed, and that it will take an uncertain amount of time to resolve. This is a time for investors to be coldly rational and aware of their own cognitive biases.

The good news is that we managed to avoid any direct investments in the airline industry. **Berkshire Hathaway** owns several of them and appears to be selling shares in them at present. Fortunately, it is a small part of their equity portfolio. We never agreed with Buffett's change of heart regarding the airlines which he long avoided. We simply never liked the business given its highly cyclical and capital-intensive nature.

Since year end, the major changes to the portfolio have been an increased exposure to companies in the Healthcare, Pharmaceutical and Consumer Products sectors, a reduction of our cash position and a reduced exposure to the Technology and Energy sectors.

The situation is fluid and we have been very active with the portfolio. Over the past 60 days our trade volumes have exceeded what we typically do during an average year. In times of market panic, investment opportunities often present themselves. If the markets go lower, we may get additional chances to sell what is cheap in order to buy cheaper. Each day we simply react to the opportunity set in front of us.

We can't recall the source but distinctly remember someone describing value investing consisting of long periods of inactivity mixed with decisive aggression when opportunity knocks. It is starting to knock.

"Success [in investing] means being very patient, but aggressive when it's time."

Charlie Munger
Berkshire Hathaway 2004 Annual Meeting

While we will remain nimble and opportunistic in this market environment, rest assured that we will never compromise on quality. Unless a company has a balance sheet and business model that can carry it through this storm, even if it lasts for several years, we aren't interested. At any price.

Market Outlook

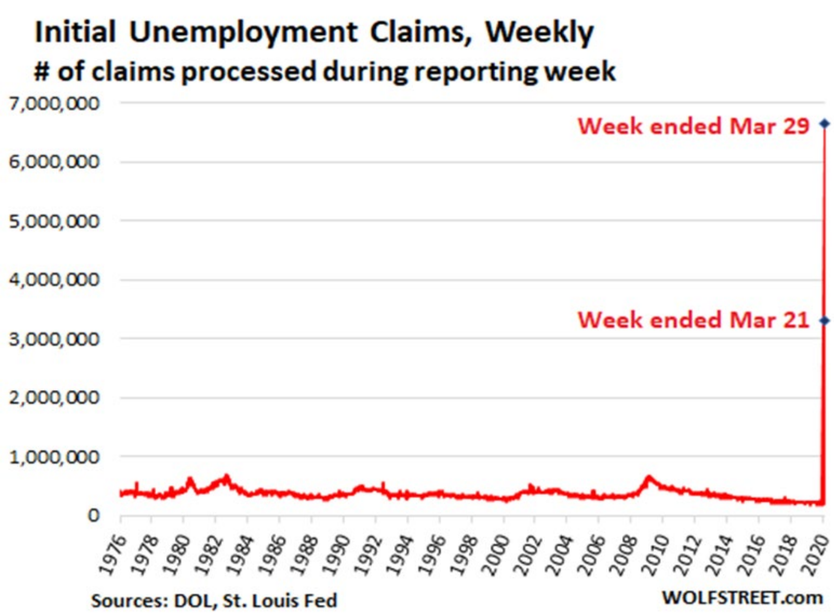
We acknowledge that things look bleak at present. But as discussed earlier, we are confident that they will get better in time. Advances in medicine, communication and human knowledge will see us through this. The biggest uncertainties in our minds relate to the timing, path, and economic impact of the way forward.

Short-term, extensive testing and monitoring combined with the discovery of effective therapeutics should allow the economy to restart in some limited form. Longer-term, vaccines and/or herd immunity may be the ultimate solution. Trying to predict these variables with certainty isn't possible (at least for us).

Instead, we simply accept that the economy will be severely disrupted for at least a year and unemployment far, far too high. We then try and analyze the short-term impact on companies, their projected earnings a few years out and compare that with the current valuations in the market.

We have no view on the short-term direction of the equity markets or whether they have bottomed. We also firmly believe that no one else has any idea where the market will be at the end of the month or the end of the year for that matter. *No one.*

We think that investors are better off simply ignoring the parade of "experts" on CNBC and BNN Bloomberg TV despite their strong opinions on the topic. We view it as entertainment, not investible advice. For those requiring proof to support our thesis, we have an excellent example. The chart below shows the weekly US initial unemployment claims numbers.



The prior record of peak unemployment claims in any week was 665,000 which took place during the Great Recession (2009). Over the past two weeks, the new claims numbers were an unimaginable 3,307,000 and 6,648,000 respectively. Both figures were also materially higher than the consensus view. In other words, they were worse than the market expected. Yet on the days that those figures were released, the S&P500 Index ended *up* +6.2% and +2.3% respectively. Go figure.

American Express (AXP) is one of our portfolio holdings and we are confident that they will survive the current challenge and go on to deliver growing dividends and earnings in the future. Yet the market discounted its share price by over 50% within the span of a month. Only three days later the stock was 39% higher. This is no small cap penny stock – AXP is a Dow component member with a market capitalization of approximately $75 billion.

While markets are usually efficient, they can do very strange things during times of stress. During these periods, they are often driven by emotion and fund flows. Value investing founder Benjamin Graham coined an apt metaphor: "… in the short run, the market is a voting machine but in the long run, it is a weighing machine".[3] The fact that Mr. Market changes his mind about the value of businesses minute by minute is only relevant if you are influenced by and act on it by basing your investment decisions on his current mood. Remember that he is there to serve you, not to guide you.[4]

Severe market declines can also bring about forced selling. Investors that use leverage (levered funds and margined investors) need to quickly post additional collateral when the value of their portfolios decline. If they are unable to do so, they are forced to liquidate their positions at whatever price the market has on offer at the time. A parallel situation is Norway's $1 trillion sovereign wealth fund that owns approximately 1.3% of all global equities. There are credible reports emerging that the fund is liquidating a portion of its portfolio to fund government withdrawals necessitated by the sharp oil price collapse.

All of the foregoing reemphasizes the need for equity investors to possess a long-term investment horizon. Those requiring short-term liquidity pay a very dear price when markets tank.

At GreensKeeper, we do not use any leverage in the portfolio and will never receive a margin call or be forced to sell at an inopportune time.

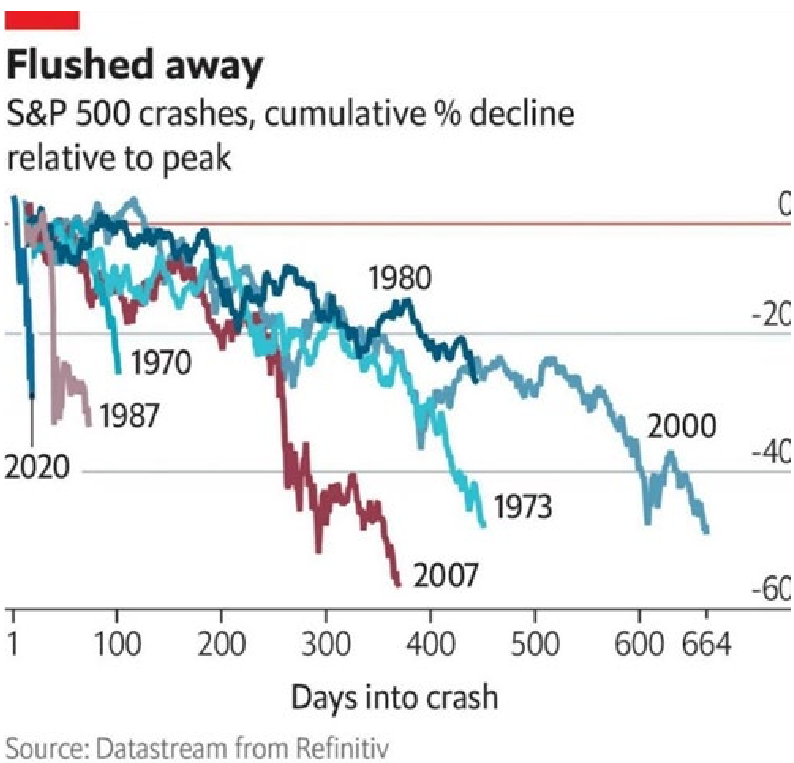
In addition, the companies that we own have solid balance sheets and are not at the mercy of their lenders. On the contrary – many of them have little to no debt, excess cash and are aggressive purchasers of their own shares (e.g. **Visa** (V), **S&P Global** (SPGI), **Facebook** (FB), **Alphabet** (GOOG), **Novo Nordisk** (NVO)). Lower stock prices are a good thing for these companies as it enables them to retire even more shares for each dollar spent thereby boosting future earnings per share.

(3) *Securities Analysis* by Benjamin Graham and David Dodd.
(4) *The Intelligent Investor* by Benjamin Graham (Chapter 8)

We also recognize that valuations were lofty going into the current crash. Many stocks are nowhere near as cheap today as they were in March 2009 during the lows of the Great Recession.

There are also many low-quality companies with questionable business models still trading at what we believe are eye-popping valuations. For example, there are scores of North-American-listed companies that didn't earn a profit last year, yet they continue to trade at valuations north of $10 billion. We suspect that things won't be easier for them in the current environment. These are land mines and we plan to continue to steer far clear of them.

The current market environment is the time for investors to be highly selective and pick individual, high-quality stocks from the bottom up. In addition, we should demand a wide margin of safety given the uncertain economic outlook. In other words, we are looking for things that are dirt cheap. We are also mindful of the fact that while the current selloff has been unique in terms of how quickly the market has declined, many prior corrections were deeper. We could yet retest the March lows. No one knows.

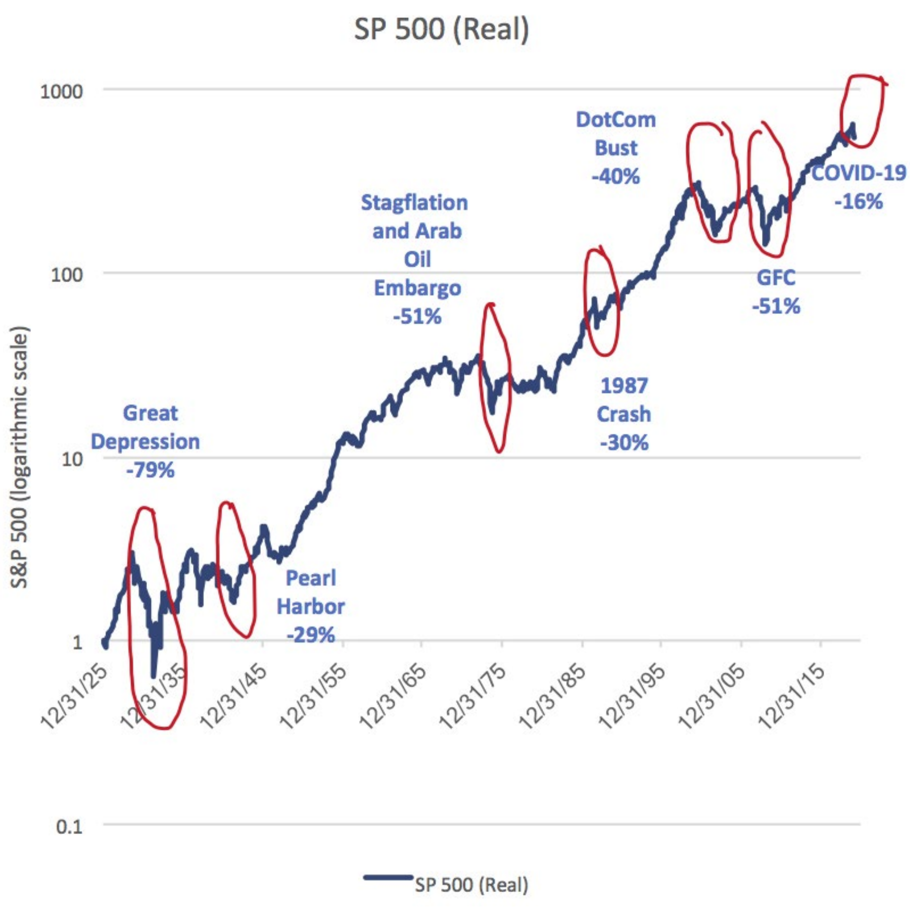


Instead of trying to predict the impossible, we focus on what we can control. We know that the companies that we own can weather this storm, even if it lasts for several years. We also strongly suspect that owning high-quality equities will lead to better returns versus lending our money to the Canadian or U.S. government for 10 years in exchange for the "risk free" 0.6% annual return currently on offer.

Holders of government bonds are insulated from volatility as the principal is guaranteed by the government. But they pay a very high price given that inflation is almost certain to erode their purchasing power over the next decade. Our path will certainly be bumpier, but likely to leave us much farther ahead over the long term.

No one knows where the markets will finish the month or the year for that matter. But we do know that buying quality companies when they are on sale has historically been a recipe for success. The reason is that declining stock prices actually *lower* the risk of owning an asset whereas price rises *increase* risk. Read that last sentence again and think about it. Once you understand that truism, you will look at investing in a new light.

The best time to buy stocks is right after they have been repriced via a broad market crash. Unfortunately, our reptilian brains struggle to overcome the sense of danger that makes buying at the best time so difficult. While short-term market moves are impossible to predict, we have a pretty good idea of what equities tend to deliver over the long term.



(5) Chart source: https://www.sensiblefinancial.com/recent-stock-market-performance-in-context/

Our Firm

As an essential service, GreensKeeper has continued to operate without interruption. In fact, our employees started working remotely before the government mandate. We value our employees and will continue to prioritize their safety. Our business continuity plan and Microsoft cloud network infrastructure have made the changes to our daily routines a non-event. Our business was built to last.

Q1 was a rough start to the year. Equity markets do this from time to time and our memories of prior crashes are helping us to navigate the current one.

The quality and liquidity of the equities that we own allow us to make changes to the portfolio quickly and with virtually no market impact. Several clients reached out to us recently and added to the funds that we manage for them. They recognize that widespread market panic can create attractive long-term opportunities. We are appreciative of the quality of our client base and the fact that they share our long-term investment philosophy.

From our perspective, being in self-isolation has its benefits. We are working at a furious pace and laser-focused on stock analysis and positioning the portfolio for the next leg up. We are constantly updating our watch list of companies that we would like to own and the price that we are prepared to pay for them in the current environment. We are also adding a university student to the research team for the summer to help with the load. There is lots to do.

From our GreensKeeper family to yours, stay safe!

Michael P. McCloskey

President, Founder &
Chief Investment Officer

July 26, 2020

Flashback

The Value Fund was up +6.1% in Q2 and is down -7.0% year-to-date through June 30. The strengthening of the Canadian dollar (the Value Fund's reporting currency) lowered our Q2 returns by approximately -3.4%. A more detailed explanation of our view on currency hedging (and our bias for not doing so) can be found here.

As at June 30, the major North-American indices are largely in negative territory for the year: TSX -7.5%, DJIA(CAD) -4.3%, S&P500(CAD) +1.3%. Markets have largely rebounded from the steep Q1 selloff. Meanwhile COVID-19 is still reproducing at alarming rates in the US and much of the global economy is operating at partial speed.

Market Commentary

Say say two-thousand-zero-zero party over
oops out of time
So tonight I'm gonna party like it's 1999

Prince. "1999". Warner Bros. Records, 1982

Written in 1982, Prince's lyrics to his hit-song "1999" proved to be prophetic. But instead of correctly predicting nuclear Armageddon, he nailed the bursting of the dot-com bubble and the stock-market hangover that followed in 2000.

As Mark Twain so aptly put it, history doesn't repeat itself, but it often rhymes. The current market environment — especially in certain tech stocks — reminds us a little of the late '90s stock market. Back then, a tech-related business plan and not much else could lead to mind-boggling valuations and access to capital markets. Valuations were deemed irrelevant — all that mattered then were eyeballs and a dot-com name. Many entrepreneurs took advantage of the market's folly by raising vast sums of capital and proceeded to recklessly spend these "businesses" into oblivion.

Today's market is different in that many high-flyers are actual businesses that do have a future. For example, Canada's **Shopify** (SHOP) is growing rapidly and provides small and medium-sized businesses with an easy way to set up an online presence. With revenues of US$1.7 billion and a leading market position, it certainly has a promising future. Its stock is another story.

Sporting a market capitalization of C$146 billion, the company is currently being valued at 63x revenue. We would give you the P/E multiple but are unable to as the company has yet to turn a profit. Let's assume that Shopify can grow revenues at 40% a year for the next five years and eventually earn a 20% profit margin. Hardly conservative. On those numbers the stock trades at 75x projected earnings for 2025. By comparison, **Royal Bank of Canada** (RY) earns about $11.2 billion in profits a year and its market capitalization of C$133 billion implies a P/E of 12x. We like companies that grow fast — we just aren't inclined to overpay for that growth. We have a sneaking suspicion that investors in Shopify at current valuations will eventually experience an unpleasant outcome.

There are other signs of market froth. For example:

- By our count, there are dozens of software-as-a-service (SaaS) companies with market capitalizations over $10 billion that are trading at more than 25x revenues. Almost all of them are unprofitable.
- Account openings at online brokers is surging and there are credible reports that trading stocks was among the most common uses of government stimulus cheques.
- Day traders like Dave Portnoy are becoming celebrities to his legion of day-trading followers. He may be entertaining to watch, but we remain skeptical of his views that "stocks only go up" and Warren Buffett is "washed up".
- Rental-car company **Hertz** (HTZ) filed for bankruptcy protection and yet the stock rallied from $0.56 to $5.53 within a week. As a result, the company tried to issue new equity that it described as "worthless" until the regulators stepped in.

Asset-price inflation is a direct consequence of easy money. Yields on 10-year government bonds — the "risk-free" rate — currently stand at 0.6%. The idea of lending someone our money for a decade at these fixed returns strike us as highly unattractive especially given the risk of future inflation.

Government stimulus related to COVID-19 is paying many people more to stay at home than they were making at work. Idle consumers locked in their houses with extra pocket change is contributing to this folly.

Given the environment, our experience tells us that today remains a time to be cautiously positioned with the portfolio. We prefer the risk of looking stupid for missing out than the risk of losing your money (and ours) by making bets with poor odds.

Our focus remains on what we can control. We know that the companies that we own in the portfolio can weather the COVID-19 storm, even if it lasts for several years. We also know that there are some attractive opportunities out there. We believe that owning high-quality equities that are trading at reasonable prices will lead to better returns than the other alternatives currently on offer.

The Economy vs. The Stock Market

The major North-American indices have quickly rebounded from the March lows and are nearing all time highs despite the pandemic's ongoing drag on economic activity. While this has been a surprise to many – myself included – it reinforces our belief that short-term market movements are entirely unpredictable.

In addition, despite widespread belief that the stock market and the economy are closely correlated, they are not.

> *The trouble with picking stock markets on the basis of expectations of GDP growth is not that GDP growth is hard to predict (although it is harder than many people assume), it's that even if you could predict it with perfect accuracy, it wouldn't do you any good picking stock markets.*
>
> Ben Inker, Grantham, Mayo, & van Otterloo (GMO) [(1)]

The economy is still a mess and the full economic-impact of COVID-19 on many businesses has been temporarily delayed due to government stimulus. Some businesses will draw down their reserves and then ultimately fail. Stronger competitors will gain market share and many businesses will reemerge with new equity owners via the bankruptcy process. Eventually the economy will improve, Schumpeter's creative destruction will have worked its magic and we will move forward.

The survival of our ingenious species is in our ability to continually adapt to changing conditions. We remain of the view that the scientific community will find a solution to COVID-19 and that the world will return to normal in a year or two. Society will adjust and successfully adapt as we have for millennia. So will businesses.

[(1)] *GMO White Paper: Reports of the Death of Equities Have Been Greatly Exaggerated: Explaining Equity Returns. Ben Inker, August 2012.*

Our approach in this difficult economic environment is to focus on valuations and how the pandemic will impact the earnings of our investee companies in the coming years. We stick to investments in quality companies with strong balance sheets and attractive long-term outlooks. We avoid speculative equities and even good companies that are trading at valuations that will likely lead to poor long-term returns. We think about risk.

The Value Fund Portfolio

The Value Fund finished Q2 up +6.1% with the biggest contributors largely coming from our technology holdings: **Facebook** (FB) +36.1%, **S&P Global** (SPGI) +34.5%, **Alphabet** (GOOG) +21.6% and **Visa** (V) +19.9%. Our worst performer was **Berkshire Hathaway** (BRK.A/B) -2.4%.

The sharp selloff earlier in the year allowed us to add several high-quality stocks to the portfolio: pharmaceutical giants **Merck** (MRK) and **Pfizer** (PFE) and UK-based spirits producer **Diageo** (DEO). We also uncovered a gem in Israeli-based cybersecurity company **Check Point Software** (CHKP). Cybersecurity is an industry with long-term tailwinds and the shift to working from home increases the importance of network security.

Check Point earns operating margins in excess of 40% and astronomical returns on capital. The business is a cashflow machine. We also like the fact that the CEO/Founder takes stock options in lieu of salary and owns about 20% of the business. At our average purchase price of $102 we acquired the stock at 14x earnings after adjusting for the $4 billion of cash on its books (no debt). If the company can improve on its sales execution and increase its already respectable revenue growth, we believe that a multiple expansion on the stock will follow.

We took advantage of the Q2 market rally by selling out of our positions in **Nike** (NKE) and **United Postal Service** (UPS) once they traded at prices in excess of our estimates of their intrinsic values. We also fully exited our position in **Wells Fargo** (WFC). The company's operational and regulatory challenges continue, and COVID-19 was the icing on the cake. Given the state of the economy, the low-interest-rate environment and their company-specific challenges, we decided to exit.

Berkshire Hathaway has been a laggard this year and there is plenty of talk of the Oracle being washed up. Perhaps. But with $140 billion of cash on hand and a stock trading at approximately 1.1x our estimate of the company's current book value, we like our odds. Historically the stock has traded at about 1.4-1.6x book value. The company has also been buying back some shares recently which is another sign that the Oracle views the stock as undervalued. People have written him off before and to date, they have been mistaken.

We wouldn't be surprised to see Buffett get an opportunity to put a large portion of that cash to work via major acquisitions and/or share repurchases. We believe that COVID-19's impact on many businesses is still in the early innings and the nascent recovery quite fragile.

Despite being 89, we think that the Oracle may yet have another card to play before walking away from the table and dealing in his successor (Canada's own Greg Abel is the likely pick). The $2 billion of cash flowing into Omaha each month will eventually pressure the company to start paying a regular dividend. Berkshire Hathaway is much more than just Buffett and Munger. It is a collection of wonderful and diverse businesses trading at an attractive price. In addition to the likely prospect of growing earnings for years to come, a future stock rerating is also probable. We view the stock as a core holding.

We finished Q2 with a cash position of approximately 23% and own quality names that we believe are undervalued. We would caution people not to mistake our cash position for a bearish near-term call on the market. We are neither short-term bearish nor bullish. No one knows what the market will do short-term, including us. Instead, we focus on valuations and opportunities available in any market environment. When we don't find compelling value, we are prepared to hold cash.

Our team of summer research analysts and yours truly are evaluating stocks at a furious pace. Just because there is some froth and the market generally overvalued, that doesn't mean that *every* security is expensive. Our daily efforts are focused on uncovering pockets of the market where we are finding value. We are willing to put our cash to work immediately if we find a compelling risk-reward. In fact we put some of that idle cash to work just this past week into a new position. When we find compelling valuations, we will act.

We are also updating our watch lists of great companies that we would like to own at a certain price. In other words, we are putting in the work and preparing for whenever opportunity happens to knock.

Business as Usual

COVID-19 may have prevented us from putting on our annual client gathering this summer but otherwise it's business as usual at GreensKeeper. Our entire team is working hard (and remotely) and we are finding video conferencing to be very efficient. Technology is a real blessing.

The firm's assets under management (AUM) has continued to grow as several of our clients sent more capital our way during the market selloff. They have been rewarded for their conviction by the swift market recovery. We are thankful that our client base shares our long-term approach to investing.

To all our clients, thank you for the privilege of managing your capital alongside our own.

Michael P. McCloskey

President, Founder &
Chief Investment Officer

October 12, 2020

Giving Thanks

The Value Fund was up +4.1% in Q3 and is down -3.2% year-to-date through September 30. The strengthening of the Canadian dollar (the Value Fund's reporting currency) lowered our Q3 returns by approximately -2.0%. A more detailed explanation of our view on currency hedging (and our bias for not doing so) can be found here. Year-to-date the TSX Index is -3.1% and the S&P500(CAD) +8.3%.

Markets continued their rebound from the steep Q1 selloff despite the negative headlines: a COVID-19 half-speed economy, an ugly US election, etc. Given the gloomy environment I hope that the cartoon below brings a little cheer to your day. We are all looking forward to putting 2020 in the rear-view mirror and getting back to normal.

Despite life's daily challenges, I suspect that if we take the time to reflect, we can all find things in our own lives to be thankful for. As the Stoic emperor Marcus Aurelius correctly noted, our life is what our thoughts make it. In honour of Canadian Thanksgiving, I decided to share a few of my own thoughts on the matter. But first, a review of the Value Fund portfolio.

The Value Fund Portfolio

The market environment is much the same as we reported in our Q2 letter. Equity valuations are generally rich and there are pockets of outright froth (many SaaS companies). Low interest rates and TINA (there is no alternative) are goosing asset prices.

Given this environment, we remain cautiously positioned with the portfolio including an 18% cash position at present. We prefer to assume the risk of lagging the indices when markets are frothy in exchange for preserving your capital (and ours) by only making bets when the odds are decidedly in our favour.

Our best performer for the quarter was our largest holding: **Berkshire Hathaway** (BRK.A/B) +19.7%. As we wrote about last quarter, many have written off the Oracle as being washed up. Given the quality of the machine that he has built, Berkshire's $140 billion of cash on hand and the company's current valuation, we view it as a core holding.

Facebook (FB) +15.3% was our second-best-performing stock for the quarter. Everyone hates the company. Except for the 2.7 billion people around the globe that use one of its platforms (Instagram, WhatsApp and Facebook) regularly. And the advertisers that want to precision target those 2.7 billion people. The stock is no longer cheap but given Facebook's secular tailwinds and our low cost basis ($141.29), the stock will likely remain in the portfolio.

During the March 2020 selloff we added several big-pharma names to the portfolio including **Pfizer** (PFE) which was up +12.2% in Q3. We like the stock given the company's broad product portfolio, strong free cash flow and attractive valuation.

Cisco Systems (CSCO) -15.5% was our only negative contributor for the quarter. The company issued disappointing guidance in August due to customers pulling back on equipment orders due to the economic environment. We have owned Cisco for years and given the current valuation and their long-term prospects, are happy to own it.

On top of adding to existing positions, we added **Intel** (INTC) to the portfolio in Q3. Intel is a company that we have previously researched and monitored, waiting for an opportunity to purchase it at an attractive price. We finally got our chance.

In July, the company reported a delay in the manufacture of its next-generation 7nm chips and the stock sold off by -22%. We immediately pounced. There is little doubt that Intel has lost its chip manufacturing leadership to **Taiwan Semiconductor Manufacturing Company** (TSM). But given Intel's scale, product breadth, geopolitical importance to the US and dominant market share in its segments (>60% in PC CPUs, >90% in data center CPUs), we believe the selloff is overdone.

Competitors will undoubtedly grow faster and take some market share from Intel. But with **Advanced Micro Devices** (AMD) trading at a 59x forward P/E, **NVIDIA** (NVID) 55x and **TSM** 25x, you can probably understand why we prefer an investment in Intel at 11.5x. Given the company's historical leadership and financial strength, we believe that in time, Intel can get things back on track. At current prices, any change in sentiment to the positive should lead to a market rerating.

Our portfolio remains highly concentrated in the US with approximately 73% of the portfolio in US-domiciled companies. Approximately 9% of the portfolio is invested in companies domiciled in Europe (UK and Denmark) and the Middle East (Israel) with the remaining 18% of the portfolio sitting in cash at the end of the quarter.

As a “go anywhere” fund, we are open to investing in businesses around the globe provided that the country respects the rule of law and we understand its culture and business environment. That said, most of the world’s great companies are found in the United States and hence our heavy weighting in US stocks. It is important to highlight that while many of our companies are based in the US, most are multinationals that sell their goods and services throughout the globe.

The Role of Luck in Investing

I was recently invited to write an article for an investment blog on the topic of the role that luck plays in investing. An excerpt is reproduced below, and the full article can be found by clicking on the link that follows.

> Just because the future is far from certain, does not mean that it is entirely unpredictable. Lessons gathered across wide-ranging disciplines – from quantum mechanics to professional poker – teach that the way to deal with the inherent uncertainties of life is to think in probabilities. Investing is no different. **Link to full article.**

Capital Gains Tax Changes Coming to Canada?

Last week I was asked by a professional tax preparer for my thoughts on the rumoured changes to the capital gains inclusion rate in Canada and how one should position their portfolio. An excerpt is reproduced below, and the full letter can be found by clicking on the link that follows.

> I think that there is a better way to approach this. Instead of trying to read the tea leaves to determine what the current and future governments will do with the inclusion rate, we try and take advantage of the fact that capital gains are only triggered once realized.
>
> Unrealized capital gains essentially embed an interest-free loan from the government until you sell a stock or have a deemed disposition (e.g. on death without available offsets or rollovers). We try and take advantage of this free loan by investing in companies that are growing and tend to compound their value at attractive rates over long periods of time (e.g. businesses with tailwinds). Using this approach, the tax bill rarely comes due and the effect of the interest-free loan is to deliver superior after-tax returns to clients in taxable accounts. **Link to full article**

Gratitude

The global pandemic has impacted every one of the 7.8 billion human inhabitants of planet Earth. Some tragically so. Being in my middle years, lately I find myself drawn to reflecting on the big existential questions.

To my thinking, an essential part of the miracle that is life is struggle and overcoming hardships. But the timeless wisdom of the ancient Stoics teaches that we can train our minds to be resilient. It teaches that every one of us can find joy and things in our life to be thankful for.

It can be something as simple as a nature walk. A pleasant memory. Pavarotti singing the climax of Nessun Dorma. Random acts of human kindness. Appreciating the improbability that our species even exists and possesses the ability to contemplate the wonders of the universe.

In the spirit of Canadian Thanksgiving, I feel inspired to give thanks for these and a few more of my many blessings.

To the firm's clients, thank you for the privilege of managing your capital alongside my own. GreensKeeper will celebrate its 10th anniversary next year and the firm has grown every year since inception. It would not have happened without your trust and support.

Reading and lifelong learning are my passions. I am blessed to work in a profession that rewards those skills, challenges me daily and fosters my creative expression via stock picking, portfolio construction and writing.

Value investing has also introduced me to a community of like-minded investors around the globe whose friendship and generosity in sharing ideas continues to humble me. I suppose this sharing culture stems from the fact that we are all disciples of Buffett and Munger who themselves selflessly share their wisdom openly. If you haven't studied both of their lives, you should.(1) They are a true gift to the world—far, far beyond the realm of investing.

I enjoy teaching others about value investing and watching our four summer analysts progress was immensely rewarding. I am thankful for the gift of working with people who challenge me and whose company I enjoy—thanks Michelle and James!

Finally, I have been blessed with two daughters who I am immensely proud of and whose progress in life bring me much joy. I am fortunate to be surrounded by a family whose guidance, support and unconditional love enriches my life. I have much to be thankful for.

Happy Thanksgiving!

Michael P. McCloskey

President, Founder &
Chief Investment Officer

(1) I recommend *The Snowball: Warren Buffett and the Business of Life* by Alice Schroeder and *Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger* by Peter Kaufman.

The Scorecard
Issue #32 – Q4 2020

January 31, 2021

The Other Virus

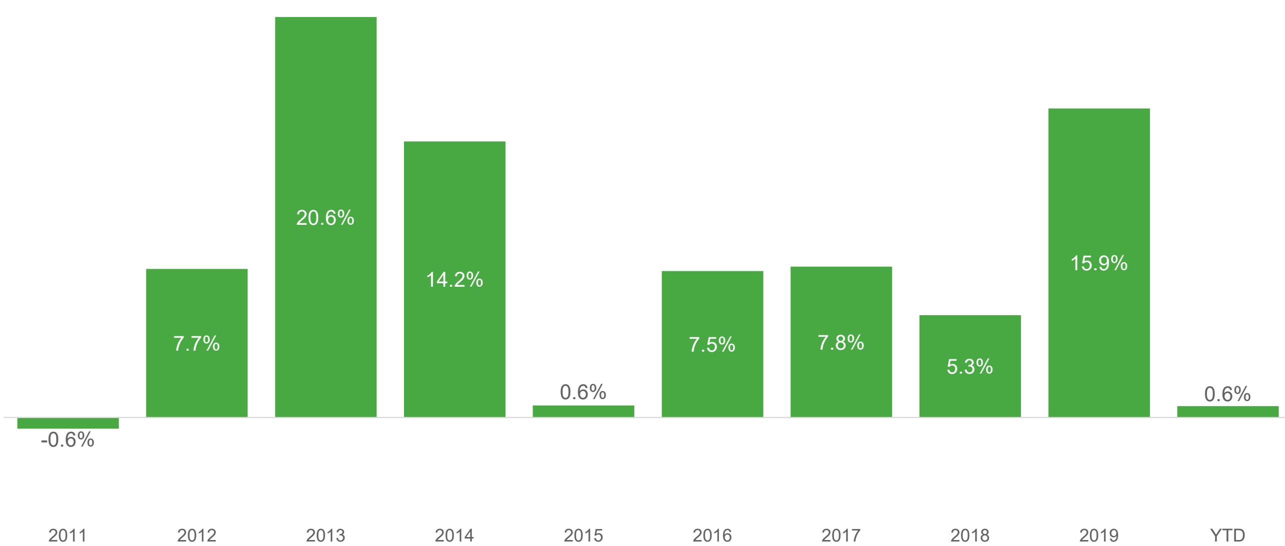
The Value Fund was up +3.9% in Q4 and finished the year up +0.6%. The weakening US dollar lowered our returns by approximately -4.2% for the quarter and -2.0% for the year.

We have two positive things to say about the year 2020: it was our ninth-consecutive year of positive returns and it is now behind us. The global pandemic and the resulting economic destruction made for a very challenging year of stock picking.

We lagged the broader markets last year with the S&P/TSX Total Return Index +5.6% and the S&P500 Total Return Index ($CAD) +16.1%. Market returns have been heavily concentrated in a small group of stocks, several of which we view as being overvalued. Some to a shocking degree (more on that to follow).

In an environment where Bitcoin, GameStop, Shopify and Tesla are flying high, capital preservation remains foremost in our minds.

Value Investing may be out of step with the markets at present, but history teaches that in the long run, valuations matter. Rest assured that resisting the siren call of hot stocks promoted online and growth-at-any-price is not difficult for us. We will not stray from our time-tested value investing approach and will remain disciplined by prudently allocating your (and our) hard-earned capital.



Market Outlook

Economies around the world continue to struggle due to ongoing pandemic-related challenges. With vaccines on the way, to my thinking we should arrive at a post-pandemic world and get people back to work in the not-too-distant future. There will undoubtedly be challenges and lingering effects. But I am optimistic that it is just a matter of time.

I am more focused on the other virus currently sweeping the globe – the fear of missing out (FOMO). Central bankers and governments are doing what they can to stimulate economies and help the most vulnerable. While these are worthy and necessary pursuits, they come with unintended consequences.

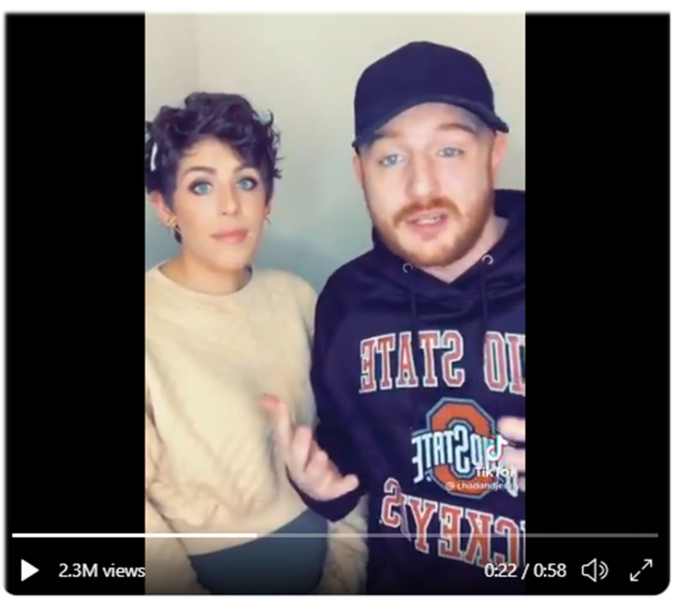
Idle hands with money in their pockets, easy access to markets and an ability to borrow at rock-bottom interest rates is leading to asset price inflation. We wrote about a few pockets of craziness six-months ago in Scorecard #30 (Flashback). There are even more warning signs emerging:

Social Media

At present, many are making money in high-flying stocks, options, Bitcoin, etc. In some cases, the returns are lottery-like. Social media amplifies the fortunate few by giving them a microphone to broadcast their success and creates echo chambers.

Case in point, Jenny and Chad (pictured below left) became instant online celebrities when their TikTok investment video went viral. It is less than a minute long and worth watching. CNN reported another example where Missouri dad AJ Vanover (pictured below right) went from making $35K a year to trading GameStop shares that are now worth $1 million.

Very few things are as psychologically painful to humans as watching regular people effortlessly getting rich. So, envy takes over and many join the crowd (herding behaviour). This will end badly for most, but well for a select few if they recognize and take advantage of their good fortune (take the money and run AJ!).



12:16 PM · Jan 17, 2021 · Twitter for iPhone

Robinhood

A growing army of online retail traders is being encouraged by the Robinhood trading app which remains at the top of the charts for the most-downloaded apps. The company advertises itself as "democratizing" investing. What's not to like? Well, a few things.

Robinhood advertises commission-free trading. The reality is they sell their order flow to opaque market makers who legally front-run these orders. Customers end up paying indirectly via less-favourable fill prices. As my father always taught me, when something sounds too good to be true, it usually is.

The company also provides margin lending to many unsophisticated investors and its addictive video-game-like interface encourages frequent trading. While making investing available to more people is a noble goal, encouraging leveraged day trading and gambling-like behaviour by inexperienced users is not a good thing. It may be legal, but it is neither wise nor is it investing.

The Reddit discussion board /r/WallStreetBets has taken things one step further. Their online forum has recently identified companies to direct their collective buying volume at in order to squeeze short sellers in names like **GameStop (GME)**. We are no fans of the short sellers (highly-levered hedge funds) that are reported to have lost $20 billion on their positions. In fact, we will even admit to feeling a sense of schadenfreude given that some of these funds appear to have been naked shorting which is illegal. A seemingly heartwarming story of modern-day Davids slaying these hedge fund Goliaths. Yet Robinhood itself appears to be undercapitalized, facing regulatory margin limits and is restricting trading in some of these stocks. As a result, the trading army is now turning its anger on Robinhood itself. As the Capitol riots of January 6 so starkly illustrated, when an angry mob gets going, ugly and unpredictable things can happen.

The entire Robinhood/GameStop episode is not good for the capital markets or even most of the retail investors involved. With the stock currently massively overvalued by any sensible metric, I don't need to tell you that that GameStop will end in tears. We all know this.

Stocks going parabolic, Bitcoin hitting new highs, SPAC mania, populist anger. I could go on and on, but I think that you get the point. We are currently witnessing a confluence of human biases and psychological tendencies that lead to bad outcomes. This is Charlie Munger's Lollapalooza Effect in action.

In the eyes of this portfolio manager, the market environment is flashing warning signs. But timing the selloff – which may come tomorrow or years from now – cannot be done in my opinion. So, what's an investor to do? A few things.

First, we never forget the guidance of a very wise person living in Omaha:

> *The less the prudence with which others conduct their affairs, the greater the prudence with which we must conduct our own."*
>
> Warren Buffett
> Berkshire Hathaway 2017 Annual Letter

Second, we are prepared to purchase equity securities of companies possessing attractive economic attributes in *any* economic or market environment (even an overvalued one) *provided* that we are able to do so at an attractive price. Even in an expensive market, there are pockets of value. They just become harder to find.

Third, when evaluating the intrinsic value of these businesses, we look at their track record of success and metrics like free cash flow. In other words, businesses that make money.

In the current environment, software-as-a-service (SaaS) stocks are hot. As the table below illustrates, fast-growing SaaS companies are being valued by the market on huge multiples *of revenue* (earnings multiples are meaningless as these companies don't generate any earnings at present). Perhaps a few will succeed in time and grow into their current valuations. But this strikes us as a very risky bet. Just because a stock trades at a lower multiple than another stock does not make it cheap. It only makes it cheaper (and potentially still massively overvalued).

Company	EV / NTM Rev	NTM Rev Growth	Gross Margin	Operating Margin	FCF Margin
1 Snowflake	75.4x	98%	60%	(88%)	(28%)
2 C3	69.5x	25%	75%	(36%)	(25%)
3 Palantir	49.4x	32%	64%	(116%)	5%
4 Appian	46.4x	10%	69%	(14%)	(7%)
5 Bill.com	45.5x	23%	75%	(25%)	(12%)
6 Unity	45.1x	25%	79%	(34%)	(5%)
7 Cloudflare	44.3x	37%	77%	(29%)	(19%)
8 Zscaler	41.2x	37%	78%	(29%)	15%
9 CrowdStrike	41.0x	47%	73%	(14%)	33%
10 Datadog	39.7x	38%	79%	(1%)	18%
Average	49.7x	37%	73%	(39%)	(3%)
Median	45.3x	35%	75%	(29%)	(6%)

We will stick to our knitting by valuing stocks based on their fundamental intrinsic value. That equates to our reasonable estimate of the cash that can be pulled out of the underlying business over its lifetime, discounted to the present day at an appropriate rate. If a stock that we own becomes overvalued by a meaningful amount, we tend to take profits and reinvest the proceeds elsewhere or add to our cash position if attractive alternatives are not readily available.

To sum it up, we roll up our sleeves and soldier on each day by searching for value (attractive bets). We update and expand our watchlist of stocks that we would like to own and the price we are prepared to pay for them. We steer well clear of the FOMO virus, avoid stupidity and bide our time. And when we see foolishness all around us, we remind ourselves that we are investors. Not speculators, investors. Value will once again have its day. It always does.

Portfolio Review

Our biggest contributor to the portfolio in 2020 was our investment in **Facebook (FB)** which was up +33.1% for the year. Despite all the controversy related to the US election, privacy concerns and the fact that the company is widely hated, Facebook remains a cash machine. The company continues to grow revenues at 20%+ clip and earns incredible profit margins. Several of its products are not yet being meaningfully monetized (i.e., WhatsApp). While there are risks — Apple's pending IFDA changes to name but one — we believe the company will manage its way through them. At 21x earnings ex-cash, we believe that the shares remain attractive. Our investment thesis (detailed in our 2018 annual report) remains intact.

Alphabet (GOOG) was the Value Fund's second largest contributor with the stock up +31.0% for the year. Like Facebook, its Google AdWords platform benefits from tailwinds stemming from the secular shift to digital advertising. The pandemic probably helped to accelerate this shift. The Google search engine is a common verb and their dominant market share in search, browsers and mobile operating systems (Android) is a testament to the quality of the company's competitive advantages. Alphabet is also starting to show some early signs of better capital allocation which bodes well for shareholders in the future. While the stock is not currently cheap, the intrinsic value of the business should continue grow at an attractive rate for years to come.

Our next largest contributors for the year were credit card network **Visa (V)** +16.4% and ratings agency and data provider **S&P Global (SPGI)** +20.4%. They are both amazing businesses. Oligopolies, fast growers, incredible margins and requiring very little capital to fund that growth. Cash machines.

Visa continues to be negatively impacted by depressed consumer spending (travel-related spending in particular). But once the pandemic is finally behind us and consumer spending unleashed, the company's earnings power will swiftly return. S&P Global is currently minting it due to high debt issuance volumes in a low-interest-rate environment. These high-quality compounders continue to grow earnings at an attractive rate and should thrive for decades.

Rounding out the top 5 for 2020 was our recent investment in **Diageo (DEO)** which was up +14.2% since our purchase of the stock during the March selloff. Headquartered in London, Diageo is one of the world's largest distillers of spirits and producers of beer (brands include Johnnie Walker, Guinness, Crown Royal, etc.). The company's sales are suffering due to pandemic-related closings of on-trade establishments (bars, restaurants). But off-trade consumption volumes are healthy. Post-pandemic sales should be through the roof and this long-term compounder rarely trades at an attractive price like it did in the spring.

The sudden emergence of the pandemic caused several of our holdings to sell off. Like the rest of the banking sector, our bank holdings sold off sharply due to lower interest rates and legitimate concerns about rising unemployment and loan losses. After deciding that the banking sector was not the place to be with our capital in this new environment, we sold our positions in **Wells Fargo (WFC**) -35.1% and **Bank of America (BAC)** -18.6%.

Online travel agency **Booking Holdings (BKNG)** -32.3% was another casualty. We believe that the level of business travel will be structurally lower post-pandemic while leisure travel should rebound sharply and continue its secular growth. Booking Holdings is a great business. But with the prospects of recovery taking years to play out and the stock price expensive if our view of the future of travel comes to pass, we took our lumps and decided to reallocate our capital elsewhere.

We also decided to exit our small position in **Chevron (CVX)** -60.0% which sold off due to the collapsing oil price and demand destruction. The sector is secularly challenged and with the economy largely on hold until the world reopens, we sought greener pastures.

Market panics are usually fruitful environments to put capital to work and the March selloff was no exception. Our investment in **Check Point Software (CHKP)** has performed well and will benefit from increasing cybersecurity concerns which will drive increasing demand for their solutions.

We were also able to add pharma giants **Pfizer (PFE)** and **Merck (MRK)** at attractive prices. As the result of a spinoff by Pfizer, we now own a small position in generic drug maker **Viatris (VTRS)**. Mature drug companies generate tremendous cash flows and reward us with steady dividends, share repurchases, and, we believe, the opportunity for multiple expansion relative to our initial purchase multiple. These are high-quality businesses.

Our investment in **Intel (INTC)** which we wrote about last quarter is slightly controversial and generated some client feedback. Some believe that the company's manufacturing woes and loss of technology leadership to competitor **Taiwan Semiconductor Manufacturing Company (TSM)** are permanent. Many analysts argue that the company should throw in the towel, sell their semiconductor fabrication facilities (fabs) and outsource manufacturing to TSM. We strongly disagree.

While TSM is clearly a step ahead of Intel in manufacturing leading-edge semiconductors at present, we believe that people are forgetting about geopolitics. The West needs a reliable source of critical semiconductor supply from trustworthy providers. Due to the industry's dynamics (very high capital investment, mind-boggling technological complexity), Intel and TSM are essentially the only games in town. But China is sabre rattling and flying dozens of sorties over the Taiwan Strait. An outright invasion of Taiwan is unlikely, but not impossible given China's proclivities and recent heavy-handedness with Hong Kong. The importance of having Intel's critical infrastructure located in shareholder-friendly jurisdictions is something that we believe investors are underappreciating.

In addition, the industry is capacity constrained at present, making semiconductor production — even if less than leading edge — highly prized.

Since initiating our investment in Q3, a few things have happened. Intel announced a record quarter, a new CEO, insider buying, an increase in the dividend and the stock is up +14.6% as of writing. Buying value usually means purchasing stocks when they are unloved and having a different view of the future than the broader market.

Our initial impression of the incoming CEO — Pat Gelsinger who had been serving as CEO of VMware — is positive. He has an engineering background and spent 30 years at Intel where he began his career learning at the feet of the legendary Gordon Moore, Andy Grove and Robert Noyce. What struck us most about him were the following comments he made on Intel's recent conference call:

> "…*we're not interested in just closing gaps. We're interested in resuming that position of the unquestioned leader in process technology, and that's our commitment*… [This is] my dream job… [Intel] is a national asset. This company needs to be healthy for the technology industry, for technology in America. And to me, it's an opportunity to help and to unquestionably put Intel and the United States in the technology leadership position.
>
> Great companies are able to come back from periods of difficulty and challenge, and they come back stronger, better and more capable than ever. And that, I believe, is the opportunity at Intel. And I'm confident that this company has its best days in front of it." (*emphasis* added)

Gelsinger is bringing back talent to Intel. He isn't interested in being second rate, he is playing to win. His comments reminded us of the successful turnaround of IBM in the 1990s under the leadership of Louis Gerstner, Jr. [(1)]

The success of our investment in Intel is dependent on the company's ability to improve on its execution. Intel has all the right assets (brand, scale, trade secrets). It will be difficult, take some time and Intel will likely lose some market share to competitors short-term. But the industry will continue to grow and at the current valuation, we like our odds of a successful investment outcome.

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GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express Company	Financial Services
Anthem, Inc.	Healthcare & Pharma
Berkshire Hathaway Inc.	Insurance
Cisco Systems, Inc.	Technology
Diageo plc	Consumer & Retail
Facebook, Inc.	Technology
Pfizer Inc.	Healthcare & Pharma
S&P Global Inc.	Financial Services
Visa Inc.	Financial Services

As of December 31, 2020. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

[(1)] The successful IBM turnaround is recounted by Gerstner Jr. himself in his book *Who Says Elephants Can't Dance?*

Overall, 2020 was a challenging year for the Value Fund and value investors in general. We finished the year with a net cash position of 10.8% and unrealized gains on our equity investments of approximately $9.9 million on a $37.5 million portfolio.

Additional portfolio disclosures including performance statistics can be found on the pages immediately following this letter. Once KPMG completes its audit of the Value Fund's Financial Statements in March, we will provide clients with a more detailed snapshot of the entire portfolio at year end.

The Year Ahead

Our firm and assets under management (AUM) continue to grow as we approach GreensKeeper's 10th anniversary in November 2021. To be honest, we were lucky last year in that our business operations were largely unaffected by the pandemic. Many others, through no fault of their own, were not so fortunate. Life can be capricious and unjust at times.

The Value Fund is now available for purchase on the RBC platform, and we expect to expand distribution of the fund to other dealers over the coming years. James continues to broaden our firm's awareness and Michelle does a great job of looking after our clients and helping me with regulatory compliance. We plan to continue our summer analyst program again this year.

I would like to end by thanking all our clients for the trust that you continue to place in us and for referring others to GreensKeeper. We will continue working hard to grow your capital alongside our own.

Stay safe!

Michael P. McCloskey

President, Founder &
Chief Investment Officer

April 22, 2021

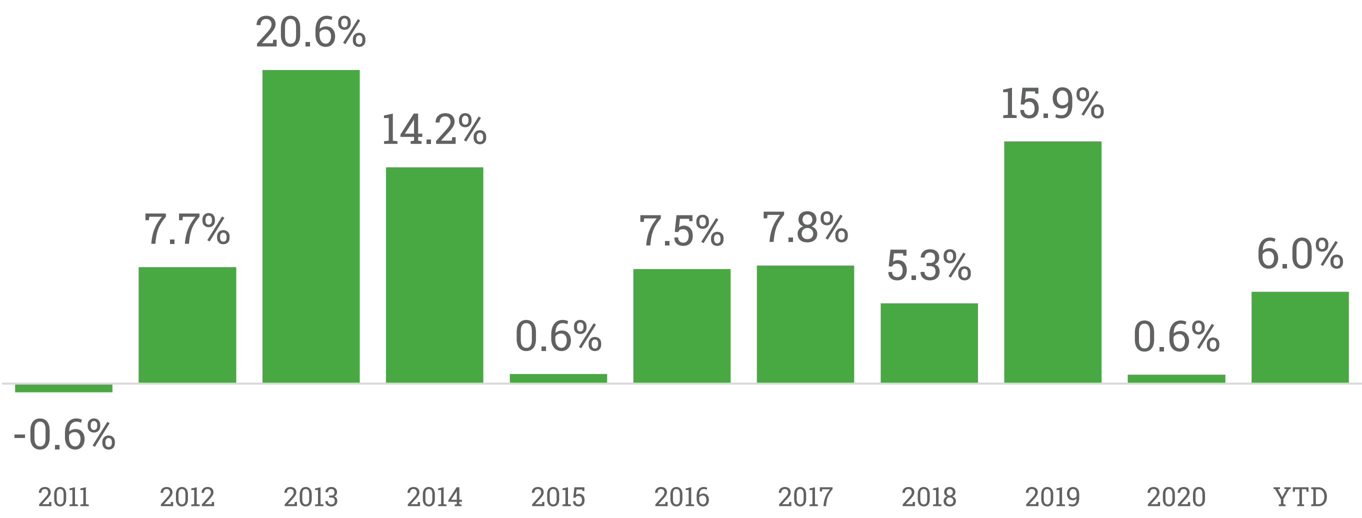
Value Returns

The Value Fund was up +6.0% in Q1. The weakening US dollar lowered our returns by approximately (1.2%) for the quarter. We lagged the S&P/TSX Total Return Index which was up +8.1% but beat the S&P500 Total Return Index ($CAD) which was up +4.8%.

Value stocks are once again in vogue as eight of our holdings were up double-digits for the quarter. It was only one quarter ago that I wrote "…Value Investing may be out of step with the markets at present, but history teaches that in the long run, valuations matter." To paraphrase Benjamin Graham, in the short term the market price of a stock is a popularity contest. Over the long-term, it is a company's future earnings power (intrinsic value) that determines its stock price.

As value investors, the true cost for buying cheap is short-term unpopularity. We hunt for and purchase bargains that others have abandoned. But what attracts the attention of the market at any given moment is forever in flux. Sentiment constantly changes. What was unloved can suddenly become popular again sparking a swift share price increase.

While we may not be able to precisely predict the timing of that shift in popularity, provided that our analysis is sound, we know that it will come. Just as important, value investing (buying cheap) provides a margin of safety which reduces risk along the way. Our approach has served us well when markets crater. We believe that it will again when history repeats itself.



Portfolio Review

The Value Fund's best-performing stocks for the quarter were **Intel** (INTC) +28.5%, **General Dynamics** (GD) +22.0%, **Alphabet** (GOOG) +18.1%, **American Express** (AXP) +17.0%, **Anthem** (ANTM) +11.8%, and **Berkshire Hathaway** (BRK.A/B) +10.2%. These are all high-quality names trading at reasonable valuations and demonstrate our commitment to growing your capital (and ours) prudently by mitigating risk.

Our laggards for the quarter were **Check Point Software** (CHKP) -15.8%, **Visa** (V) -3.2% and our pharmaceutical holdings consisting of **Merck** (MRK) -5.8% and **Pfizer** (PFE) -1.6%. Big pharma is currently busy saving the world, but you wouldn't know it by looking at their stock prices. With Merck and Pfizer trading at low-double-digit earnings multiples we are happy to own them and collect 3-4% dividend yields while waiting for a rerating.

We remain cautious given lofty market valuations and sold several of our holdings during the quarter. In January we fully exited our longstanding position in diabetes specialist **Novo Nordisk** (NVO). We still love the business and hope to get the opportunity to own it again some day. But with the stock selling north of $70 we think it is more than fully valued (versus our purchase price of $36.31). Even the best of businesses are not worth an infinite price.

We also sold our position in **United Health Group** (UNH) in Q1 at a decent profit. We still like the US health insurance sector, but with United Health Group trading at 21.5x forward earnings and competitor **Anthem** (ANTM) trading at 14.7x, we believe that the latter is the more attractive stock to own at present.

Finally, we sold out of our position in **Diageo** (DEO). Headquartered in the UK, Diageo is one of the world's largest distillers of spirits and producers of beer (brands include Johnnie Walker, Guinness, Crown Royal, etc.). While they are well positioned as economies start to reopen and on-trade consumption resumes, we believe that the market has already priced most of that into the stock.

Despite our cautiousness in this market environment, we are still finding a few attractive situations. During the quarter we initiated a position in **TVA Group** (TSX:TVA.B). Based in Quebec, the company is a leading broadcaster and owner of specialty channels targeting the French-Canadian audience.

We were attracted to the company's leading 40% market share with its core audience. The pandemic has challenged certain segments of TVA Group's operations; however, management has done a very good job of controlling costs and delivering results. The company is controlled by Quebecor Media and thinly traded. As a result, this investment will most likely be volatile and take time to show promise. But at our average purchase price of $2.22 we paid less than three-times Owner Earnings for a decent business with a solid balance sheet. Long-term, we like our odds of a good outcome.

GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express Company	Financial Services
Anthem, Inc.	Healthcare & Pharma
Berkshire Hathaway Inc.	Insurance
Cisco Systems, Inc.	Technology
Facebook, Inc.	Technology
Merck & Co., Inc.	Healthcare & Pharma
Pfizer Inc.	Healthcare & Pharma
TVA Group Inc.	Communication & Media
Visa Inc.	Financial Services

As of March 31, 2021. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

During the quarter we also initiated a position in **Lockheed Martin** (LMT) to compliment our holding in **General Dynamics** (GD). Both are major defense contractors with longstanding ties to—and security clearances with—the US government. With the shift to the new Biden administration, the market has been worried about defense budget cuts posing headwinds for both companies.

Our investment thesis is straightforward. Major defense contractors are attractive businesses with high returns on capital and captive customers. A new company is not going to suddenly invent an alternative to the F-35 Joint Strike Fighter. Defense contractors have historically demonstrated their ability to manage through a variety defense budget environments. Both companies successfully grew their earnings during the budget downcycle of the Obama era. Lockheed Martin's order backlog currently sits at $147 billion or more than two year's worth of revenue. Unexpected geopolitical events can also swiftly cause a change in investor sentiment and product orders. We suspect that both companies will continue to thrive and at current prices, the sector offers below-market valuations and above-market dividend yields.

At quarter end, US-based equities comprised 81% of the portfolio, Canadian Equities 5% and EMEA equities another 2%. We finished Q1 with a cash position of 12% and are continuing to scour the markets for sensible places to put it.

Although frustratingly slow at times, the world is making meaningful progress in our collective fight against COVID-19. We humans are a resilient species due to our ability to successfully adapt. The fight against this virus will be no different. We should be getting back to a 'new normal' over the next twelve months and are positioning the portfolio accordingly.

New Video Series

My love of the printed word naturally led me to use the Scorecard as GreensKeeper's primary communication tool. My brother James (SVP Sales), on the other hand, is more of a video person. If you are like James and prefer videos, we think that you will enjoy our series of introductory videos that can be found here.

Spring is here and summer just around the corner. Hang in there – things will get better soon.

Michael P. McCloskey

President, Founder &
Chief Investment Officer

July 22, 2021

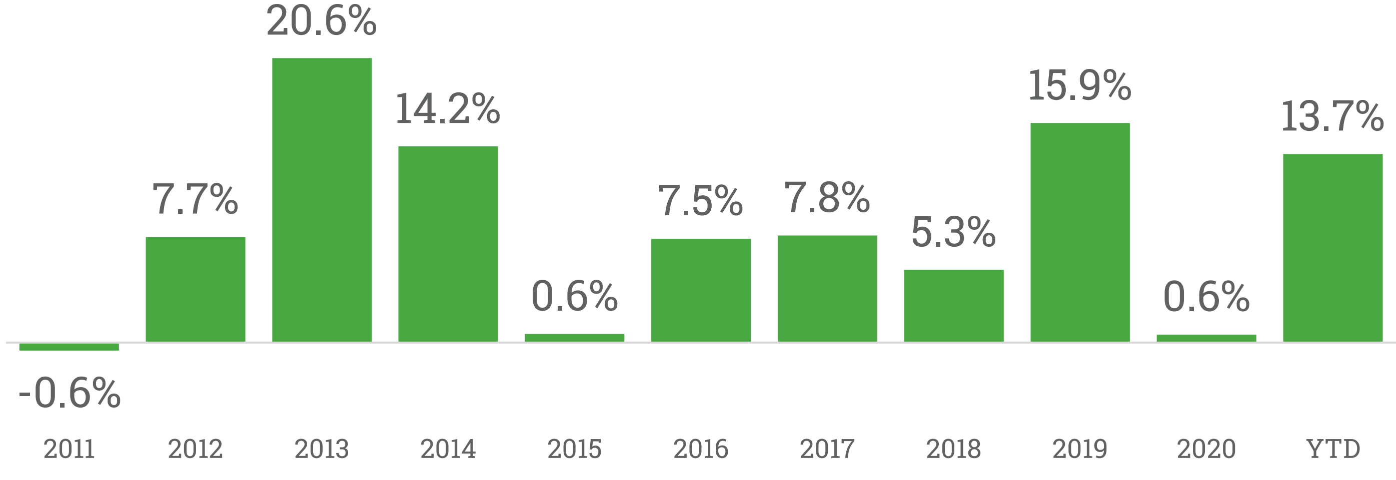
Bedrock

The Value Fund was up +7.2% in Q2 and is up +13.7% year-to-date (YTD) net of fees and expenses. The weakening US dollar lowered our returns by approximately (1.3%) in the quarter and (2.5%) YTD. As of June 30, the S&P/TSX Total Return Index was up +17.3% and the S&P500 Total Return Index ($CAD) was up +12.2%.

Our best performing stock in Q2 was our investment in **TVA Group** (TSX:TVA.B) +38.3% which we discussed in Scorecard #33. The company recently announced a project to build a new $53 million soundstage in Montreal which is scheduled to open in 2023. This is the company's highest margin segment and as a recent article in the Wall Street Journal highlights, soundstages are in short supply given rising demand for filmed content. Despite the stock's move, we continue to believe it is undervalued.

Our holdings in tech behemoths **Alphabet** (GOOG) +21.2% and **Facebook** (FB) +18.1% rounded out the top three contributors for the quarter. We hope to hold these long-term compounders for many years to come.

Our only detractor during the quarter was our investment in **Intel** (INTC) -12.3%. Intel is a turnaround story that will likely take years to play out. We believe that new CEO Pat Gelsinger is making intelligent decisions and at current valuations, are content continuing to own the stock.



The only major portfolio move during the quarter was the sale of our entire stake in **Organon** (OGN). Organon was a spinoff (dividend) from our holding in **Merck** (MRK). As with many drug spinoffs, Organon was loaded up with debt and slow growing, so we headed for the exits shortly after receiving the shares.

We are off to a good start in 2021 and as of writing, July has continued that positive trend. That said, we remain wary of lurking risks given the market's overall valuation.

Portfolio "Look Through"

To survive Mother Nature's inevitable storms, a house must be built on a solid foundation with quality materials. We teach this to our children via the fable of The Three Little Pigs. Yet in the current bull market, many adults seem to have forgotten that childhood lesson when it comes to their financial house.

Seeking quick riches and egged on by the media and envy, we see many investment portfolios that are built of straw (Bitcoin and other speculative assets) and sticks (unprofitable companies trading at insane valuations). We prefer our investment portfolios to be constructed of brick.

In order to verify that our investment foundation is solid, we recently analyzed the Value Fund's holdings quantitatively and compared them to the S&P 500 Index. Instead of presenting the Value Fund as a mutual fund, we aggregated its underlying holdings at different periods of time and presented the portfolio as if it were a company (called a "look-through" analysis). We then did the same with the S&P 500 Index. The results are presented in the table below.

		GreensKeeper Value Fund					S&P500
		2017	2018	2019	2020	2021*	2020
Quality	Return on Equity	28%	39%	39%	23%	29%	11%
	Gross Margin	52%	49%	53%	58%	59%	44%
	Operating Margin	27%	24%	30%	29%	33%	12%
	Cash Conversion	127%	109%	93%	120%	118%	94%
Safety	Interest Coverage	18x	14x	15x	22x	22x	6x
Valuation	Free Cash Flow Yield	7.2%	7.1%	5.0%	5.3%	6.1%	3.7%

Source: Greenskeeper Asset Management / Bloomberg / S&P Captial IQ. Return on Equity, Gross Margin, Operating Margin, Cash Conversion and Free Cash Flow Yield are the weighted mean of the underlying companies invested in by the Greenskeeper Value Fund and the mean for the S&P 500 Index. The S&P 500 Index figures exclude financial stocks except for ROE which includes all sectors. Interest coverage figures are median and exclude financial stocks. Ratios are based on last reported fiscal year accounts as at the respective dates and as defined by S&P Capital IQ. Cash Conversion compares Free Cash Flow with Net Income. Free Cash Flow Yield for the S&P500 uses the period-end median. *2021 figures as of June 30.

So, what do the numbers above tell us? First, the Value Fund "company" is above average in quality:

- Returns on Equity employed are far in excess of the broader market. As a result, our "company" generates more cash for each dollar of equity capital required to operate and grow the business. That cash can then be redeployed in the business at favourable rates or returned to shareholders.

- Gross margins are comfortably higher than the market average. We own businesses with pricing power that can charge more for their goods and services than the typical business due to their moat (brand, network effects, switching costs, etc.). This will prove to be handy should inflation persist.

- Operating Margins are also significantly higher than the market average. Our companies usually benefit from scale and efficiency.

- Cash conversion is another tell of quality. Our companies typically generate free cash flow that exceeds their accounting net income (currently about $1.18 for each $1.00 of accounting income versus $0.94 for the broader market).

Next, we recognize that Return on Equity can be increased merely by adding financial leverage. But surprisingly, our companies generate higher ROEs while having *lower* financial leverage. Whereas the broader market has operating earnings (EBIT) of about 6x their underlying interest expense, our companies currently cover their interest obligation by over 22x and use debt sparingly. In other words, our companies are more conservatively financed.

Given the quantitatively superior business quality and lower financial leverage, one would expect that our portfolio of companies would trade at a premium to the market. But they don't. We use free cash flow as a proxy for our preferred measure of business earnings (Owner Earnings). Reported earnings are subject to vagaries of accounting conventions and management judgment but cash is hard to manipulate.

- As of year-end 2020, the Value Fund holdings were delivering a free cash flow yield of 5.3% based on prevailing market prices. This compares with the broader market at 3.7%. At market prices, we were paying less for each dollar of free cash flow than the market overall. It is also worth pointing out that many of portfolio holdings have appreciated materially in value since purchase. That implies that the yield at the time of purchase was even higher.

Superior business economics, lower financial leverage and undervalued relative to the market. That's the bedrock that our portfolios are built upon.

Trying to predict and successfully time when the next storm will arrive is not a substitute for sturdy construction. Financial storms tend to arrive with little warning. The key to resilience is to know that they will inevitably come and to prepare in advance.

GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express Company	Financial Services
Anthem, Inc.	Healthcare & Pharma
Berkshire Hathaway Inc.	Insurance
Facebook, Inc.	Technology
Intel Corporation	Technology
Merck & Co., Inc.	Healthcare & Pharma
Pfizer Inc.	Healthcare & Pharma
TVA Group Inc.	Communications & Media
Visa Inc.	Financial Services

** As of June 30, 2021. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.*

Putting in the Work

Our recent video series was a big hit – thank you for all the positive feedback and to Michelle and James for helping to make it happen.

Recent business school graduates Wonhee Cho and Mark Fortino have been a welcome addition to the firm's research team for the summer. The look-through analysis above and a deep dive on our investment in **TVA Group** are but two examples of projects that they have been working on. A summer of stock picking is my idea of fun. Their bios and those of the rest of our team can be found here.

Enjoy the summer!

Michael P. McCloskey

President, Founder &
Chief Investment Officer

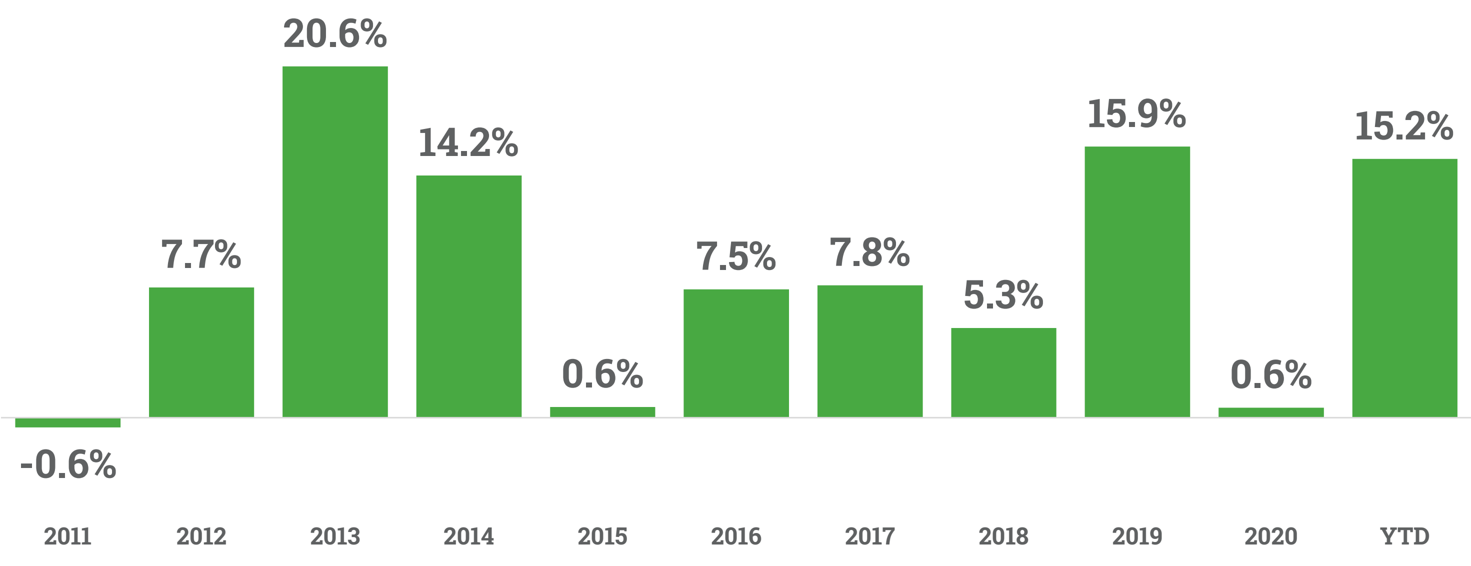
October 24, 2021

Realpolitik

The Value Fund was up +1.3% in Q3 and is up +15.2% year-to-date (YTD) net of fees and expenses. The strengthening US dollar increased our returns by approximately 2.0% in the quarter but has lowered them by -0.5% YTD. As of September 30, the S&P/TSX Total Return Index was up +17.5% and the S&P500 Total Return Index ($CAD) +15.3%.

Our best performing stock in Q3 was our investment in **Alphabet** (GOOG/GOOGL) +6.3%. The search juggernaut continues to deliver impressive revenue growth and record profits. Despite the stock's rise, we believe it is still modestly undervalued. We have owned GOOG since 2018 and given our view of their long-term prospects, hope to remain a shareholder for years to come. It remains our second-largest position.

Pfizer (PFE) +9.8% was our second-best contributor for the quarter. Purchased in March 2020 along with our investment in **Merck** (MRK), they both offered modest valuations, decent dividend yields, and we figured that these companies might just save the world from COVID-19. Pfizer (and humankind) hit the jackpot with their mRNA vaccine which they cannot manufacture fast enough. Pfizer's vaccine sales should exceed $50 billion next year, and we are up about +44% on our investment as a result. Merck's vaccine candidate was a disappointment, but their COVID-19 treatment drug (molnupiravir) looks to be both safe and effective. FDA emergency-use authorization should be forthcoming. We are only up +11% on our investment in Merck but given the quality of their balance sheet and cash flow generation from their powerhouse cancer drug (Keytruda), we continue to like the name.



Rounding out the top three contributors for the quarter was **CBOE Global Markets** (CBOE) +4.0%. CBOE operates the largest U.S. options exchange and several North American and European stock exchanges. Our position in CBOE is up over 50% since we purchased it in late 2020. The stock is about fairly valued in our opinion, but part of our investment thesis is that CBOE would be an attractive acquisition target for the larger exchange players like ICE, Nasdaq or CME. Until we find a more attractive opportunity, we prefer to hold the stock to preserve that optionality.

Our largest detractor during the quarter was **Visa** (V) -4.7%. The stock is more than fully valued at present but given its long-term growth rate and our cost basis of $79.38, we have no desire to part with it. Visa is a compounder and one of the best business models we have come across.

Intel (INTC) -5.1% was our second-worst performer for the quarter. Just this past week the company reported decent Q3 results but lowered its long-term margin guidance and the stock sold off further. We are about flat on our investment as of writing. We like the strategic direction of the firm under new CEO Pat Gelsinger and believe that they have a credible shot at regaining process leadership from **TSMC**. But the turnaround is going to take years given the missteps of the past. More positively, our view of the strategic importance of Intel's manufacturing capacity to the West is coming into greater focus due to China's increasingly frequent military sorties around Taiwan.

> "No Chinese leader has ever abandoned the insistence on ultimate unification [of Taiwan] or can be expected to do so. No foreseeable American leader will jettison the American conviction that this process should be peaceful or alter the American view on the subject".
>
> Henry Kissinger, *On China* [1]

The US and China have managed the Taiwan issue for decades via deliberate ambiguity. Given recent events in Hong Kong and China's increasing assertiveness, we believe that China will eventually reel in its 'renegade province'. If that happens, the West's supply chain for some 90% of the world's most advanced semiconductors will be controlled by China.

In recent years, the US has restricted the sale of high-end semiconductor equipment to China. A China-controlled Taiwan is unlikely to forget. No wonder Europe and the US are starting to subsidize Intel's capital investments in new fabs in their backyards. The West needs Intel to succeed and we believe that they ultimately will. But our investment is likely to take some time to play out.

We added to a few positions and trimmed a few others during the quarter based on valuations on offer. But overall, it was a quiet quarter for the portfolio with no major changes. With the portfolio up +15.2% YTD we are in a good position heading into the final quarter of 2021. Earnings season is now in full swing, and we are looking for opportunities. That said, are mindful of risk given the market's overall valuation.

(1) Kissinger, Henry. *On China*. Penguin, 2011, p. 272.

GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express Company	Financial Services
Anthem, Inc.	Healthcare & Pharma
Berkshire Hathaway Inc.	Insurance
Facebook, Inc.	Technology
Intel Corporation	Technology
Merck & Co., Inc.	Healthcare & Pharma
Pfizer Inc.	Healthcare & Pharma
TVA Group Inc.	Communications & Media
Visa Inc.	Financial Services

* As of Sept. 30, 2021. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

Portfolio "Look Through"

Quantifying the quality of our portfolio via our look-through analysis in Scorecard #34 proved to be popular with clients. We received very positive feedback and as a result, will be giving this analysis a permanent place in our Annual Reports going forward.

		GreensKeeper Value Fund					S&P500
		2017	2018	2019	2020	2021*	2020
Quality	Return on Equity	28%	39%	39%	23%	29%	11%
	Gross Margin	52%	49%	53%	58%	59%	44%
	Operating Margin	27%	24%	30%	29%	33%	12%
	Cash Conversion	127%	109%	93%	120%	118%	94%
Safety	Interest Coverage	18x	14x	15x	22x	22x	6x
Valuation	Free Cash Flow Yield	7.2%	7.1%	5.0%	5.3%	6.1%	3.7%

Source: Greenskeeper Asset Management / Bloomberg / S&P Capital IQ. Return on Equity, Gross Margin, Operating Margin, Cash Conversion and Free Cash Flow Yield are the weighted mean of the underlying companies invested in by the Greenskeeper Value Fund and the mean for the S&P 500 Index. The S&P 500 Index figures exclude financial stocks except for ROE which includes all sectors. Interest coverage figures are median and exclude financial stocks. Ratios are based on last reported fiscal year accounts as at the respective dates and as defined by S&P Capital IQ. Cash Conversion compares Free Cash Flow with Net Income. Free Cash Flow Yield for the S&P500 uses the period-end median. *2021 figures as of June 30.

Rule of Law

It isn't often that we disagree with Charlie Munger, but his penchant for investing in China leaves us scratching our heads. The Value Fund does not and will not invest in companies domiciled in China, South America, Russia, India and many other places. Our stance isn't ideological. It is pragmatic based on our assessment of the risks involved and warrants some elaboration.

<u>China</u>

After the disaster of Chairman Mao's Great Leap Forward, economic reforms were introduced by Deng Xiaoping in the 1970s and embraced by his successors. 'Socialism with Chinese characteristics' ushered in an era of freer markets, foreign investment and the unleashing of the talents of the Chinese people. China's economic miracle of the past 40 years has lifted hundreds of millions of its citizens out of poverty and improved the life of the average Chinese citizen. China's rise is befitting for this ancient and great civilization.

China's economic rise will likely continue. So why not invest in companies that are at the center of that growth? In our opinion, the risks involved vastly outweigh the potential rewards.

First, China prohibits foreign investment in many sensitive industries. To circumvent these restrictions, many Chinese companies created offshore variable-interest entities (VIEs) that have a contractual right to the profits of the underlying Chinese company. It may surprise you to learn that when someone purchases a Chinese 'stock' on a North American exchange (e.g., BABA, DIDI), they are in fact purchasing a claim on the VIE. Whether or not this arrangement is legal under Chinese law remains unclear.

Even if this structure is legal, the reality is that if a foreign investor's contractual rights are trampled upon, they have little recourse via China's courts. Laws are deliberately vague and the Chinese judiciary hardly independent. The Chinese Communist Party (CCP) *is* the law in China. Does anyone doubt that the CCP can confiscate assets with the stroke of a pen? The recent crackdown on Chinese tech titans should be treated as a warning by foreign investors. If the state is willing to squeeze its own citizens and corporate champions, do you think that foreign investors are likely to be treated more favourably? The power and supremacy of the CCP is paramount and the CCP will do what is in China's national interests. I have no desire to invest our capital under these circumstances.

<u>South America</u>

The prevailing attitude towards foreign investors that exists in many South American countries was nicely summed up by President Bolsonaro of Brazil earlier this year. After firing the CEO of state-controlled oil giant **Petrobras** (on Facebook and without consulting the board), and replacing him with an army general, he came out with this beauty: "Is the petroleum ours, or does it belong to a small group of investors?"

So, the Brazilian state is happy to take capital from international investors, and then ignore their rights whenever it is politically convenient to do so.

Only a century ago, Argentina was one of the richest countries in the world. Bad policy choices, malfeasance and ineptitude have led to multiple bouts of hyperinflation and sovereign debt defaults since that golden era. As a result, Argentina has been kept woefully short of its true potential and foreign investors repeatedly burned.

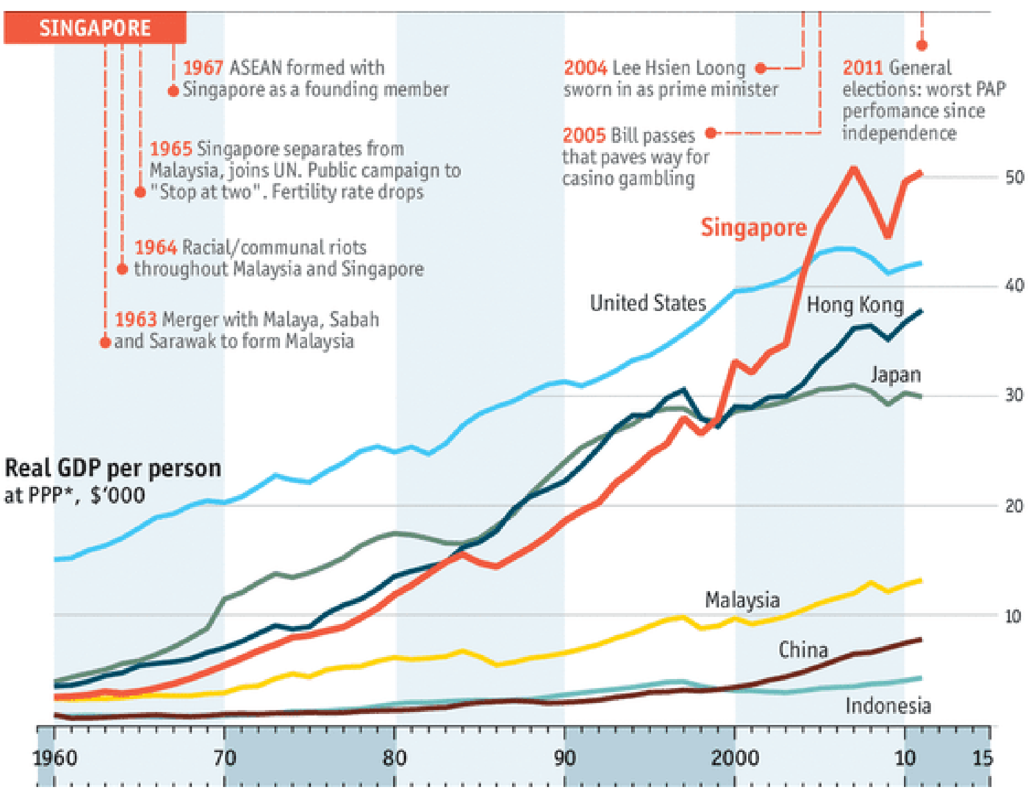
The Rest

Despite being a democracy, India's nationalist Modi government has no qualms abusing state power for political reasons and showing hostility towards foreign investment. Russia, … well hopefully you understand the risks of investing in a country where the president for life is the law.

It doesn't have to be this way. A few developing nations have been able to get it right. Singapore, a city state that started out as an impoverished swamp with few natural resources grew into a developed nation with the highest GDP per capita in Southeast Asia. How did they do it? By building infrastructure, making sound policy choices, and courting foreign investment.

In the words of Singapore's founding father Lee Kwan Yew:

> "If I have to choose one word to explain why Singapore succeeded, it is 'confidence'. This was what made foreign investors site their factories and refineries here… The foundations for our financial center were the rule of law, an independent judiciary, and a stable, competent and honest government that pursued sound macroeconomic policies, with budget surpluses almost every year". [2]



"An astonishing record", *The Economist*. 22 Mar. 2015.

[2] Lee, Kuan Yew. *From Third World to First: The Singapore Story, 1965-2000: Singapore and the Asian Economic Boom*. HarperCollins, 2000. This is the second volume of a two-volume memoir written by Mr. Lee. Highly recommend reading along with the first volume: Lee, Kuan Yew. *The Singapore Story: Memoirs of Lee Kuan Yew.* Prentice-Hall, 1998.

Singapore's success is simple but not easy. Millions of people in less-developed nations would live better lives if these principles were embraced and properly implemented. In the meantime, we will keep our capital invested in countries that follow Singapore's simple principles, especially respect for the rule of law. We prefer to compete in contests where the rules are laid out in advance and enforced by impartial referees.

Western-domiciled companies are a large enough hunting ground for investment candidates at GreensKeeper. While we may miss out on a few opportunities in more exotic locations, preservation of capital and risk mitigation takes precedence. Besides, while most of the world's great companies are multinationals based in the United States, they sell their goods and services worldwide. We still get exposure to faster-growing markets but in a more prudent way.

On the Lighter Side

This recent video clip on CNBC made us laugh. It is worth a minute of your time and reinforces our view of stock market TV. While BNN Bloomberg and CNBC can be insightful at times, much of their programming is pure entertainment. We prefer to spend our time reading financial statements and management transcripts instead of watching market "experts".

In the current age, we are all inundated with too much information. Without effective filters and mental models, useful signals are lost in the noise. Our most valuable commodity is our time. Spend it wisely.

We look forward to providing you with our Annual Report early in the new year. Until then, thank you for the trust and confidence you have placed in GreensKeeper by investing with us. We are working hard to grow your capital alongside our own.

Michael P. McCloskey

President, Founder &
Chief Investment Officer

GreensKeeper ASSET MANAGEMENT INC.

The Scorecard

Issue #36 – Q4 2021

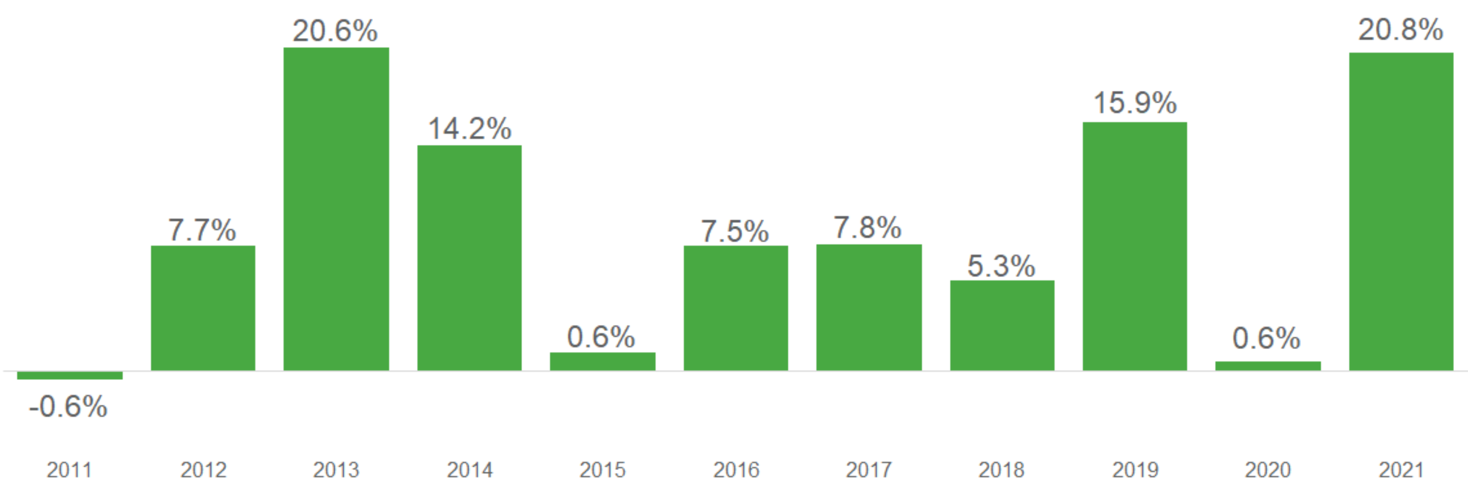
January 17, 2022

Decennium

The Value Fund finished the year +20.8% (net). A weakening US dollar lowered our returns by approximately -0.8% for the year. Stock markets ended the year near record highs: DJIA +20.1%, Nasdaq +21.4%, S&P/TSX +25.1%, S&P 500 +27.9%.(1)

The past year was GreensKeeper's tenth-consecutive year of positive returns. Granted, the market environment for equities has been largely favourable. However, valuations remain stretched, and with the Federal Reserve entering a tightening cycle, some of the high-flying stocks of the past few years are now showing signs of stress. We remain steadfast in our approach of owning quality and avoiding speculative stocks that are trading at irrational valuations. We want to earn attractive returns on our capital without taking on major risk.

History teaches that in the long run, valuations matter. Given the quality of our portfolio holdings and our value investing approach, we are well-positioned for a more challenging market environment.



(1) Index returns are for the total return indexes which include dividends and are measured in Canadian dollars, the Value Fund's reporting currency.

Portfolio Review

The biggest contributor to the portfolio in 2021 was our investment in **Alphabet** (GOOG/GOOGL) which was up +65% for the year. Despite its immense size, Alphabet's core business (Search, YouTube, and Cloud) grew revenues 40%+ last year. Add in operating leverage and the company's core earnings more than doubled to about $111 per share by our calculations.

Google's AdWords platform continues to benefit from tailwinds stemming from the secular shift to digital advertising. The Google search engine is a common verb and their dominant market share in search, browsers (Chrome), and mobile operating systems (Android) is a testament to the quality of the company's competitive advantages. Software engineers want to work on the world's most challenging and innovative projects and get paid well for doing so. Given Alphabet's leadership in these areas and expansion into driverless cars (Waymo) and Other Bets, the company attracts the best and the brightest.

With growth expected to continue in the 20% range, we believe Alphabet's core earnings plus the company's cash alone are worth more than the stock's current trading price. The Other Bets division currently loses money and some of its projects will certainly fail. But overall, we believe that the division's portfolio of projects will lead to decent returns on the investments they are making.

Capital allocation continues to improve as Alphabet has been increasing its share buybacks, repurchasing $45 billion of its shares over the past year. Despite this massive expenditure, Alphabet's net cash position *increased* over this period to $128 billion due to the company's prodigious cash generation. Alphabet is currently our second-largest position and one that we hope to own for many years to come.

> "When you find an investment with the potential to compound over a long period, one of the hardest things is to be patient and maintain your position as long as doing so is warranted based on the prospective return and risk."
>
> Howard Marks, Oaktree Capital

Our second-largest contributor for the year was none other than **Berkshire Hathaway** (BRK.A/BRK.B) +30%. A diversified enterprise with a rock-solid balance sheet, the company spins off some $30 billion of free cash flow a year (and growing). Berkshire should continue to compound in value for decades to come. We view our investment in Berkshire as providing a solid foundation for the portfolio. It remains our largest position.

Another major contributor for the year was our investment in **Pfizer** (PFE) +60% which we sold in November. We purchased Pfizer along with **Merck** (MRK) in March 2020 at the outset of the global pandemic. Both stocks offered modest valuations, decent dividend yields, and we figured that one of them might just save the world. Pfizer hit the jackpot with its mRNA vaccine, and we recently decided to take profits as we believe the stock is fully valued and unlikely to compound at an attractive rate.

Merck's stock was down -6.3% for the year and one of our laggards, but we continue to like the name. The stock is cheap with cancer blockbuster Keytruda generating over $18 billion a year in revenue and growing 20% a year via label expansion. A major criticism of Merck is that the company is too reliant on Keytruda (37% of sales). A fair point. However, Keytruda remains patent protected until 2028 and with the company's solid balance sheet and multiple drug candidates in the pipeline, Merck has plenty of time to diversify. If they do, the stock should earn a rerating by the market. In the meantime, we get paid a 3.4% dividend yield while waiting for a shift in sentiment to materialize.

As a bonus, we received shares of spinoff companies from both Pfizer (**Viatris** (VTRS)) and Merck (**Organon** (OGN)) via stock dividends. We sold Organon in 2021 and will likely sell our holding in Viatris when it is opportunistic to do so.

Rounding out our top contributors for the year were **American Express** (AXP) +35%, **Anthem** (ANTM) +44% and **Cisco Systems** (CSCO) +42%. We have written about these investments previously and don't have anything to add at the moment.

Our worst-performing stock for the year was cybersecurity provider **Check Point Software** (CHKP) –12%. Cybersecurity is an industry with long-term tailwinds and the shift to working from home increases the importance of network security. The company generates 43% operating margins, holds $4 billion in cash (no debt) and earns very high returns on capital. So why has the stock underperformed? The short answer is growth. Check Point has been losing market share to competitors that are growing their revenues faster. But many of these competitors are unprofitable and yet the market assigns very high valuations to them. If Check Point can accelerate growth, even slightly, our bet is that the stock will earn a rerating. At current prices, the stock delivers a 9% free cash flow yield. Far too cheap if that growth materializes.

Other laggards for the year included Merck (discussed above) and **Visa** (V) -1%. Visa is one of the best businesses we have ever come across. Gross and operating margins of 97% and 66% respectively. Low capital requirements leading to obscene cash flows which they use to purchase emerging technologies and return to shareholders via dividends and share repurchases.

But Visa has not been immune to Covid with consumer spending on travel still well-below pre-pandemic levels. We believe that travel will return in the near term. The other risk facing Visa is the risk of technological disruption from fintech newcomers. After a deep dive on the sector (see our full report), we concluded that Visa's wide moat remains intact and the company very difficult to disrupt. Accordingly, we added to our position in November making it a top-five holding. The full list of our top-ten holdings is in the table that follows.

GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express Company	Financial Services
Anthem, Inc.	Healthcare & Pharma
Berkshire Hathaway Inc.	Insurance
Cboe Global Markets, Inc.	Financial Services
Merck & Co., Inc.	Healthcare & Pharma
Meta Platforms, Inc.	Technology
S&P Global Inc.	Financial Services
TVA Group Inc.	Communications & Media
Visa Inc.	Financial Services

* As of Dec. 31, 2021. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

Overall, 2021 was a good year for the Value Fund and investors in general. The portfolio returned +20.8% (net) while mitigating risk by holding high-quality companies and avoiding overvalued and speculative stocks. This positioning should serve us well whenever the tide turns.

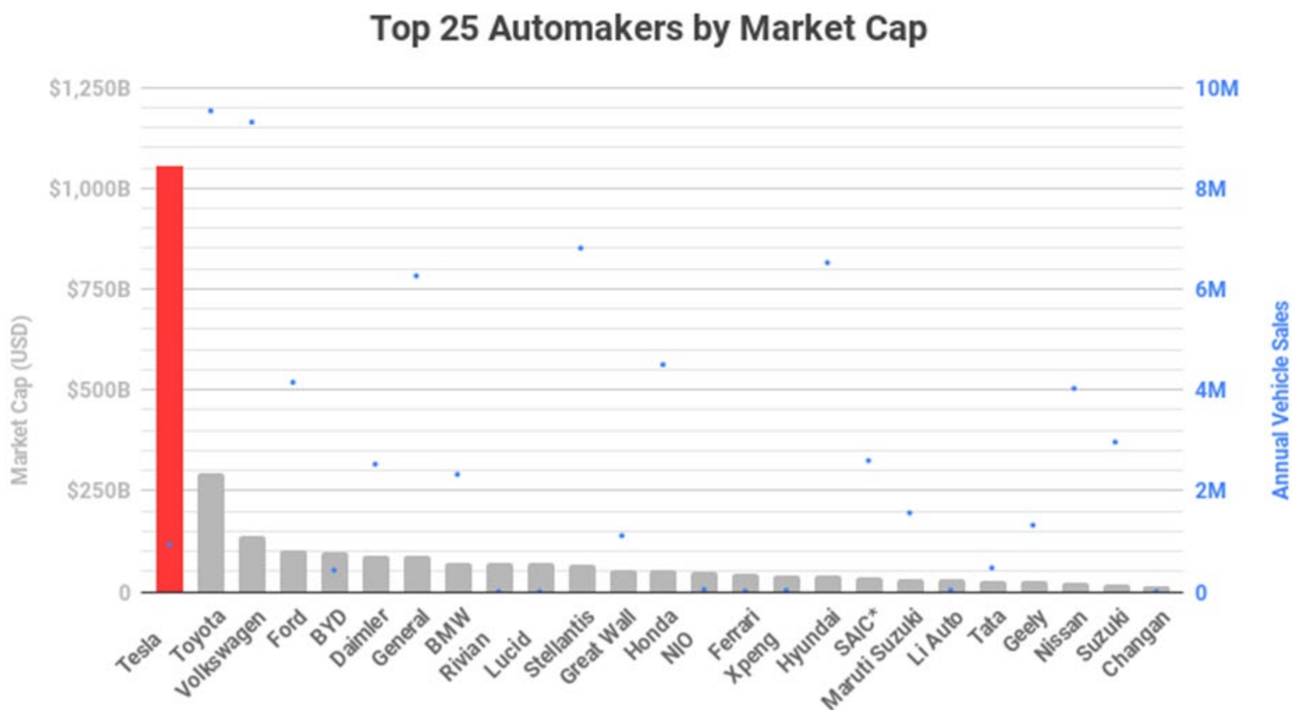
The Value Fund finished the year with an 8% net cash position and unrealized gains on its equity investments of approximately $16 million on a $44 million portfolio. Our average holding period for stocks over the past decade has been five years (average annual portfolio turnover of 20%). As a result, we have minimized transaction costs and deferred the realization of capital gains for our clients.

Additional portfolio disclosures including performance statistics can be found on the pages immediately following this letter. Once KPMG completes its audit of the Value Fund's Financial Statements in March, we will provide clients with a more detailed snapshot of the entire portfolio at year end.

Risk Revisited

Until very recently, growth has been outperforming value. Fast revenue growth has been rewarded, and unprofitability ignored. Call us old school; we prefer investing in profitable companies that generate free cash flow. Our investment process at GreensKeeper doesn't just consider what to purchase—we are also very mindful of what to avoid. Our view is that while a select few of the fast growers may eventually become the next **Amazon** (AMZN), most are more likely to disappoint and see their lofty valuations crushed.

For example, **Tesla** (TSLA) was the fifth-largest contributor to the S&P 500 Index's return last year (representing 2.7% of the index's return). Tesla currently trades at 15x forward *revenue* and 120x earnings. Tesla may be an amazing company and at the leading edge when it comes to EV technology, but we aren't willing to bet that it is worth more than the nine next-largest automakers combined. For perspective, those other carmakers sell about 34.5 million cars a year versus Tesla's 0.9 million.



Source: Brandon Knoblauch @brandude87; Company filings. Data as of January 16, 2022.

Even great companies can be terrible investments if purchased at an irrational price. We commend Elon Musk for what he is building and for changing the world. We truly do. But capitalism's competitive destruction means that competition is coming. We would also note that Elon recently sold 10% of his stake in Tesla for $16.4 billion to pay income taxes. We bear him no grudge as he deserves to enjoy the fruits of his labour. But we wouldn't touch Tesla's stock at these levels with a ten-foot pole.

We don't mean to pick on Tesla as there is plenty of folly in the market these days. Trump announces a SPAC and suddenly a blank-check company is worth billions. Cryptocurrencies are being valued in the trillions. Perhaps cryptocurrencies are here to stay. But we would note that Dogecoin was invented as a joke and now sports a market value of $54 billion. Stablecoin Tether was recently fined $41 million by the SEC for misstating its reserves. The entire industry is swarming with promoters, bad actors, and criminals that take advantage of cryptocurrencies' anonymity. These are meme assets being driven by speculators who invest more with their hearts than their heads.

We don't know what the catalyst will be that triggers a reckoning for the speculative excesses of the current market. It could be as mundane as rising interest rates. The triggering event is often something completely unexpected. We also don't know when it will happen. But we do know that for as long as markets have existed, investor sentiment will change. Euphoria will become concern and ultimately panic. Human nature remains immutable. We continue to be mindful of these risks and manage them by using common sense: by putting our money to work in quality companies trading at reasonable valuations.

Portfolio "Look Through"

Quantifying the quality of our portfolio via our look-through analysis in Scorecard #34 – Bedrock proved very popular with clients. Below is the updated information for the full year.

Instead of presenting the Value Fund as a mutual fund, this analysis aggregates the underlying holdings at different periods of time and presents the portfolio as if it were a company (called a "look-through" analysis). We then did the same with the S&P 500 Index.

		GreensKeeper Value Fund					S&P 500
		2017	2018	2019	2020	2021	2021
Quality	Return on Equity	28%	39%	39%	23%	29%	18%
	Gross Margin	52%	49%	53%	58%	57%	45%
	Operating Margin	27%	24%	30%	29%	33%	17%
	Cash Conversion	127%	109%	93%	120%	113%	106%
Safety	Interest Coverage	18x	14x	15x	22x	22x	9x
Valuation	Free Cash Flow Yield	7.2%	7.1%	5.0%	5.3%	5.4%	3.6%

Source: Greenskeeper Asset Management / Bloomberg / S&P Capital IQ. Return on Equity, Gross Margin, Operating Margin, Cash Conversion and Free Cash Flow Yield are the weighted mean of the underlying companies invested in by the Greenskeeper Value Fund and the mean for the S&P 500 Index. The S&P 500 Index figures exclude financial stocks except for ROE which includes all sectors. Interest coverage figures are median and exclude financial stocks. Ratios are based on last reported fiscal year accounts as at the respective dates and as defined by S&P Capital IQ. Cash Conversion compares Free Cash Flow with Net Income. Free Cash Flow Yield for the S&P 500 uses the period-end median.

Our house of bricks continues to demonstrate its quality construction. As the numbers above attest, the Value Fund "company" is above average in quality:

- Returns on Equity are materially higher than the broader market. As a result, our "company" generates more cash for each dollar of equity capital required to operate and grow the business. That cash can then be redeployed in the business at favourable rates or returned to shareholders.

- Gross margins are comfortably higher than the market average. We own businesses with pricing power that can charge more for their goods and services than the typical business due to their moats (brand, network effects, switching costs, etc.). This will prove handy should inflation persist.

- Operating Margins are also significantly higher than the market average. Our companies usually benefit from scale and efficiency.

- Cash conversion is another tell of quality. Our companies typically generate free cash flow that exceeds their accounting net income (currently about $1.13 for each $1.00 of accounting income versus $1.06 for the broader market).

Sophisticated investors recognize that Return on Equity can be increased merely by adding financial leverage (and risk). But that is not the case with the Value Fund's holdings. Our companies generate *higher* ROEs while employing *lower* financial leverage than the market. Whereas the broader market has operating earnings (EBIT) of about 9x their underlying interest expense, our companies currently cover their interest obligations by over 22x and use debt sparingly. In other words, our companies are more conservatively financed. Should interest rates rise as expected, they have the capacity to handle it. Even more impressive is the fact that five of our portfolio companies (CHKP, CSCO, FB, GOOG and VRTX) hold $234 billion in cash and have *no net debt*.

Given the quantitatively superior business quality and lower financial leverage, one would expect that our portfolio of companies would trade at a premium to the market. They do not. As of year-end 2021, the Value Fund holdings were delivering a free cash flow yield of 5.4% based on prevailing market prices.(2) This compares with the broader market at 3.6%. At market prices, we are paying less for each dollar of free cash flow than the market overall. It is also worth pointing out that many of our portfolio holdings have appreciated materially in value since purchase and the yield at the time of purchase was even higher.

Superior business economics, lower financial leverage, and undervalued relative to the market. That's the bedrock that our portfolios are built upon. The resiliency of our portfolio companies should serve us well whenever the next market storm arrives.

The Next Decade

The past year marked GreensKeeper's 10th anniversary and our assets under management grew once again at a healthy pace. The Value Fund is now available for purchase on the RBC platform, and we expect to expand distribution of the fund to other dealers in the coming years. James continues to broaden our firm's awareness and Michelle does a great job of looking after our clients and helping me with regulatory compliance. We are continuing our summer analyst program again this year.

(2) We use free cash flow as a proxy for our preferred measure of business earnings (Owner Earnings). Reported earnings are subject to vagaries of accounting conventions and management judgment but cash is hard to manipulate.

On a more personal note, I started the firm to create a vehicle for friends and family who were interested in having me invest their capital alongside my own. It has been an amazing decade of learning and growth. GreensKeeper has allowed me to follow my passion for stock picking and lifelong learning. I am truly looking forward to growing the firm and our investments for decades to come.

GreensKeeper's client growth has been largely due to referrals from our existing clients. Thank you for your continued support and the trust that you have placed in us.

Each of our employees has their entire investment portfolio invested at GreensKeeper. In my case, it represents over 70% of my household's net worth. We invest in the same stocks as our clients and our approach is one of partnership. If that resonates with you and you are looking for a new money manager, we hope that you give us a call.

Michael P. McCloskey

President, Founder &
Chief Investment Officer

The Scorecard
Issue #37 – Q1 2022

April 13, 2022

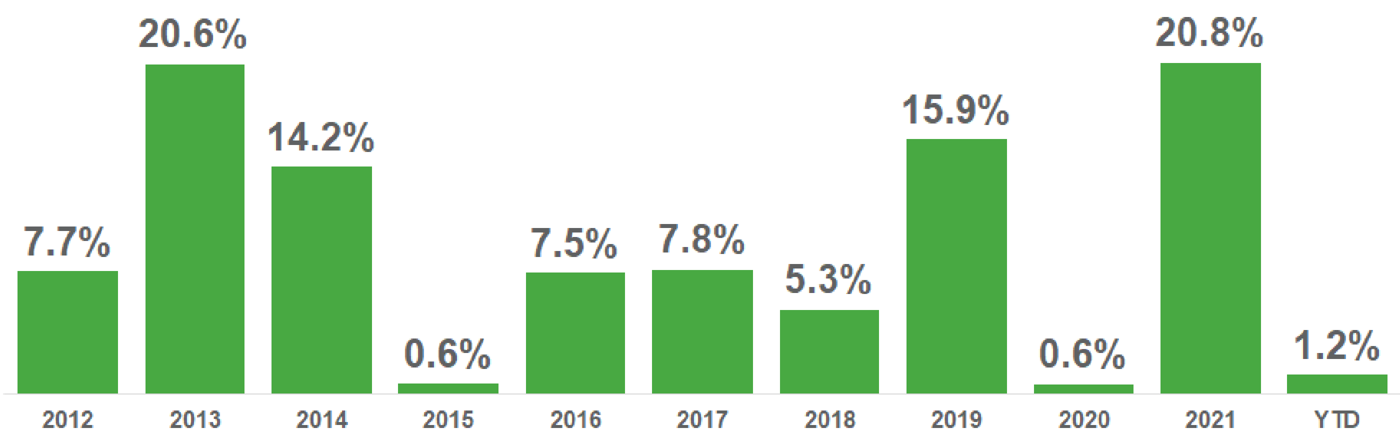
The Golden Rule

The Value Fund was up +1.2% in Q1. The US dollar lowered our Q1 returns by approximately -1.0%. Markets were downright ugly and despite a rebound in March, most of the major indices ended Q1 in negative territory: DJIA -5.2%, S&P 500 -5.7%, Nasdaq -10.0% and S&P/TSX +3.8%.[1] Investors holding more speculative stocks have seen even steeper declines (and possibly a permanent impairment of their capital).

Even "safe" US Treasuries were down -5.6% for the quarter. We have long shared our view that lending the government our money for a decade in exchange for a 2% yield strikes us as a bad idea.

Longtime readers will know that we aim to grow our investors' capital while also being mindful of capital preservation and risk management. It is only during times of market stress that investment portfolios are truly put to the test. Fortunately, our house of bricks was up to the challenge.

Given the market environment, the Value Fund is off to an excellent start to the year. We are well-positioned to continue our streak of 10+ consecutive years of delivering positive returns to our clients.



[1] Index returns are for the total return indexes which include dividends and are measured in Canadian dollars, the Value Fund's reporting currency.

2010 WINSTON PARK DRIVE | SUITE 200 | OAKVILLE, ON L6H 5R7
TELEPHONE: 905.827.1179 | WEB: WWW.GREENSKEEPER.CA

Investing's Golden Rule

The Golden Rule of "do unto others …" has a less-well-known parallel in the investment world which was coined by the Oracle of Omaha:

Rule #1: Don't lose money.

Rule #2: Don't forget Rule #1.

Investing's Golden Rule incorporates a concept that the human mind struggles to comprehend—power laws and the mathematics of uninterrupted compounding. Albert Einstein was on to something when he called compound interest the eighth wonder of the world.

Investing's Golden Rule sounds simple enough. But in practice, it is often forgotten, especially when stock markets are bullish and risk taking becomes widespread. Whenever it seems like everyone is making easy money, it is worth reminding yourself that risk is always lurking. What we wrote nine months ago in Scorecard #34 bears repeating:

> "Trying to predict and successfully time when the next storm will arrive is not a substitute for sturdy construction. Financial storms tend to arrive with little warning. The key to resilience is to know that they will inevitably come and to prepare in advance."

Admittedly, we didn't know that the markets would sell off in early 2022. But as the bull market aged, cautionary signs (sloppy financial analysis, questionable valuations and outright foolishness) were appearing with greater frequency. **Shopify** (SHOP) worth more than the **Royal Bank of Canada** (RY)? We begged to differ. The market has since come to agree with us: Shopify is now down over 66% from its peak (and still overvalued in our opinion).

What will the market do for the balance of 2022? No one knows. No one. That includes the so-called experts on CNBC and BNN every day. It won't surprise you to learn that we spend *zero* time thinking about the market's short-term movements.

Instead, we focus on things that can be known. We know that market selloffs happen from time to time even though the catalyst is impossible to predict (e.g., a global pandemic, the war in Ukraine). We also know that over the long term, equity markets rise due to earnings growth. Another unvarying truth: high-quality and undervalued stocks exist in any market environment. They are just harder to find when things are rosy.

There are several other guiding investment principles that we follow, irrespective of market environment. For example, we stay out of bad neighbourhoods.

The war in Ukraine is heartbreaking to watch. It is an unfortunate reality that parts of the world are run by nuclear-armed thugs. The war illustrates why we have always avoided investing in companies domiciled in or otherwise highly exposed to countries like Russia.

We invest our capital in the West. Canada, the United States, Western Europe, Australia and similar countries are all fair game. In the West, we know the rules. We know that our rights as shareholders will be respected and if they are abused, we have recourse to an independent judiciary. How do we define the West? Here's a great definition that we came across recently:

> "The West is a series of institutions and values. The West is not a geographical place. Russia is European, but not Western. Japan is Western, but not European. "Western" means rule of law, democracy, private property, open markets, respect for the individual, diversity, pluralism of opinion, and all the other freedoms that we enjoy, which we sometimes take for granted." (2)
>
> Stephen Kotkin, Historian

Another guiding principle: we invest in companies that possess sustainable competitive advantages (moats), pricing power and utilize minimal financial leverage. The combination of these attributes position these companies to successfully adapt to inflation, rising interest rates and other adversities that inevitably arise from time to time.

Common sense principles like staying out of bad neighbourhoods and investing in quality companies guide our decision making at GreensKeeper. We think of these principles as tributaries that feed into Investing's Golden Rule.

Buffett once said that value investing is simple, but not easy. He was right. Fighting our temperament and mood swings between fear and greed is a serious investor's biggest challenge. Fortunately, GreensKeeper has remained disciplined in its approach and applied these principles since day one. Buy quality companies when they are on sale. Avoid leverage, folly and big mistakes that set you back. It is simple, but not easy.

Portfolio Review

The biggest contributor to the portfolio in Q1 was none other than **Berkshire Hathaway** (BRK.A/B) +18.0%. With its fortress-like balance sheet ($130 billion of excess cash that grows at $2+ billion a month), Berkshire is a compounder whose intrinsic value increases over time and provides ballast to our portfolio. Over the decades, Warren has been the subject of attacks from critics who label him 'out of touch' whenever the stock has lagged temporary price surges in gold, cryptocurrency, etc. This criticism has been useful as it has presented us with the opportunity to purchase the stock cheaply when out of favour. We know that Warren tends to have the last laugh.

(2) Remnick, David, interview of Kotkin, Stephen: "The Weakness of the Despot: An expert on Stalin discusses Putin, Russia, and the West.", *The New Yorker*, March 11, 2022.

TVA Group (TVA.B) +18.4% was the second-largest contributor in Q1. We established our position in this Quebec-based small cap just over a year ago (click here for our original investment thesis). The company has delivered decent results and its highest margin segment (film production and audiovisual services) recently announced expansion plans which we welcomed. As a result, the stock is up over 50% since our purchase. Despite the price appreciation, the company still trades at less than five-times Owner Earnings. Still far too cheap in our opinion. As a small cap, the stock is volatile and largely unknown. There will likely be some up and downs. But we suspect that eventually the market will value the stock more in line with our estimate of its intrinsic value in excess of $6.40 per share.

Biotech **Vertex Pharmaceuticals** (VRTX) +18.8% was our next-largest contributor for the quarter. Our investment thesis for Vertex was very simple. The company's life-changing cystic fibrosis (CF) therapy continues to gain regulatory approvals and payer reimbursement around the world. This should drive sales growth for the company to the end of the decade. We figured that the company's CF franchise and its $7 billion of cash (no debt) alone were worth at least $230 per share. While the company's drug pipeline looked promising, at our average purchase price of $194 per share, we weren't counting on it.

Since our purchase, Vertex's sickle cell disease candidate is showing promise. The company also announced positive—albeit early-stage—Phase 2 clinical trial data for its nonopioid pain candidate. So why was the stock so cheap when we were buying?

Biotech **Abbvie** (ABBV) has been exploring a Phase 2 CF candidate that they hinted may be superior to Vertex's CF franchise. A viable competitor to Vertex's CF cash cow and its 97% market share would materially lower our valuation for the company. But anyone who has studied drug development knows that the probability of Phase 2 drugs making it to market are relatively low (<16%). Even if ultimately successful, Abbvie's market launch would be years away and face an established treatment regimen being used by tens of thousands of patients. In the meantime, Vertex isn't standing still. They are currently working on an even better CF treatment that would also lower the royalty rates they are paying to a third-party.

Overall, we judged the risk of a major disruption to Vertex's CF franchise to be low and we position-sized the holding at 3% to mitigate a negative outcome. Abbvie has since delayed the release of its CF Phase 2 data several times. Abbvie's recent comments also seem to be downplaying the importance of their CF candidate to Abbvie's overall financial results. Reading between the lines, Abbvie's CF candidate may have issues.

With Vertex's drug pipeline starting to show promise and Abbvie less likely to be a threat, the market has taken notice and the stock currently trades at $290. We love asymmetric situations like this. As Mohnish Pabrai would say "heads I win, tails I don't lose too much". A big thank you to J. Perez—a fellow VALUEx Klosters attendee—who brought the stock to our attention.

Our biggest detractor for the quarter—by a wide margin—was **Meta Platforms / Facebook** (FB) -33.9%. The company's Q4 results were good but its revenue guidance for the current quarter disappointing and the stock sold off accordingly. We have spent a lot of time recently thinking about our investment in the company.

Facebook's core advertising business is facing headwinds. Apple's iOS privacy changes have made it harder for Facebook to track users, thus making its ad targeting less effective. We believe that Facebook has a strategy to overcome much of this challenge in the near term. In addition, Apple's privacy changes hurt all social media companies and Facebook remains best-positioned to deliver attractive return on investments (ROIs) to advertisers relative to their other options outside of search. Long-term, we believe that Facebook's core business is healthy and will remain a cash flow machine.

That said, the company's capital allocation decisions leave much to be desired. Share repurchases are being instituted without consideration of the price paid. More concerningly, Zuckerberg's vision of building a Metaverse is burning about $10 billion a year and growing. Given the health of the core business, Facebook can certainly afford to finance this venture. Considering his track record, we have to give Zuckerberg the benefit of the doubt when it comes to his vision of the platform of the future. However, we are wary of major technology shifts. Given the current stock price we added modestly to our position as we view the risk/reward attractive at current levels. But given the risks, we are monitoring the situation closely as it evolves.

GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express	Financial Services
Anthem, Inc.	Healthcare & Pharma
Berkshire Hathaway Inc.	Insurance
Merck & Co., Inc.	Healthcare & Pharma
Meta Platforms, Inc.	Technology
S&P Global Inc.	Financial Services
TVA Group Inc.	Communications & Media
Vertex Pharmaceuticals	Healthcare & Pharma
Visa Inc.	Technology

* As of Mar. 31, 2022. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

The Value Fund finished Q1 with an 11% net cash position and we are actively searching for attractive places to put it to work.

Firm Update

We are excited to welcome Ivey HBA students Michael Van Loon and Amir Yazdani to the firm's research team in May. A summer of stock picking is my idea of a good time. Their bios and those of the rest of our team can be found here.

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In late 2021 we celebrated GreensKeeper's 10-year anniversary. Starting with a very modest $3 million of assets under management (AUM) and a vision of the future, our growth has continued unabated. With the addition of separately managed accounts (SMAs) a few years ago to compliment the Value Fund, GreensKeeper's total assets under management (AUM) are approaching $90 million and we are always looking for new clients.

Each of our employees has their *entire* investment portfolio invested at GreensKeeper. In my case, it represents over 70% of my household's net worth. We invest in the same stocks as our clients and our approach is one of partnership.

If our partnership approach resonates with you, or someone you know could use some help with their investments, please give me a call.

Michael P. McCloskey

President, Founder &
Chief Investment Officer

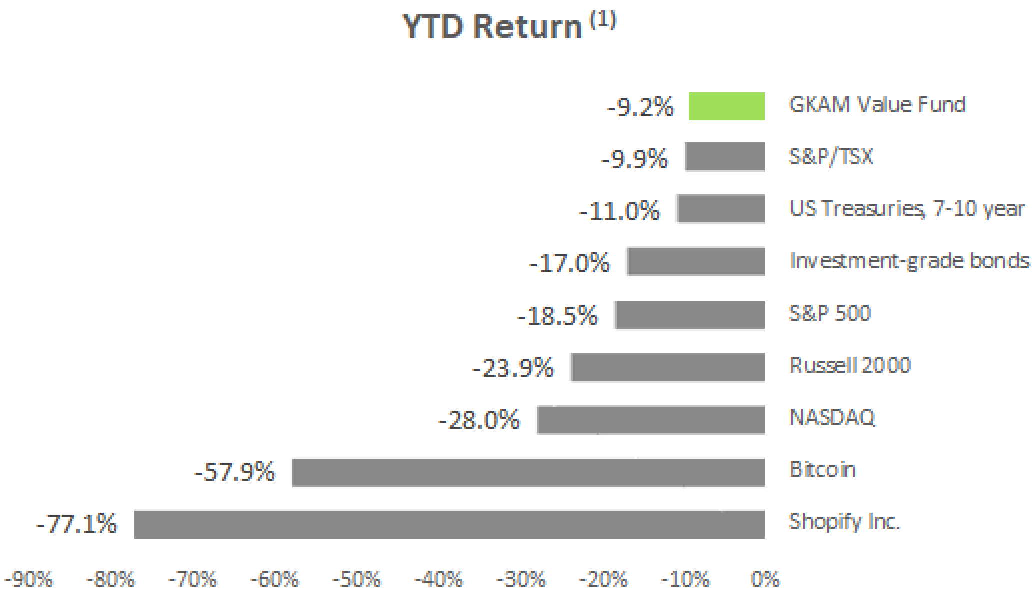
July 6, 2022

Funiculì, Funiculà

The Value Fund is down -9.2% year-to-date (YTD), more than half of that decline coming in the month of June. The bear market has officially arrived with the S&P500 off to its worst start in over 50 years. People holding more speculative assets like cryptocurrencies, have likely suffered a permanent impairment of their capital.

Even 'ultra-safe' treasuries took a beating and are down -11% YTD. When you invest in 10-year government bonds in exchange for a measly 2% pre-inflation return, you are asking for trouble. We have long warned about frothy markets and irrational asset classes like non-fungible tokens (NFTs). We have also called out companies like **Shopify** (SHOP) whose valuations were simply insane.

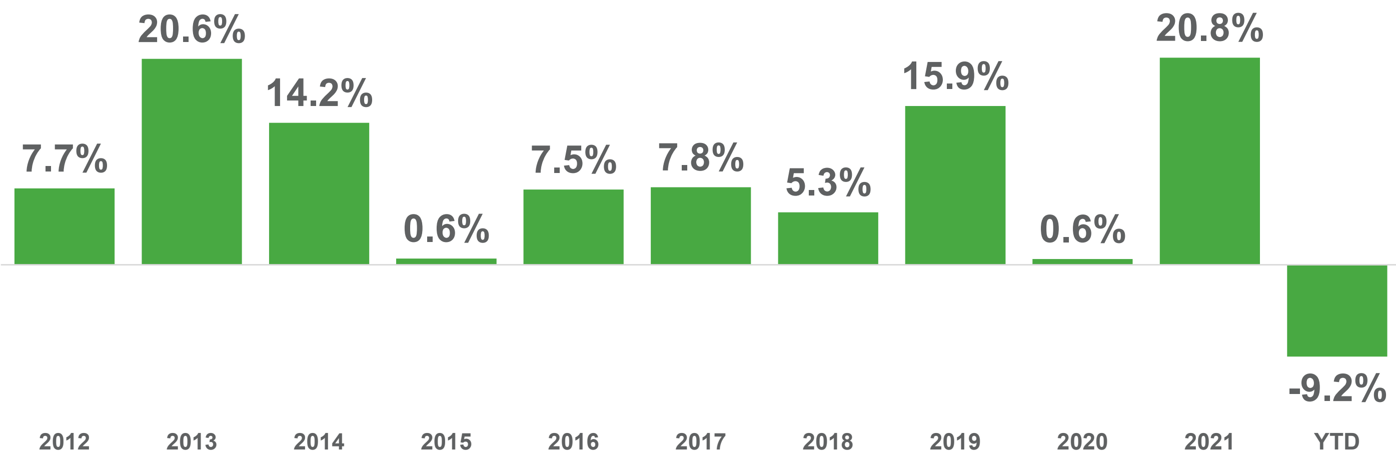
As the Oracle of Omaha so vividly put it, you only know who has been swimming naked when the tide goes out. The tide is ebbing.



[1] Index returns are for the total return indexes which include dividends and are measured in Canadian dollars, the Value Fund's reporting currency. Changes in bond values are based on iShares exchange-traded funds (Source: Factset, Wall Street Journal).

The selloff was overdue. The US Federal Reserve and other central banks kept interest rates too low for far too long. These huge injections of liquidity led to the inevitable result. Asset price inflation, real-world inflation, TINA (there is no alternative) and FOMO (fear of missing out). Investors were encouraged by easy money to take things too far and greed overtook prudence. These factors are now working in reverse.

Against this backdrop, we have been defensively positioned. We constructed our house of bricks long before the market storm arrived. As a result, it has withstood much of the broader market damage.



Now, before we get too carried away patting ourselves on the back, the Value Fund is still down for the year. We have much work to do between now and year end to keep our streak of 10+ consecutive years of positive returns alive. But the current market turmoil and growing fears of a recession are a welcome development for long-term value investors like GreensKeeper. Here's why:

- Many of the companies that we own are market leaders with healthy balance sheets. During times of stress, they typically take market share from weaker competitors who may not even make it. Most have pricing power and the ability to pass on increasing costs to their customers. A few of our holdings even benefit from inflation (e.g., **Visa** (V), **American Express** (AXP)).

- Our portfolio companies are also cannibals — they use their prodigious cash generation to habitually repurchase their own shares in the open market. Lower prices means they get more bang for their buck.

- The same principle applies to GreensKeeper. In a declining market, we are able to acquire additional earnings for each incremental dollar invested. Accordingly, lower stock prices *reduce* the riskiness of our investments. Please read that sentence again. It is contrary to the way that most people think about and interact with the stock market.

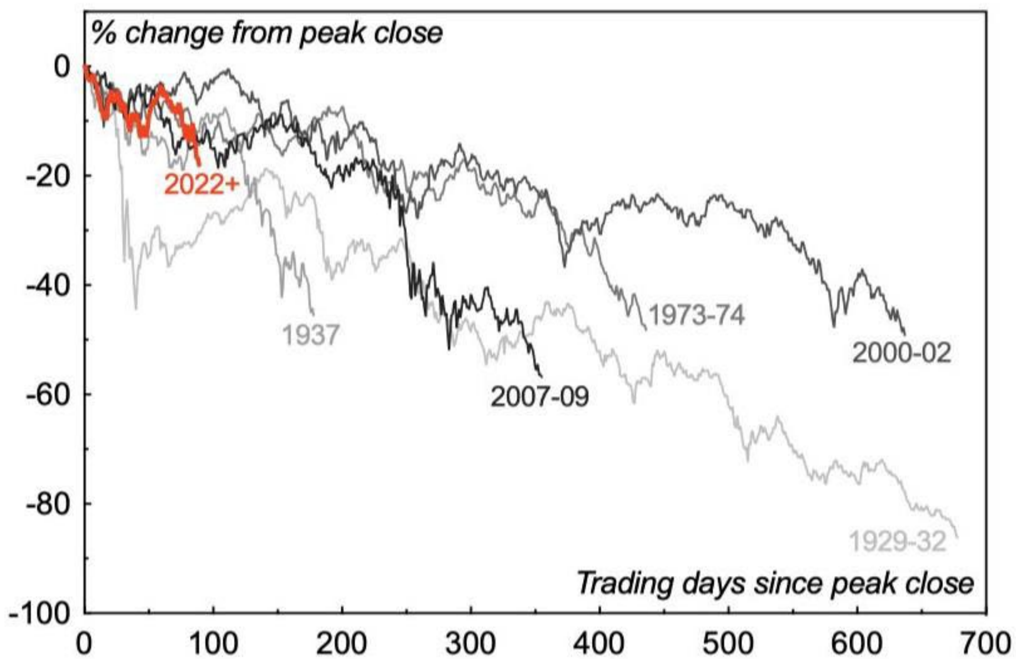
- While the broader markets are down 20-30%, certain stocks that we track are off significantly more and starting to get interesting.

- As stocks and asset prices decline, levered investors receive margin calls and are forced to sell. Even unlevered investors become frightened at the prospect of further price declines and decide to sell and wait until things 'stabilize'. As Baron Rothschild said, the best time to buy is when there is blood in the streets.

Put simply, this growing *fear is our friend*. It puts market participants into a short-term mindset and creates mispricings that we can take advantage of. All that is required is discipline, the courage to act and never losing sight of the long-term. If you struggle with this concept, perhaps the following illustration will help. (2)

THERE WILL BE BLOOD

The 2022+ Bear Market in Historical Perspective



Fear sells which is why you will find charts like these reproduced in newspapers, TV and online every time a new bear market arrives. It looks scary, doesn't it? That's because it triggers the primitive flight response that is hard wired into our genes.

Could the bear market of 2022 go lower still? Sure. As we have written many times, we have no idea what markets will do over short periods of time and neither does anyone else. Timing the bottom is impossible. In our opinion, those that try to do so are playing the wrong game.

(2) Series show the percentage change in the S&P500 index from peak to trough for each decline, except for 2022+ which is to May 11. Sources: Yahoo Finance; Reddit - https://tinyurl.com/2p8hp3zf

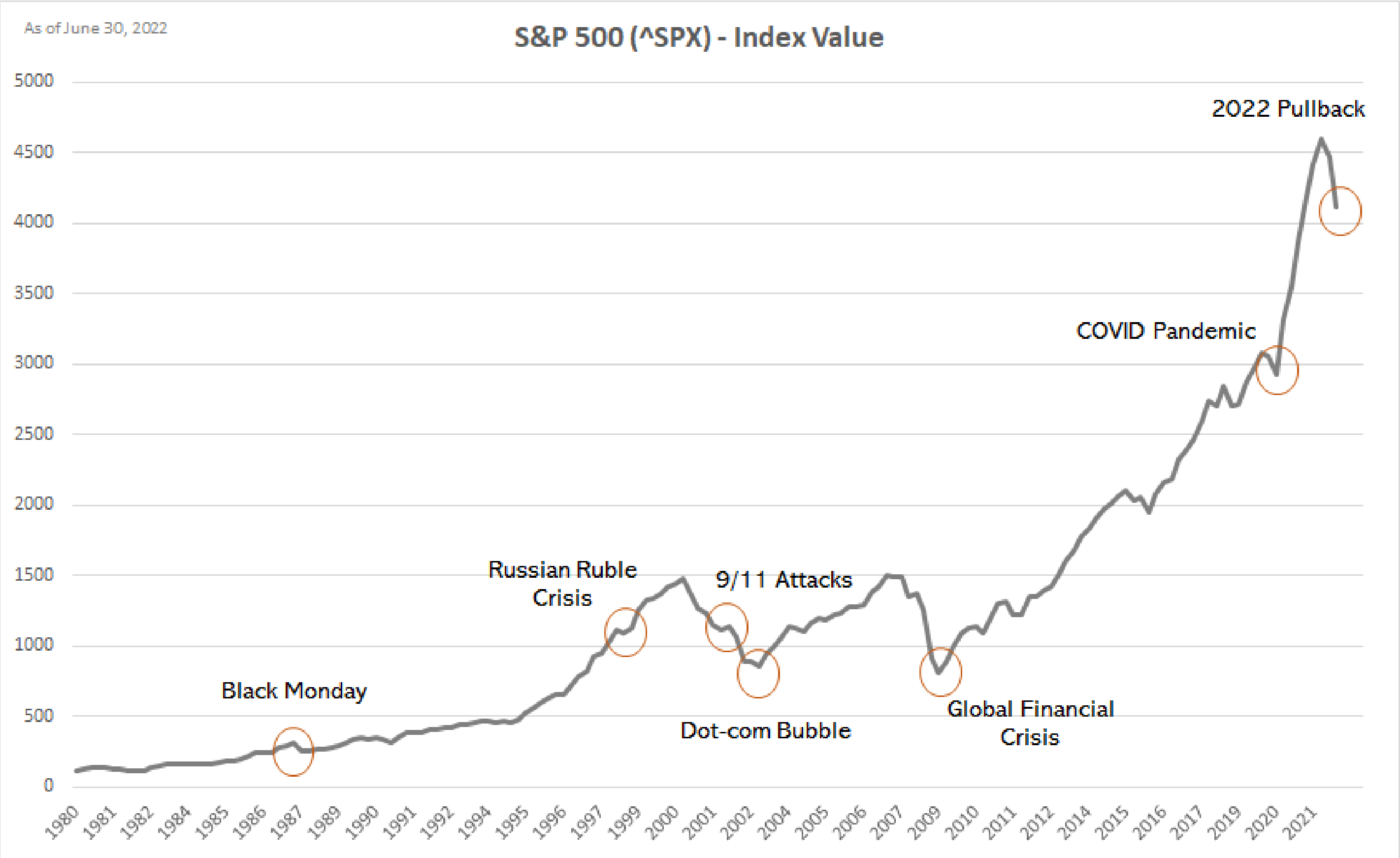
When pundits describe the stock market as a roller coaster, the stomach-churning plunges on the prior chart are what they are referring to. Unfortunately, this metaphor is not only deeply flawed, but also insidious as it conditions investors to learn the wrong lessons.

A roller coaster ride may be fear inducing, but it leaves you back exactly where you started. That isn't true for stock market investors with a long-term time horizon. With the proper longer-term perspective (see chart below) the stock market is better described as a cable car or funicular, not a roller coaster. Yes, one may experience an unpleasant jolt from time to time. But those seemingly massive declines on the prior chart look piddling—and much less scary—when put into their proper long-term context.

We believe that the proper lesson to take away from the current market selloff is the following. It will eventually end. If you can keep your cool and don't jump off (by staying invested), the stock market funicular will eventually carry you to much higher ground. Sometimes much quicker than you expect.

You rise, pulled by a cable, quick as a wink, Into the sky! Into the sky!
We'll rise up like a whirlwind all of a sudden

Funiculì, Funiculà



Source: GreensKeeper, Capital IQ.

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Portfolio Update

GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express	Financial Services
Berkshire Hathaway Inc.	Insurance
Cboe Global Markets Inc	Financial Services
Elevance Health	Healthcare & Pharma
Merck & Co., Inc.	Healthcare & Pharma
Meta Platforms, Inc.	Technology
TVA Group Inc.	Communications & Media
Vertex Pharmaceuticals	Healthcare & Pharma
Visa Inc.	Technology

* As of June 30, 2022. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

This is the perfect time to repeat what we wrote a year ago in Scorecard #34:

> "Trying to predict and successfully time when the next storm will arrive is not a substitute for sturdy construction. Financial storms tend to arrive with little warning. The key to resilience is to know that they will inevitably come and to prepare in advance."

Our portfolio was properly positioned for the current market downturn. As a result, there were no major changes to the portfolio during the first half of the year and our top-ten holdings were virtually unchanged.

Vertex Pharmaceuticals (VRTX) joined the top ten due to its +28.3% YTD performance. Two of our portfolio companies changed their names: Facebook is now known as **Meta Platforms** (META) and **Anthem** recently renamed itself **Elevance Health** (ELV).

We added to our positions in **Fiserv** (FISV), **Meta Platforms** (META) and trimmed our holdings of **American Express** (AXP). Otherwise, there is nothing new to report. Our current thinking on VRTX and META can be found in Scorecard #37 and a full writeup of our investment thesis for FISV can be found here.

The Value Fund finished Q2 with a 13% net cash position and we are actively searching for attractive places to put it to work.

Final Thoughts

Profitability, cash flow and valuation are once again in vogue. In other words, sanity is returning to the markets. Our research team is furiously looking at hundreds of companies, updating our models and searching for value.

Valuations have come down and attractive opportunities are starting to present themselves. With cash constantly streaming into the Value Fund from new and existing clients, we are selectively putting our money to work. This is a great time to be a value investor.

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Each of our full-time employees has their *entire* investment portfolio invested at GreensKeeper. In my case, it represents over 70% of my household's net worth. We invest in the same stocks as our clients and our approach is one of partnership.

If our partnership approach resonates with you, or someone you know could use some help with their investments, please give me a call.

Michael P. McCloskey

President, Founder &
Chief Investment Officer

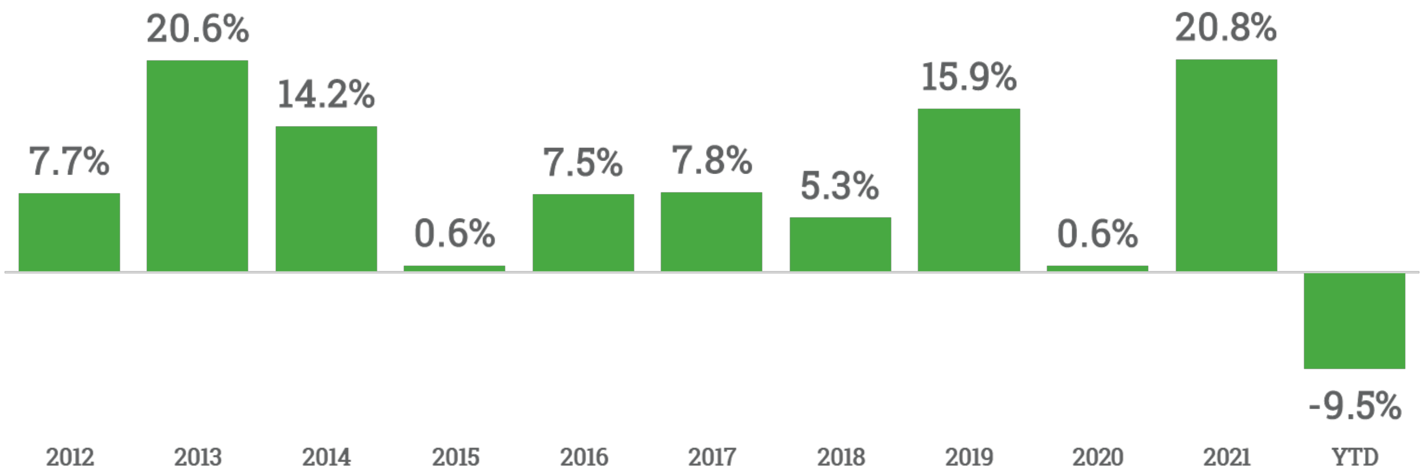
October 13, 2022

Get a Grip

The Value Fund is down -9.5% year-to-date (YTD) with the US dollar providing some welcome protection from the broad market selloff.

Through Q3 we are ahead of the major indices which are all deep into the red: DJIA -12.3%, S&P500 -16.8%, Nasdaq -25.7% and S&P/TSX -11.1%.[1] Investors holding more speculative stocks have suffered even steeper losses.

In the eleven years we have been publishing this quarterly newsletter, we have not written much about the economy or macroeconomics. Like any complex adaptive system, we believe that it is extremely difficult to predict the modern-day economy's future path with much accuracy. Economics has been dubbed the dismal science for good reason. But the macro seems to be the only thing driving the markets these days and so we will use this quarterly update to share our perspective.



[1] Index returns are for the total return indexes which include dividends and are measured in Canadian dollars, the Value Fund's reporting currency.

The Dismal Science

Geopolitical tensions between Iran, Russia and the West are very high. OPEC production cuts and an energy crisis are driving up commodity prices and inflation is running hot. Obviously, I am referring to the economic environment of 1979. The lessons of that era are worth revisiting and provide some helpful hints for navigating the current environment.

Inflation is a dirty word for good reason. It is an insidious tax on consumers and makes it very difficult for businesses to plan or make long-term investments. With unemployment near record lows and inflation far too high, the US Federal Reserve (the "Fed"), is focused squarely on getting inflation back in check.

The modern Fed learned how to stomp out inflation from the example set by revered former Fed Chairman Paul Volcker during that earlier era. Tighten the money supply, raise interest rates, and keep raising them until everyone believes that you are serious. Ignore the inevitable criticism and accept the fact that everyone will hate you. The Fed was structured independently from the federal government for exactly this reason. Their job is to do the right thing, not the popular thing.

Once the Fed's credibility is restored and sufficient time passes, inflation will subside, albeit at the expense of the economy and lofty asset prices including equities. We find it mildly amusing to watch hysterical market pundits criticizing the Fed's recent tightening cycle due to its detrimental impact on the economy and the markets. The Fed *needs* the economy to worsen. That's the whole point!

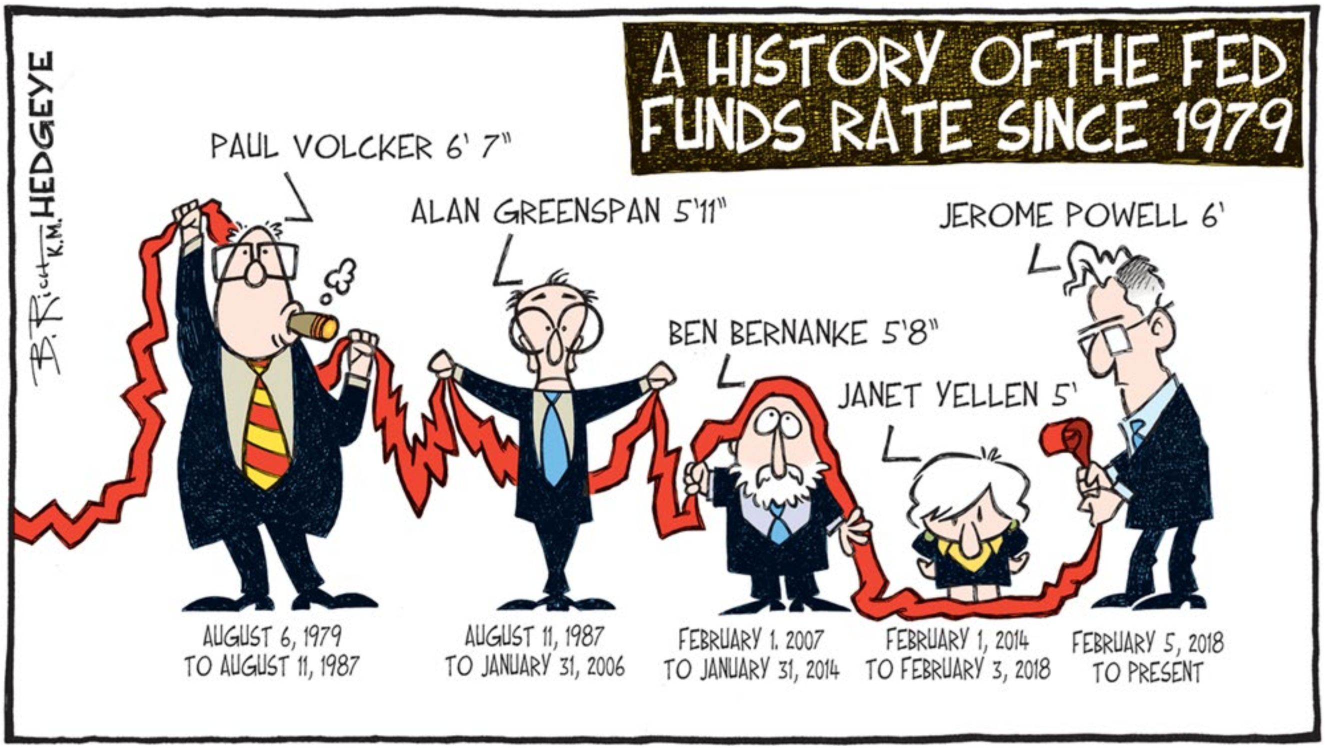
Higher interest rates are the Fed's only lever to get inflation back in check. The Fed is simply doing its job in accordance with its Congressional mandate of price stability and maximum sustainable employment. The stock market is finally starting to believe that the Fed is serious about lowering inflation. So how should we position our investments in the current market environment?

Some Historical Perspective

We believe that four decades of declining interest rates and moderate inflation has made everyone soft. For as long as most of us can remember, consumers, companies and governments have been spoiled by a combination of a near continuously growing economy, low inflation, and record-low interest rates. Unfortunately, there are no free lunches—eventually the bill comes due.

The first major post-Volcker-era shock came in 2008 via the US housing crash and the Great Recession. Loose monetary policy inflated a housing bubble in the United States. Its ultimate bursting almost took down the entire global financial system. Central banks reacted by injecting massive liquidity, lowering interest rates, and experimenting with quantitative easing.(2)

(2) For those interested in the history of the US Federal Reserve and its inner workings, we recommend Bernanke, Benjamin. *21st Century Monetary Policy: The Federal Reserve from the Great Inflation to COVID-19*. (New York: W.W. Norton & Co., 2022). A link to that book and other recommended readings can be found on our website's bookshelf.



Source: Bob Rich, Hedgeye.

Fortunately, we survived that close call and for the next decade, ultra-low interest rates helped the jobs market and the economy recover, ultimately leading to the longest bull market in US history (2009-2020). The next big shock came in 2020 with the arrival of the coronavirus pandemic. The Fed's response was once again loose monetary policy aided by a large helping of fiscal stimulus financed via rising government debt. Markets and economies quickly rebounded. Only this time, worrying signs of inflation started to emerge.

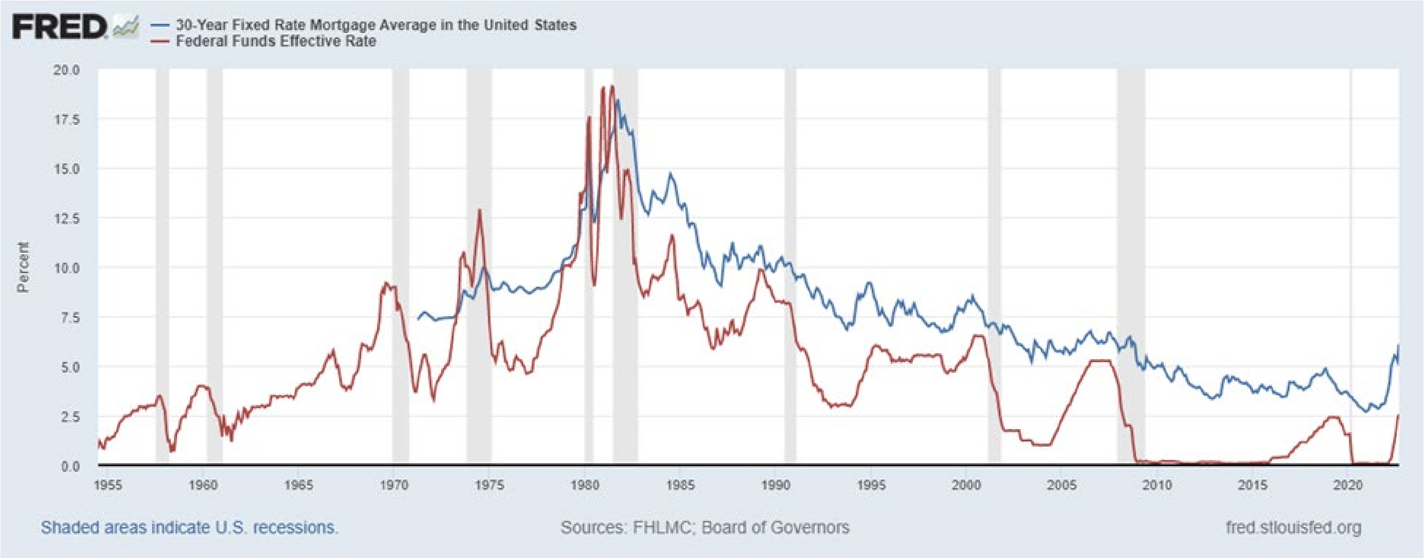
Conditioned by decades of stable prices, the Fed deemed rising inflation to be "transitory", but it turned out to be anything but. In addition, keeping interest rates near zero encouraged risk taking and outright recklessness (crypto assets, NFTs and meme stocks). In Scorecard #30 (Q2 2020) we warned about the frothiness of the markets and advised caution.

With the benefit of hindsight, the Federal Reserve now knows that it made a major policy mistake by waiting too long to raise rates. It is now taking corrective action. US mortgage rates are approaching 7% and properly prices, which are highly sensitive to interest rates are beginning to soften. Market pundits like Jeremy Siegel and progressive politicians like Elizabeth Warren are screaming bloody murder at the Powell Fed. Get a grip.

All that a central bank can do is to use its best judgment to add stimulus when needed and take it away when it isn't. The latter action is never fun. But if a central bank avoids inflicting pain when warranted, we ultimately end up with the disaster that is modern day Turkey and its 83% inflation rate. Politicians cannot wish away reality through magical thinking.

I can still remember my parents taking out a mortgage circa 1980 when inflation was running 13% and mortgage rates were in the mid teens. The current 5-year mortgage rate in Canada stands at 5.5%. We can handle this.

The chart below illustrates that interest rates are still very low by historical standards. That doesn't make the recent increases benign. But their impact should be manageable in most cases.



Source: Federal Reserve Bank of St. Louis Economic Data (FRED).

We reckon that a big part of what gives life meaning is struggle. If an entire generation of borrowers were able handle the high interest rates and runaway inflation of the late 1970s, surely, most of the modern economy can manage through interest rates in the mid-single digits.

Navigating the Market

The stock market has reacted badly to the Fed's current policy tightening cycle. Higher interest rates will slow the economy and lower corporate profits. A recession is certainly possible. In addition, money is flowing out of equities as fixed income rates become more attractive as an alternative. The increase in the risk-free rate along with these other factors mean that lower market multiples and equity valuations are a logical response.

However, just as things tend to overshoot on the upside during market bubbles, mass psychology also leads to overshooting on the downside. Our take is that this is a time to be more aggressive, but also discerning. Always discerning. Overleveraged companies and poor-quality businesses may not survive the current shocks they are facing and should be avoided.

We also suspect that the investment environment going forward is likely to be more difficult than the easy money days of the past. So what? As Charlie Munger likes to say, "[Investing] is not supposed to be easy. Anyone who finds it easy is stupid."

At GreensKeeper, we are managing through the current market challenges and searching for value. But the recent market gyrations also remind us of the importance of four of our key investment principles that we wish to reinforce for the benefit of all our clients.

The Economy is Not the Stock Market

One mistake that investors often make is to assume that the stock market will decline when the economy is in recession, or one is forecasted. Our own work suggests that the stock market shows very little correlation with economic growth. Others have come to a similar conclusion:

> "The trouble with picking stock markets on the basis of expectations of GDP growth is not that GDP growth is hard to predict (although it is harder than many people assume), it's that even if you could predict it with perfect accuracy, it wouldn't do you any good picking stock markets."
>
> Ben Inker, Grantham, Mayo, & van Otterloo (GMO) [3]

Could we be headed for a recession in the near term? Sure. But in our opinion, that's the wrong question to be focused on. Even if one can answer it right, predicting the market's reaction is equally difficult.

In addition, the value of most companies (stocks) tends to change slowly as it is based on the lifetime of future cash flows it will provide to its owners (shareholders), discounted at an appropriate rate. Over 95% of the value of most companies has nothing to do with their earnings this year. Will **S&P Global Inc.'s** (SPGI) earnings be lower in a rising interest rate environment? Certainly. But a few years of low earnings barely changes our estimate of the company's intrinsic value. The value of that business, and most other businesses, is in the tail.

Don't believe us that short-term market movements are impossible to predict? Here's a recent example. On the day that we wrote this letter, the pre-market release of the US inflation report disappointed, and the market dropped by -2.4% at the open. By the close, the market finished up +2.6% with no major market news responsible for the reversal. Does anyone honestly believe that the collective intrinsic value of the listed companies changed by over 5% within a matter of hours?

Want more proof that markets can do very strange things over relatively short periods of time? In a typical year, the difference between the high and low price of many widely followed stocks such as **Apple** (APPL) can be 50%. This is noise, not signal.

[3] GMO White Paper: Reports of the Death of Equities Have Been Greatly Exaggerated: Explaining Equity Returns. Ben Inker, August 2012.

We believe in focusing on the things that we can control. Macroeconomic factors are only important insofar as they impact the future profitability of any company and hence its intrinsic value. We update our valuations accordingly and then compare them with the prices being offered by Mr. Market (which have become more attractive lately).

We do not spend *any* of our time trying to figure out when the market will bottom. It can't be done. However, we can react when a bargain is on offer, knowing that we will inevitably never time our purchase perfectly by buying at the bottom tick. Instead, we focus on fundamentals and valuations, not predicting market movements.

Think in Probabilities

Ever wonder why so many investment professionals advise their clients to stay invested? Because it flows naturally from the following market facts.

Since launching the Value Fund in 2011, the fund and the market have both been up about 69% of the time (measured monthly). Longer-term studies of the S&P500 peg that number ever higher.(4) Over the past century, the US stock market has provided superior returns to all other major asset classes.

Fortunes have been made by casinos via games of chance that give the house a slight edge of just a few percent over their customers. Over long periods of time, the house is *guaranteed* to come out ahead despite some fluctuations in their daily profits and losses.

The stock market is a game that provides its *players* with even better odds. By purchasing above-average companies when they are undervalued, we try and stack the odds even more in our favour. When investors are scared, stock prices tend to be attractive and stocks less risky. In other words, it is usually a good time to put money to work. No different than a card counter at a blackjack table raising her bets when the count is in her favour.

Equities are a winning game. If you have a sufficient time horizon and can handle the volatility, the secret is to just keep playing. Investors who think that they can consistently predict when to exit and then reenter the equity markets are delusional. Market timers deliberately forego playing this wonderful game. Stay invested.

The Importance of Resilience

Strange and unpredictable things happen from time to time. Russia invades the Ukraine. A global pandemic appears out of nowhere. Interest rates and energy prices spike as inflation suddenly appears. That's why investing in quality companies matters. That's why investing in undervalued companies matters. Investors need multiple margins of safety to deal with life's unexpected twists and turns.

(4) "For almost a century, despite pandemics, recessions, inflation, deflation and wars, stocks have been on the rise 78% of the time. Many investors, however, consistently miss out on the market's overall gains because they try to time getting in and out, missing the big days along the way." Source: Tsai Capital and Ned Davis Research.

Companies that employed excessive financial leverage to maximize profits during the good times, are now facing a reckoning as interest rates reset. Some will not make it. As American race car driver Rick Mears so aptly put it, “to finish first, you must first finish”.

Other former market darlings were growing very fast, and for years the market ignored their unprofitability and cash burn. The tide has since turned, and their stock prices have been crushed. We avoid these companies at all costs.

Our portfolio companies use debt sparingly and are highly profitable. Interest rate increases are a minor annoyance, not an existential threat. They are positioned to use their financial strength to take advantage of their competitors’ misfortunes.

Companies with sustainable competitive advantages or moats often possess pricing power. Their reaction to the current inflationary environment is to raise prices to protect their margins. Many lesser companies can’t pass along price increases without losing business. Quality matters.

In sum, our portfolio companies can handle inflation, higher interest rates, recessions and other negative surprises. They are resilient. The trick is that you have to build your house of bricks before the storm arrives.

Be Prepared

The rising interest rate environment is starting to reveal signs of stress in obscure corners of the market. The UK mini-budget has spooked the British government bond (gilt) market, creating losses for UK pension funds, a selloff in Pound Sterling and forcing a Bank of England intervention. In the US, credit markets are showing signs of disfunction. A few hedge funds have blown up precipitating forced selling. The common thread is usually excessive leverage.

Regardless of the trigger, market opportunities often present themselves suddenly and can disappear just as quickly. As any good Boy Scout will tell you, the key is to be prepared.

With markets having sold off sharply this year, we are now becoming more aggressive. We continually maintain a list of high-quality companies that we would like to own at a certain price. When markets were frothy, we spent our days researching and expanding that list. With the market selloff, several our watchlist companies are now approaching our strike zone (including a UK-based company that we are salivating to buy).

Given the quality of the companies that we own, we are under no pressure to make any sudden moves. But whenever we believe that a better opportunity presents itself, we will react. This process is currently in full swing.

Our commonsense approach to equity investing has not changed since GreensKeeper's inception. In fact, it never will while our founder is at the helm with his family's money invested alongside our clients:

- Focus on fundamentals and valuations, not trying to predict market movements.
- Stay invested.
- Invest in quality companies.
- Avoid leverage and be prepared to act when opportunity knocks.

As the Oracle of Omaha himself so aptly put it, value investing is simple, but not easy

Portfolio Update

GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express	Financial Services
Berkshire Hathaway Inc.	Insurance
Confidential	Financial Services
Elevance Health	Healthcare & Pharma
Fiserv Inc.	Technology
Merck & Co., Inc.	Healthcare & Pharma
Meta Platforms, Inc.	Technology
Vertex Pharmaceuticals	Healthcare & Pharma
Visa Inc.	Technology

* As of September 30, 2022. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

****

Each of our full-time employees has their *entire* investment portfolio invested at GreensKeeper. In my case, it represents over 70% of my household's net worth. We invest in the same stocks as our clients and our approach is one of partnership.

If our partnership approach resonates with you, I hope that you give me a call.

Michael P. McCloskey

President, Founder &
Chief Investment Officer

GreensKeeper ASSET MANAGEMENT INC.

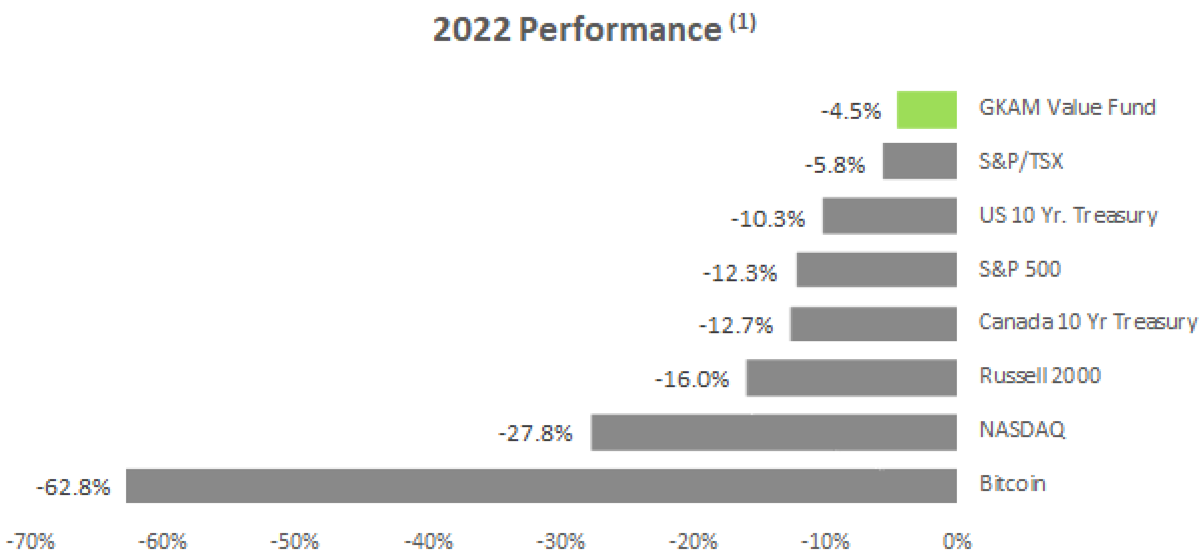
The Scorecard
Issue #40 – Q4 2022

January 9, 2023

Reversals of Fortune

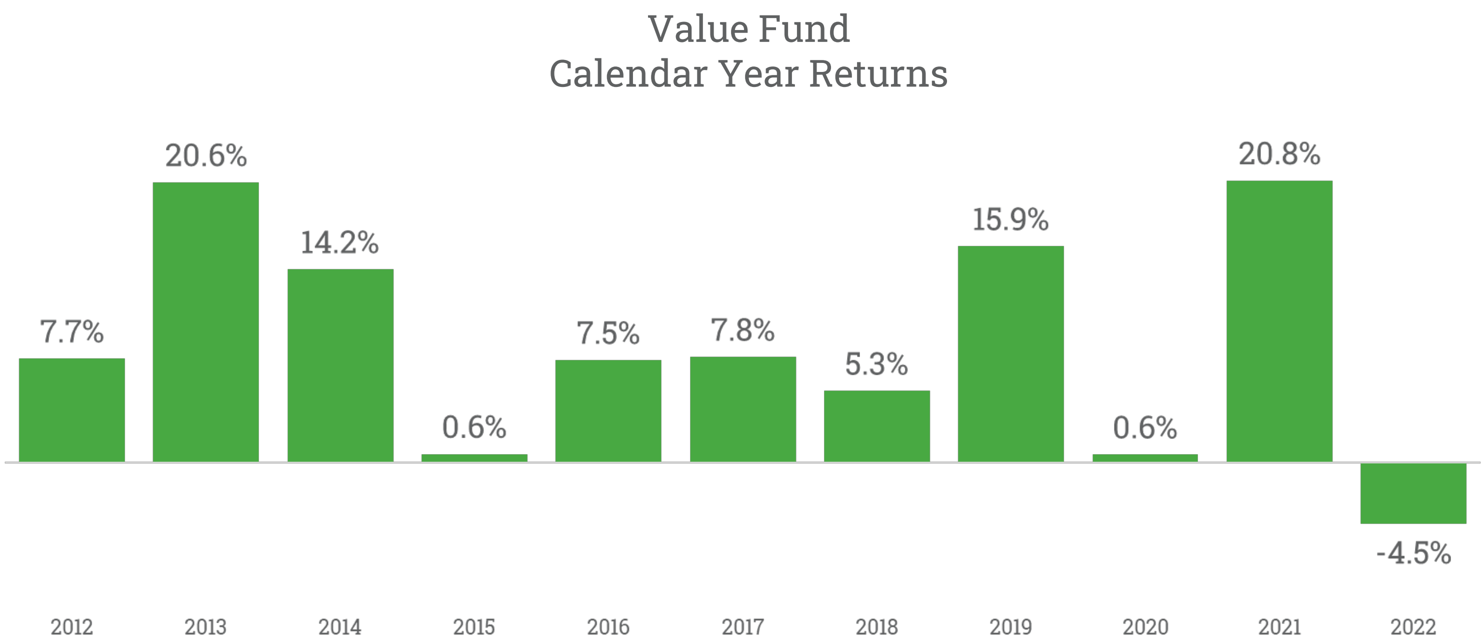
The Value Fund finished the year -4.5%. The US dollar strengthened against most major currencies including the Canadian dollar and boosted our returns by approximately 5% for the year.

We beat our benchmarks for the year: S&P500 -12.3%, Nasdaq -27.8% and S&P/TSX -5.8% with the US stock market experiencing its fifth-largest loss since the Great Depression.[1] Many portfolios comprised of more speculative investments saw drawdowns of greater than -50%. Even “safe” government 10-year bonds suffered from rising interest rates and delivered double-digit losses for the year. There was nowhere to hide.



Like Rip Van Winkle, inflation—long dormant in the West—awoke from its multi-decade slumber. Interest rates rose in response and after years of loose money which lured many to throw caution to the wind, investors relearned a painful lesson: risk is always lurking.

[1] Index returns are for the total return indexes which include dividends and are measured in Canadian dollars, the Value Fund’s reporting currency.



We stuck to our knitting by avoiding crypto, speculative investments and resisted the fear of missing out (FOMO). As a result, our portfolios were well-positioned for this welcome return to normalcy. As we have often stated, profitability, cash flow and valuations eventually matter.

Given the overall market environment in 2022, the Value Fund delivered on its mission of growing our clients' wealth while *prudently managing risk*.

Portfolio Review

The biggest contributor to the portfolio in 2022 was our investment in **Merck** (MRK) which was up +45% for the year. We first invested in Merck at the beginning of the pandemic in March 2020 along with our investment in **Pfizer** (PFE). Our investment thesis was straightforward: both stocks were attractively priced at low-double-digit earnings multiples, they offered 3-4% dividend yields, had healthy balance sheets and we thought that one of these companies might just save the world from COVID-19.

Pfizer hit the jackpot with its COVID mRNA vaccine, and we exited that stock in 2021 after it traded above our estimate of its intrinsic value. Merck was not as successful with its COVID regimen, and the stock languished. But Merck's *business* continued to thrive due in large part to its blockbuster Keytruda cancer immunotherapy which is generating $20 billion a year in revenue and still growing at 20%. With the market pullback in 2022, investors suddenly started paying attention to Merck's prodigious free cash flow and the stock rerated. In addition to a bucketful of dividends from these two drug giants, we also received shares in two spinoffs—**Viatris** (VTRS) and **Organon** (OGN)—which we also monetized.

Merck and Pfizer are steady and "boring" businesses that fall in and out of favour from time to time. They aren't compounders meant to be held forever. They were opportunistic purchases that the market offers us occasionally and we are more than happy to take advantage by trading in and out of them.

Our second-largest contributor to our performance in 2022 was biotech **Vertex Pharmaceuticals** (VRTX) +32%. The company's life-changing cystic fibrosis (CF) therapies continue to gain regulatory approvals and payer reimbursement globally. When we first purchased the stock in Q3 2021, the market estimated that Vertex's CF sales would grow healthily and peak at $7.7 billion in 2025 (see table below). In 2022, Vertex's CF sales are already $8.9 billion and still growing. Just as impressive, the company earns 88% gross margins on that revenue.

Trikafta/Kaftrio Sales: BI Scenario ($ Millions)

	2021E	2022E	2023E	2024E	2025E
U.S.	$ 3,978	$ 4,134	$ 4,478	$ 4,622	$ 4,678
EU	$ 970	$ 1,498	$ 1,993	$ 2,385	$ 2,829
ROW	$ 50	$ 75	$ 125	$ 175	$ 200
Total WW revenue	**$4,997**	**$5,707**	**$6,596**	**$7,182**	**$7,706**

Source: Bloomberg Intelligence Research, Aug. 2021.

Vertex has $9.7 billion of cash, no debt, and a promising pipeline of new treatments in development. We had no view on the company's chances of success with its pipeline when we bought the stock. We just figured that Vertex's core CF franchise, and its growing cash pile alone was worth significantly more than the company's market cap. In other words, the core business was being undervalued and we got the pipeline for free. The market has since come to agree with our view of the stock.

Our next-largest contributor to the portfolio for the year was **Berkshire Hathaway** (BRK.A/B) +4%. There is no better place to be in a market storm than safely ensconced in the financial fortress Warren has built. As we have written about at length, our holding in Berkshire Hathaway is a core position. It should continue to grow at high-single-digits for decades and provides useful ballast to the portfolio.

Finally, our defense giants—**Lockheed Martin** (LMT) +37% and **General Dynamics** (GD) +19%—were large contributors to our performance in 2022. Both stocks were purchased shortly after the 2020 US presidential election. With Democrats taking over the White House and both chambers of Congress, markets worried that defense budgets would come under pressure. We had no idea that 14 months later Russia would invade the rest of Ukraine. But we did know that the world is a dangerous place and that these defense contractors make some of the world's essential and most sophisticated weaponry. We also knew that the stocks were cheap based on their historical trading multiples.

There is a common theme running through our winners from 2022. Each of these stocks was purchased when cheap and unloved. There was no profound prediction of the Ukrainian invasion, a cure for COVID, or any other heroic assumption underpinning our investment theses.

As Yogi Berra so eloquently put it, “It’s tough to make predictions, especially about the future”. Bearing this in mind, we try and keep things simple. Invest in quality businesses that should deliver decent returns based on conservative assumptions. Look for situations with upside optionality that comes for free and avoid stocks that require everything to go right to deliver a satisfactory result. Pay attention to cash flows and avoid companies that are highly leveraged. Value investing is simple, but not easy.

We weren’t perfect in our stock picking last year and **Meta/Facebook** (META) -64% was by far our worst performer. Meta’s core ad business is performing adequately, despite a tough advertising market and challenges created by TikTok and Apple’s ATT privacy changes. But after evaluating management’s reckless spending plans for 2023, we fully exited the stock in October. Once we lose faith in management, the stewards of our capital, we will invest it elsewhere.

Zuckerberg is *all in* on the metaverse and we believe that he is rich enough that he cares more about his legacy than his fellow shareholders. His metaverse bet may yet pan out. But we fear that it will not and destroy far too much shareholder value in the interim. Given his voting control of the company, the board is unlikely to rein him in.

We still love Meta’s core business. We got that part of our analysis right and our purchase of the stock was justified. But our continued trust in management after their pivot to the metaverse was a mistake and we should have exited the stock sooner.

GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express	Financial Services
Berkshire Hathaway Inc.	Insurance
Elevance Health	Healthcare & Pharma
Fiserv Inc.	Technology
Intercontinental Exchange, Inc.	Financial Services
Merck & Co., Inc.	Healthcare & Pharma
S&P Global Inc.	Technology
Vertex Pharmaceuticals	Healthcare & Pharma
Visa Inc.	Technology

* As of Dec. 31, 2022. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

Overall, 2022 was a good year for the Value Fund. We beat the major markets and in a sea of red ink, we managed to walk away with our portfolios largely unscathed. The Value Fund finished the year with a 13% net cash position and unrealized gains on its equity investments of approximately $14 million on a $43 million portfolio.

Additional portfolio disclosures including performance statistics can be found on the pages immediately following this letter. Once MNP LLP completes their audit of the Value Fund's Financial Statements in March, we will provide clients with a more detailed snapshot of the entire portfolio at year end.

Portfolio Look Through

Back by popular demand, we reproduced the table first introduced in Scorecard #34 – Bedrock which analyses the Value Fund's holdings quantitatively and compares them to the constituents of the S&P500 Index.

		GreensKeeper Value Fund					S&P500
		2018	2019	2020	2021	2022	2022
Quality	Return on Equity	39%	39%	23%	29%	24%	18%
	Gross Margin	49%	53%	58%	57%	58%	45%
	Operating Margin	24%	30%	29%	33%	26%	18%
	Cash Conversion	109%	93%	120%	113%	118%	88%
Safety	Interest Coverage	14x	15x	22x	22x	17x	10x
Valuation	Free Cash Flow Yield	7.1%	5.0%	5.3%	6.1%	5.9%	3.4%

Source: Greenskeeper Asset Management/Bloomberg/S&P Captial IQ/Fundsmith LLP. Return on Equity, Gross Margin, Operating Margin, Cash Conversion and Free Cash Flow Yield are the weighted mean of the underlying companies invested in by the Greenskeeper Value Fund and the mean for the S&P 500 Index. BRK metrics are calculated based on operating earnings. The S&P 500 Index figures exclude financial stocks except for ROE which includes all sectors. Interest coverage figures are median and exclude financial stocks. Ratios are based on last reported fiscal year accounts as at the respective dates and as defined by S&P Capital IQ. Cash Conversion compares Free Cash Flow with Net Income. FCF Yield for the S&P500 uses the period-end median.

This look-through analysis demonstrates that once again our Value Fund "company" is …

Above-average in quality:

- Returns on Equity are higher than the broader market. As a result, our "company" generates more cash for each dollar of equity capital required to operate and grow the business.
- Gross margins are higher than the market average. We own businesses with pricing power that can charge more for their goods and services than the typical business due to their moats (brand, network effects, switching costs, etc.). This will prove handy should inflation persist.

- Operating Margins are significantly higher than the market average. Our companies usually benefit from scale and efficiency.

- Cash conversion is another tell of earnings quality. Our companies typically generate free cash flow that exceeds their accounting net income (currently about $1.18 for each $1.00 of accounting income versus $0.88 for the broader market).

More Conservatively Financed:

- Whereas the broader market has operating earnings (EBIT) of about 10x their underlying interest expense, our companies cover their interest obligations by over 17x. They use debt sparingly and have the capacity to handle rising interest rates.

- Even more impressive is the fact that five of our portfolio companies (BRK.A/B, CHKP, CSCO, GOOG and VRTX) have no net debt.

Cheaper than the Market:

- As of year-end, the Value Fund holdings were delivering a free cash flow yield of 5.9% based on prevailing market prices. This compares with the broader market at 3.4%. At market prices, we are paying less for each dollar of free cash flow than the market overall.

- It is also worth pointing out that many of our portfolio holdings have appreciated materially in value since purchase and the yield at the time of purchase was even higher.

Superior business economics, lower financial leverage, and undervalued relative to the market. That's the bedrock that our portfolios are built upon. The resiliency of our portfolio companies served us well in 2022 and should again whenever the next market storm arrives.

Getting Wealthy vs. Staying Wealthy

> "There are a million ways to get wealthy… but there's only one way to stay wealthy: some combination of frugality and paranoia".
>
> Morgan Housel, *The Psychology of Money*

The quote above is insightful and Housel's accessible and entertaining book highly recommended. To accumulate wealth, you need to have the discipline to spend less than you earn and then skillfully invest the difference. Most people with money understand that winning formula. But the author's insight regarding paranoia is the one we find more interesting.

Far too many people who have accumulated wealth have then made poor decisions that caused it to disappear. Excessive leverage. Speculative investments. Vastly increased annual expenditures. Hubris. A combination of these factors is often at the root of major reversals of fortune. Elon Musk may well succeed at Twitter… or he may end up vaporizing $44 billion. Time will tell.

As the Oracle of Omaha remarked, “never risk what you have and need for what you don't have and don't need”. That sentence is worth rereading and thinking about.

Compounding wealth successfully requires a combination of prudent investments, reasonable diversification, and a strong dose of humility. The future is unpredictable and strange things happen from time to time (global pandemics and wars come to mind). We believe that the term “margin of safely” coined by Benjamin Graham has a broader meaning than just buying undervalued stocks. To us, it also means building in a buffer for life’s unpleasant surprises.

A company may save a few dollars by sole sourcing a key component, but not if its lone supplier fails. Planning to arrive five minutes before a job interview? A traffic jam can send your career on a totally different path. There is a reason that Charlie Munger had a lifelong habit of showing up to meetings at least 30 minutes early with a newspaper under his arm to keep him company. Wise people develop good habits that create slack. Happy 99th Birthday Charlie! Your wit and wisdom are true gifts to the world.

Photo credit: GreensKeeper (Daily Journal 2018 Annual Meeting)

More germane to investing, when interest rates are incredibly low and unlikely to remain so, using higher rates to discount cash flows when calculating a company's intrinsic value is called for. Something that we have been doing for years. It also means accepting singles and doubles when that is what the market is offering, not swinging for the fences. Growing and preserving wealth requires that you minimize big mistakes that set you back and interrupt compounding.

In almost any situation, building in extra cushion puts you in a position of strength and able to suffer adversity. It takes discipline. But if you had the discipline to accumulate wealth, why not continue that mindset once achieved? There is little downside to doing so. Your future self will thank you.

A Small Favour

Well into our second decade of operations, GreensKeeper continues to thrive. We have recently made several technology investments which will add to our client reporting capabilities. Our research team will expand in a few months with the full-time addition of Michael Van Loon and our traditional summer student program.

With these additional investments, we are positioned to take on additional clients. While most of our clients are based in Canada, we also have added a US custodian to service our growing client base south of the border.

Our goal as a firm has never been to hit a certain level of assets under management. Our goal remains to deliver attractive returns *to our clients* while prudently managing risk. GreensKeeper's growth is a natural byproduct of delivering on that mission.

Every one of our employees has their *entire* investment portfolio invested at GreensKeeper. In my case, it represents over 70% of my household's net worth. We invest in the same stocks as our clients and our approach is one of partnership. If that resonates with you or someone you know, we would be grateful if you spread the word about GreensKeeper and gave us a call.

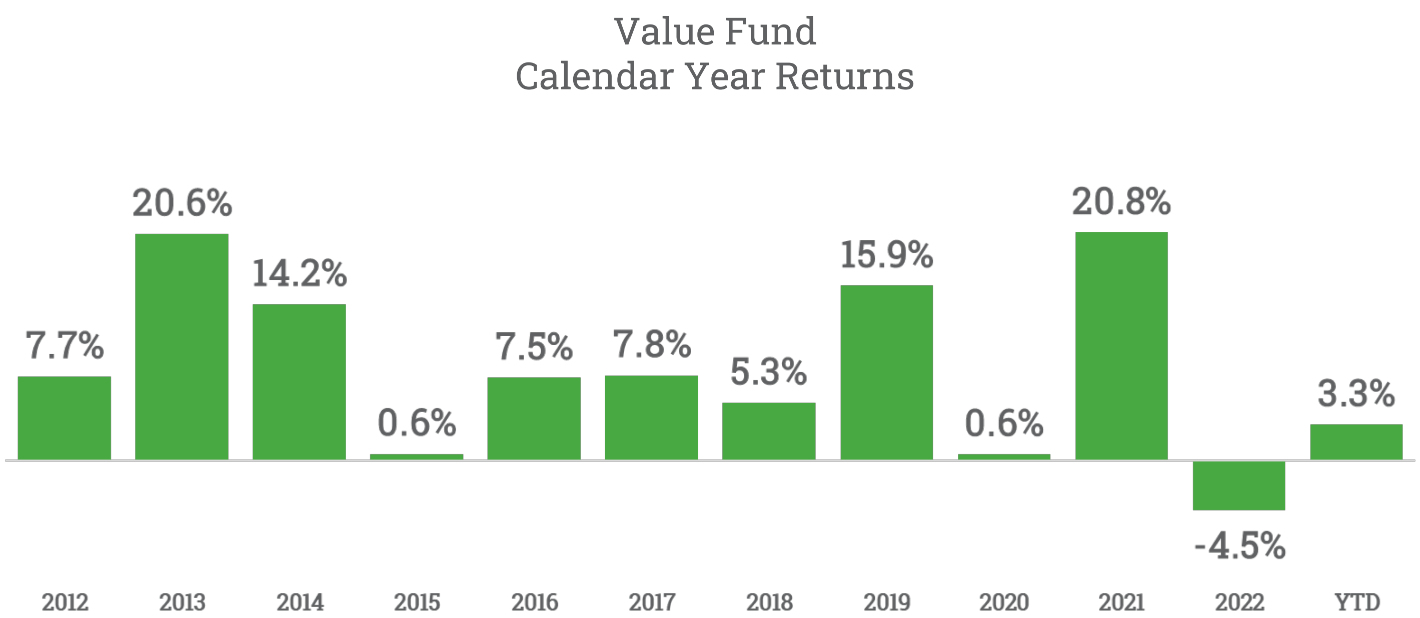
Michael P. McCloskey

President, Founder &
Chief Investment Officer

April 26, 2023

Banking's Endgame

The Value Fund was up +3.3% in Q1. The US dollar lowered our returns by approximately -0.2% for the quarter. The broader markets recovered some of their losses from last year, with the S&P/TSX +4.6% and the S&P500 +7.3%. (1)



Investors are on edge. Rapid interest rate increases are creating stresses in the banking sector, and March witnessed the failure of three US banks and the once-venerable Credit Suisse. First Republic Bank may be next.

Our portfolios had no exposure, but we have much to say below about what is happening and important lessons to be learned. We also highlight some differences between the US and Canadian banking systems that our clients will appreciate.

(1) Index returns are for the total return indexes which include dividends and are measured in Canadian dollars, the Value Fund's reporting currency.

Portfolio Review

The most significant contributor to the portfolio in Q1 was our position in **Alphabet** (GOOG/GOOGL) +17.6%. The stock's recent price action followed Q4's selloff related to the launch of AI-powered chatbot ChatGPT. **Microsoft's** (MSFT) $10 billion investment in ChatGPT and its integration into their Bing search browser has the market worried that Google's search engine dominance is at risk. That concern seems to have abated somewhat.

We concede that ChatGPT is a remarkable breakthrough and that large language models (LLMs) have enormous potential for creative tasks. But we aren't convinced they are ready to materially disrupt Google's search business.

LLM-enabled search is computationally intensive—reportedly 10x more expensive than traditional search—and much slower. In addition, LLMs tend to make things up (hallucinate) and occasionally threaten users with harm. We aren't yet sure if these issues can be fixed or if it is an issue inherent to how they work. In either case, until these significant shortcomings are addressed, we believe that Google's search business will be fine. Market share data from March 2023 shows virtually no change in Google Search's dominance. Ingrained user habits are difficult to change.

And Alphabet isn't standing still. Despite the botched rollout of its Bard chatbot, the company has deep roots in AI and machine learning. For years the company has spent billions on leading-edge AI research. Alphabet recently announced that their DeepMind and Google Brain teams are merging to accelerate innovation and product introductions. The Google playbook is one of test, iterate and innovate. They will figure out how these new technologies can be used to make Google Search even better. It is still early days in LLM/AI, and Alphabet is taking the potential threat to its cash cow seriously. We wouldn't sell them short.

TVA Group (TVA.B) +26.3% was the second-largest contributor in Q1. Given the soft ad market, its Q4 results were weak, as expected. But the stock rallied after a fund manager commented in the press that the stock was cheap and that the company should be taken private by its controlling shareholder **Quebecor** (QBR.B). As a small cap, TVA Group is largely unknown, so any news can cause a big move in the stock. There will continue to be some ups and downs. But we suspect that eventually, the market will value the stock more in line with our estimate of its intrinsic value of $6.40 per share.

The biggest detractor from the portfolio in Q1 was **Elevance Health** (ELV) -10.4%. The company's recent financial results were in line. We attribute the stock's selloff to a broader shift to risker stocks as competitor **UnitedHealth Group** (UNH) experienced a similar decline.

Overall, Q1 was quiet, as there were no material changes to the Value Fund portfolio or our top ten holdings. Additional portfolio disclosures, including performance statistics, can be found on the pages immediately following this letter.

GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express	Financial Services
Berkshire Hathaway Inc.	Insurance
Elevance Health	Healthcare & Pharma
Fiserv Inc.	Technology
Intercontinental Exchange, Inc.	Financial Services
Merck & Co., Inc.	Healthcare & Pharma
S&P Global Inc.	Technology
Vertex Pharmaceuticals	Healthcare & Pharma
Visa Inc.	Technology

* As of Mar. 31, 2023. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

The Business of Banking

Given the dominance of the Canadian banking industry, many Canadians own bank stocks in their portfolios. The recent failures of **Silicon Valley Bank**, **Signature Bank**, and **Credit Suisse** are stark reminders that even large and seemingly well-established banks can fail. In banking, mistakes can cause the unthinkable to happen.

Unlike insured depositors, *investors* in bank securities cannot afford to be complacent. Investors in banks should be interested in learning about what went wrong and using those lessons to help monitor their bank exposures. It is usually far less painful to learn from the mistakes of others.

We find the current banking crisis strangely fascinating. For those who share our enthusiasm or are simply curious and want to learn more about the banking sector, please read on. For those less interested, feel free to skip forward to our Firm Update on page 12.

Banking 201

We wrote about the basics of banking way back in 2011 in Scorecard #2 during the European Debt Crisis:

Banking 101

> At its heart, banking should be a simple business. Banks accept depositors' savings and recycle them into loans for credit-worthy borrowers. In this way, banks serve a useful capital allocation function like the equity markets. Banks borrow from depositors at a rate below their lending rate and pocket the difference (referred to as a bank's 'net interest margin').
>
> Banks repeat this process many times, and by growing their assets and adding leverage to their equity base, they can earn attractive returns for shareholders.
>
> One prominent feature of this arrangement is that depositors can withdraw their money on demand (hence the term demand deposits), yet banks make loan commitments for much longer periods of time. Banks borrow short (and cheap) and lend long. To avoid bank runs like the one that befell our protagonist George Bailey [the banker in *It's a Wonderful Life*] and maintain stability, governments invented deposit insurance to assure retail depositors that their money was safe.
>
> Given this arrangement, bank runs and panics are things that governments prefer to avoid as they end up holding the bag. Hence, they regulate banking activity through several means, including limits on a bank's ability to use leverage.

This simplistic account glossed over many of the intricacies of the banking industry that we will now expand upon. Here's a helpful explanation from Bloomberg's Matt Levine:

> Banks are in some deep sense in the business of maturity transformation; their whole function is to borrow short-term from depositors (who can take their money back any time, but mostly don't) and invest long-term in loans and bonds. The way they get paid for doing that business, most of the time, is through the yield curve: Short-term interest rates are usually lower than long-term rates, so a bank that borrows short to lend long makes money from the difference in rates. And then if rates suddenly go up a lot (and invert, so that short-term deposit rates are higher than long-term bond rates) the banks lose a ton of money, whoops. (2)

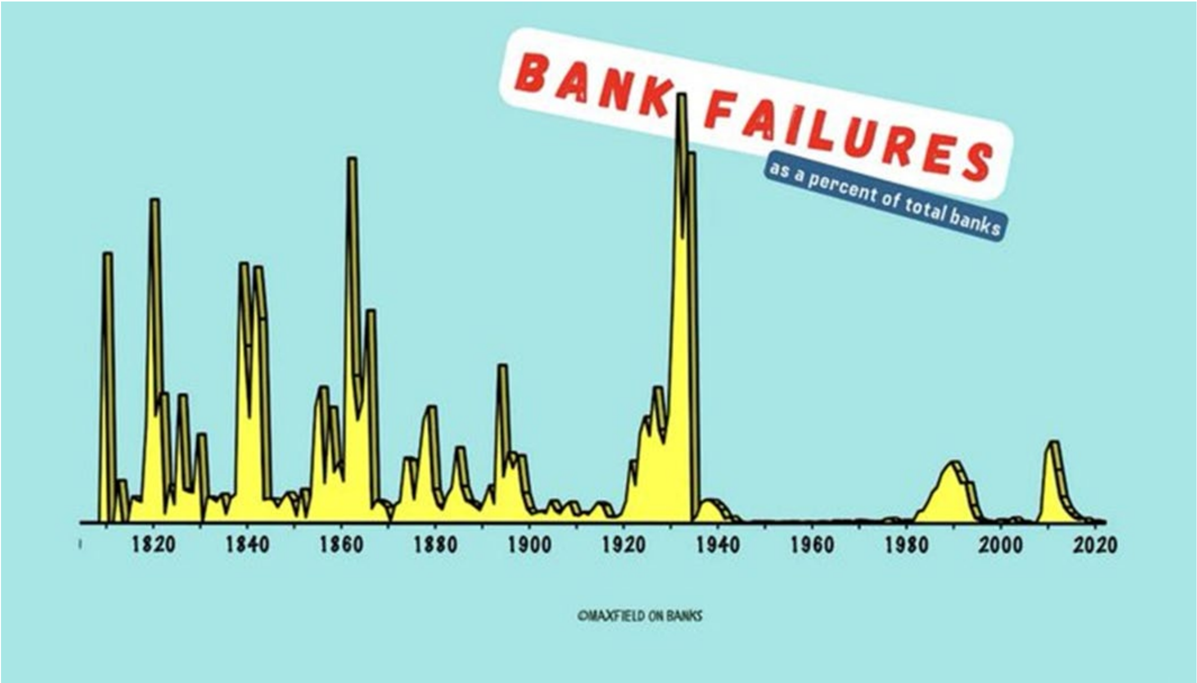
Our fractional reserve banking system magically transforms our money (demand deposits) into longer-term loans that fund the economy. At the same time, our money is available immediately if needed. Banks must maintain a certain percentage of their assets in cash to satisfy their customers' cash needs. If we trust that our money is safe, we don't need immediate access to much of it, and life goes on.

It is only when an unusual rush of withdrawals happens simultaneously that the flaw in the system is revealed. If every depositor wants their money back at the same time, they can't all get it. This is a risk for virtually all banks as they tie up a percentage of their balance sheet in longer-term assets. In other words, a depositor panic means that banks run out of cash.

(2) https://www.bloomberg.com/opinion/articles/2023-04-19/betterment-missed-some-tax-trades.

Banks, by their very structure—highly levered and borrowing short to lend long—are structurally risky. That isn't a bug; it's a feature.

Fortunately, this rarely happens. Hence our modern banking system works almost all the time. US banking innovations such as the creation of the Federal Reserve System (1913) and the introduction of deposit insurance (1934) have reduced the frequency of bank failures but haven't totally eliminated them.



Source: https://twitter.com/MaxfieldOnBanks

Bankers, being human, make mistakes. Sometimes, big ones. All it takes to start a panic is an event that causes depositors to start to worry about the safety of their money. Depositors quickly reach for their cash whenever that happens, and the contagion spreads.

As a result of banking's structural vulnerabilities, we will always have occasional bank failures caused by mismanagement or a specific event. But we should continue striving to minimize these crises, given their high costs to society. This leads us to the recent bank failures.

The 2023 Banking Crisis

Every banking crisis is different. The primary triggers of the 2008 Global Financial Crisis were credit issues caused by US banks' lending to low-income (subprime) homebuyers and transmission via derivatives. The current bank failures were primarily caused by a combination of rapidly rising interest rates and mismanagement.

The Federal Reserve and other central banks worldwide have rapidly increased interest rates to combat inflation. Typically, banks raise their deposit rates slower than interest rates on their loans and pocket the difference. Depositors usually shrug and accept it, given the effort required to move their money (switching costs). But when the spread between what their deposits earn and what they *could* earn gets big enough, many will shift their cash into money market funds or other higher-yielding alternatives.

As a result of the rapid rate increases over the past year, banks are under pressure to pay their depositors more, as deposits are moving to assets offering higher yields. It is within this environment that Silicon Valley Bank (SVB), Signature Bank, Silvergate Bank, and Credit Suisse all made mistakes that led to their respective failures. Here is our assessment of what went wrong and the takeaways.

Mistake #1: Asset/Liability Mismanagement

With interest rates near zero for an extended period, SVB management became complacent and reached for yield. They invested a significant portion of the bank's balance sheet in 'safe' government-guaranteed securities of long duration because they paid more than short-term investments. By doing so, the bank took duration risk by making a one-way (unhedged) bet on interest rates remaining low.

SVB management was incentivized to maximize short-term earnings and assumed significant risks to do so. Properly managing the assets and liabilities of a bank's balance sheet while maintaining sufficient liquidity is fundamental to the banking business. SVB management failed at these essential tasks. It probably didn't help that the bank didn't have a Chief Risk Officer in place for most of 2022.

The problem with SVB's strategy is that as interest rates rose, its bond portfolio naturally declined in value. We have long shared our view that investing money for a decade in exchange for a 2% yield strikes us as a bad idea. As a result, the bank found itself sitting on $15 billion of unrealized losses on its investment portfolio. But an accounting quirk allows banks to value their long-term assets at historical cost, even if their fair market value has declined. This held-to-maturity (HTM) accounting rule allowed SVB to paper over its losses. [3]

[3] Banks can designate assets as 'available for sale,' which means they are valued using market prices. Another option is to designate them as 'held to maturity' (HTM), meaning they won't be sold and are valued at cost. As a result, there is no income statement impact for HTM assets, and regulatory capital ratios are higher than they would be if they were forced to mark them to market. Other banks are playing this game: Jonathan Weil, *Wall Street Journal*, Mar. 29, 2023. https://www.wsj.com/articles/as-interest-rates-rose-banks-did-a-balance-sheet-switcheroo-8e71336f

Unfortunately for SVB, firms like GreensKeeper read the footnotes. We can see that the 'imaginary' $15 billion of losses exceeded SVB's $12 billion tangible equity base. Uninsured depositors at SVB had reason to worry.

In order for this accounting gimmick to work, a bank must actually hold these assets to maturity. Unfortunately, too many depositors demanded their money, and SVB was forced to sell these assets to generate liquidity. And accounting rules provide that if a bank sells any of its HTM securities, it may be forced to mark all of them to market. Suddenly, SVB's paper losses became all too real and ate into the bank's equity. Management attempted a last-minute financing to plug the hole, but it was too late.

Bank regulators and accounting bodies should consider fixing the HTM accounting loophole. And bank boards should tie management compensation to the bank's long-term results. Bank boards would also be well-served to ensure that management owns a material amount of bank stock (not options), paid for with their own money. Properly aligning incentives would go a long way to ensuring that bank executives make better long-term decisions.

<u>Mistake #2: Insufficient Regulatory Scrutiny</u>

A post-mortem of what when wrong at SVB is being conducted by the Federal Reserve. But the probe has already revealed that for years examiners issued multiple formal warnings to SVB and that the Fed was well aware of SVB's duration risk issue. [4]

From the public's perspective, banks are largely opaque. Even seemingly well-run banks can have significant issues brewing. Regulators get an inside look and have the power to mandate changes. That makes their enforcement role crucial to ensure the stability of the system and the protection of the public.

Prudential regulation is meant to ensure that banks are always well capitalized, have sufficient liquidity and solid risk-management practices. When problems are discovered, they need to be dealt with quickly. If a bank needs additional capital, it is wise to move fast before too many people notice. If a bank CEO has to say to the public that the bank has strong capital ratios and plenty of liquidity, it is often too late.

Management will resist issuing capital as they (and existing shareholders) don't like dilution. That's when it is up to the regulator to step up and say, "Tough luck." Banks exist at the pleasure of the state, and their failure puts the public and the economy at risk. Management teams and shareholders get the rewards that come with banking. They should also be forced to bear the consequences when they screw up. That's how capitalism is supposed to work.

(4) Andrew Ackerman and Dave Michaels: "Fed Raised Concerns About SVB's Risk Management in 2019", *Wall Street Journal*, Mar. 19, 2023. https://www.wsj.com/articles/fed-raised-concerns-about-svbs-risk-management-in-2019-4a1d802c

Mistake #3: Inferior Deposit Bases

As SVB's name implied, the bank's deposit base was concentrated amongst venture-capital-backed tech companies in Silicon Valley. These were large depositors, and S&P Global reports that a staggering 94% of SVB's deposits were uninsured. [(5)]

This concentration of uninsured deposits meant that once a few customers started to worry, that concern quickly morphed into a full-out panic via VC networks and social media.

Signature Bank and Silvergate Bank both catered to the cryptocurrency community, and the recent crypto selloff led to the withdrawal of crypto-related deposits. In Signature Bank's case, about 90% of its deposit base was uninsured.

From a bank's perspective, deposits are its cost of goods sold. A diversified deposit base comprised of millions of individual retail depositors who are geographically dispersed is ideal. These deposits tend to be cheap and sticky. Large banks have built vast networks of physical branches, primarily as sales outlets to gather them. By contrast, wholesale deposits tend to demand higher rates, are more concentrated and are much flightier. Both SVB and Signature Bank had a concentrated deposit base comprised of almost entirely uninsured deposits. Not good.

And the quaint notion of George Bailey facing a line of depositors is from a bygone era. In the modern age, uninsured depositors no longer run to the bank at the first sign of trouble. They reach for their smartphones.

The prior US record for the largest bank run in history was Washington Mutual, where $16.7 billion was withdrawn over nine days in 2008 before it was put into receivership. SVB received *$140 billion* of deposit withdrawal requests in two days. A staggering amount, even more so considering that SVB's total deposit base was reportedly $175 billion. Signature Bank allegedly lost $18 billion in a single day before being shut down. [(6)]

Regulators quickly moved in and closed both banks over a weekend and guaranteed that all depositors would be paid in full no later than Monday morning. We will give the US banking regulators this: they are very good at resolving problem banks once the jig is up.

[(5)] The advent of deposit insurance has bolstered trust in the banking system as many governments now guarantee that depositor funds are safe. But an important nuance is that deposit insurance isn't unlimited, and each country sets its own limits. In the US, the limit is $250,000, and in Canada, it is $100,000 (per depositor and covered bank).

[(6)] Felix Salmon, *Axios*, Mar. 9, 2023. https://www.axios.com/2023/03/11/the-largest-bank-run-in-history. Hugh Son, CNBC, Mar. 28, 2023. https://www.cnbc.com/2023/03/28/svb-customers-tried-to-pull-nearly-all-deposits-in-two-days-barr-says.html

Mistake #4: Continual Erosion of Trust

The demise of Credit Suisse is the story of a series of scandals (Archegos, Greensill, spying, money laundering, etc.) that continued to erode confidence in the bank. In addition, in its 2022 annual report, Credit Suisse revealed that it had identified several material weaknesses in its internal controls over financial reporting and monitoring.

Rumours circulated last year about the bank's demise, which led clients to pull their assets, and the bank's stock and bond prices rapidly declined. A 50 billion Swiss Franc ($54 billion) lifeline from the Swiss National Bank tried to bolster confidence, but investors were nervous given the recent SVB and Signature Bank failures in the US.

The coup de grace was an interview given by the chair of the Saudi National Bank (Credit Suisse's largest shareholder). When asked by Bloomberg TV if the Saudis would be open to investing additional funds to bolster the bank's liquidity, he replied, "Absolutely not." That stark admission shook investor confidence even further, the bank bled deposits, and within 48 hours, Credit Suisse had been bought by UBS in a marriage hastily arranged by the Swiss regulator (FINMA).

Credit Suisse's failure cannot be blamed on that poor Saudi banker (who has since resigned for 'personal reasons'). No, the real cause of the bank's failure was a steady stream of scandals, poor financial results, and multiple restructurings. They were bad at banking!

Banks are structurally fragile, and they must earn and maintain the trust of their customers. Once that trust is lost, it is usually gone for good. Credit Suisse continually eroded that trust, and in the nervous environment created by the SVB and Signature bank failures, investors and depositors fled. Perhaps the lesson from Credit Suisse is as simple as bankers need to be good at banking, and even well-capitalized banks can die from a thousand cuts.

Banking's Endgame

To our thinking, banking is a quasi-public utility and should be regulated as such. Banks are gradually but relentlessly consolidating in the modern era due to factors including economies of scale, brand (trust) and regulatory complexity. The banking industry's natural state is probably a small group of core banks that dominate (e.g., oligopoly).

Take Canada, for example. The Canadian experience may be the natural endgame for the optimal industry structure. Canada's Big Six account for 93 percent of all banking assets in the country. We have fewer banks in Canada than in the single state of North Dakota, [7] and they are generally well-regulated by a competent supervisor with teeth. [8]

[7] Marc Rubinstein, *Bloomberg*, Mar. 29, 2023. https://www.bloomberg.com/opinion/articles/2023-03-29/us-consumers-have-so-many-banks-to-choose-from-but-that-s-a-cause-of-instability

[8] Canada's banks are regulated by the Office of the Superintendent of Financial Institutions (OSFI).

The Canadian shadow banking (unregulated) sector is small relative to the size of our economy. And while the US has experienced a dozen banking crises since the 1840s, Canada has had precisely *zero*. [9]

There are downsides to this industry concentration. The lack of competition means that our banks are generally less innovative, Canadians pay more for financial services and have more restrictive access to credit.

Collude is a strong word. Let's just say that Canadian banks tend to cooperate on matters that are in their collective best interest. Having competed against Canada's goliaths for the past 21 years in various capacities, we can assure you that they are not shy in throwing their weight around.

And the elephant in the room—Canada's Big Six are all too big to fail, practically and politically. If one ever got into trouble, it would be quickly subsumed by one of the others, and depositors would be protected. Stability and the collective good are prioritized over what is best for individual consumers, consistent with Canada's overall attitude toward capitalism. [10]

But given the tradeoffs, we think that these are prices worth paying. A nation should strive to ensure that its banks are profitable and well-capitalized. Banks struggling with profitability lead to more significant issues that society ultimately pays for if they become unstable and fail. [11]

We recognize that this reduced competition imposes a greater responsibility on regulators to protect the public. In our view, Canada's regulators have mainly been up to the task. Our banking issues have been relatively minor, and our central banking regulator (OSFI) has done its job through a combination of leverage restrictions, higher capital requirements and expertise built up over decades. [12]

By contrast, the US banking industry is highly fragmented, with too many regulatory entities regulating its thousands of banks at the state and federal levels. We believe a central regulator would better serve the American public with jurisdiction over a smaller, more manageable number of banks. Just as we believe that the centralization of securities regulation in the US via the Securities and Exchange Commission (SEC) is a better model than Canada's balkanized provincial securities regulation.

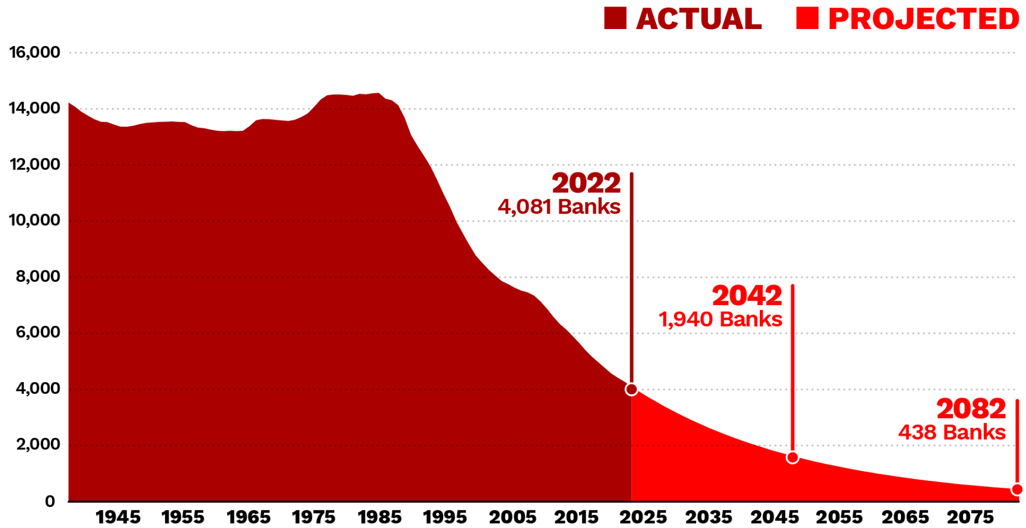
[9] Renee Haltom: "Why Was Canada Exempt from the Financial Crisis?", *Econ Focus (Richmond Fed)*, Fourth Quarter 2013. The article highlights that during the Great Recession, 9,000 US banks failed, whereas Canada lost only one bank (due to fraud).

[10] We think that this is a sensible approach. Further consolidation will not be permitted, and heavy and competent prudential regulation is essential. In the late 1990s, four of the Big Six tried to merge, but these transactions were blocked by the Canadian government as "they were not in the best interests of Canadians." https://apnews.com/article/11eb72730472f852e63cf022f2846dba. Switzerland is now going through what a major banking consolidation means. The failure of Credit Suisse and its rescue by UBS means that the combined entity is too big to fail and may have become too big to rescue: https://www.cnn.com/2023/03/23/investing/credit-suisse-ubs-impact-switzerland/index.html

[11] Rubinstein, note 7.

[12] Haltom, note 9.

But the US banking industry is a function of its history. Its formative free banking era led to most US banks being chartered and regulated at the state level and not permitted to operate across state lines. [13] Americans also have a greater cultural aversion to the concentration of power, and their banking sector is the natural extension of that philosophy.



© August 2022 THE FINANCIAL BRAND SOURCE: FDIC

Over the decades, US banking regulations have gradually become more permissive, and the industry's consolidation, which began in the 1980s, continues to this day. The four largest US banks (JP Morgan Chase, Bank of America, Wells Fargo and Citibank) now hold about half of all banking assets and deposits.

So, while the US is slowly moving in the direction of the Canadian model, it still has far too many banks. As a result, most American banks will likely continue to be more difficult to effectively supervise and structurally riskier due to their smaller size and narrower diversification.

The American banking endgame is likely still decades away. As a result, additional bank runs are all but inevitable when the next crisis strikes.

Canadians Take Note

We tend to shy away from bank stocks at GreensKeeper for a few reasons. Banks are tough to analyze (their annual reports run to hundreds of pages and are essentially "black boxes"). Banks are in a commodity business, and their highly leveraged structure means that credit and other losses can quickly wipe out their capital base.

[13] https://en.wikipedia.org/wiki/History_of_banking_in_the_United_States

Many (most?) Canadians own bank shares in their portfolios. Historically, they have been well rewarded via share price appreciation and dividend increases. And as we noted above, Canada's banks have a history of being well-managed and well-regulated. Our banks never engaged in the lax (or outright fraudulent) lending that led to the 2008 financial crisis in the US banking sector. While commendable, the downside is that our housing market never corrected. It has been widely reported that Canada has one of the most overvalued housing markets in the world. We aren't saying that a significant housing correction will happen, just that it could.

Add in the other risks associated with banking in general, and we conclude that the Canadian banks go into the 'too hard' pile. There are plenty of other places to invest where we don't have to deal with these issues. But if you invest in the sector, hopefully, the lessons learned from the failures of Silicon Valley Bank, Signature Bank, and Credit Suisse help you monitor your investments. In banking, mistakes can cause the unthinkable to happen.

Firm Update

Mark your calendars: **GreensKeeper's Annual Meeting** will be held on **Thursday, June 22, at 7:00 pm** at the Mississaugua Golf & Country Club. Clients, potential clients, and friends of the firm are welcome. Additional details will follow by separate invitation. If you aren't a current client and would like to be included, please send us a note.

We are also excited to welcome Laurier business student Jude Campbell to the firm's research team for the summer. And in June, Michael Van Loon rejoins the firm full-time as a research analyst upon graduating from the Ivey HBA program. A summer of stock picking is in their future.

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Each of our employees has their entire investment portfolio invested at GreensKeeper. In my case, it represents the bulk of my household's net worth. We invest in the same stocks as our clients, and our approach is one of partnership.

If our partnership approach resonates with you or someone you know could use some help with their investments, please give me a call.

Michael P. McCloskey

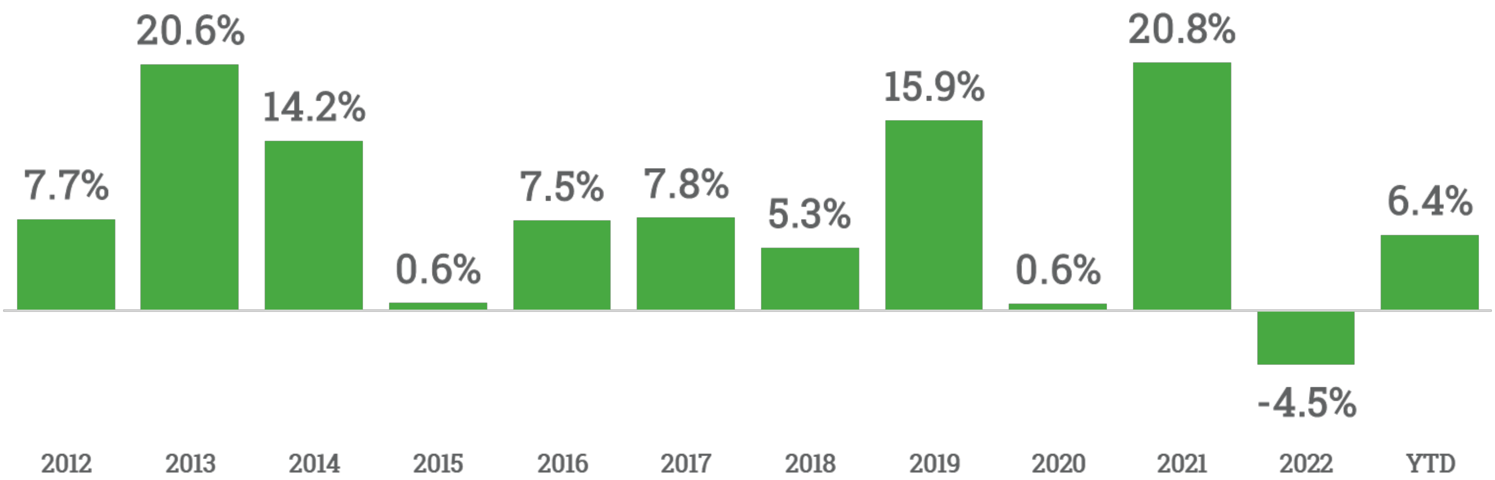
President, Founder &
Chief Investment Officer

July 30, 2023

Skinny Pop

The Value Fund was up +3.0% in Q2 and is up +6.4% year-to-date. The weakening US dollar lowered our returns by approximately -2.1% in H1. The broader markets are also up this year: S&P/TSX +5.7%, DJIA +2.7% and the S&P500 +14.4%.(1)

Value Fund
Calendar Year Returns



Index returns are discussed ad nauseam but rarely analyzed. The current market rally has been a narrow one and merits a deeper dive.

Most broadly-followed market indices—including the S&P500—are capitalization-weighted indices. Under this methodology, companies with a larger market capitalization will receive a greater weighting in the index. As a result, the more expensive a stock becomes, *ceteris paribus*, the *greater* its weighting in the index.

(1) Index returns are for the total return indexes which include dividends and are measured in Canadian dollars, the Value Fund's reporting currency.

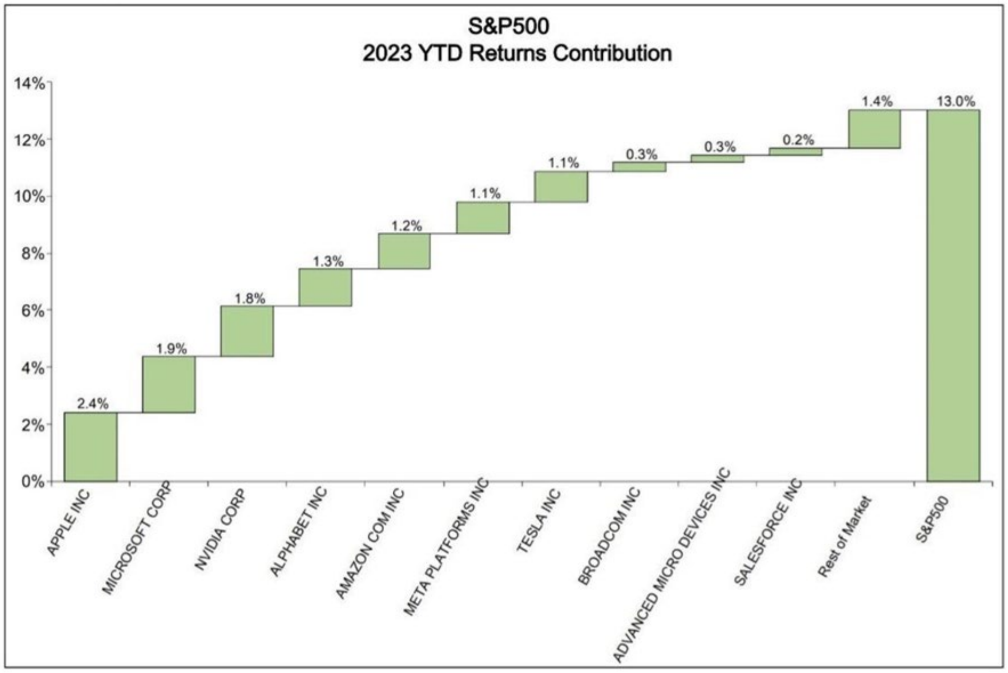
This quirk of most stock market indices is the exact *opposite* of our value investing approach. As a stock becomes more expensive, its future expected return decreases; it thus becomes riskier and less attractive. We would prefer to own less of it, not more.

Market-cap-weighted index construction can lead to extremes at times. For example, the Nasdaq 100 Index is currently being reconstituted via a special rebalancing as its top five stocks (**Microsoft** (MSFT), **Apple** (AAPL), **Nvidia** (NVDA), **Amazon** (AMZN) and **Tesla** (TSLA)) combined now account for approximately 44% of the entire index. Hardly a diversified measure of the broader tech market.

The S&P500 is a little better (its top five constitute 22% of the index), but the market-cap weighting has led to the odd result that the index's year-to-date performance has been driven by only a handful of high-flying technology stocks. As the chart below illustrates, almost all the S&P500's gains year-to-date can be attributed to just ten stocks. The remaining 490 stocks in the index are up a mere 1.4%.

Digging deeper, we highlight that four of these top contributing stocks—**Amazon** (AMZN), **Nvidia** (NVDA), **Tesla** (TSLA) and **Salesforce** (CRM)—sport trailing price-to-earnings (P/E) ratios over 100. These stocks may yet rally further (something that momentum investors are counting on). But the risk inherent in owning stocks that become untethered to fundamentals is that it only takes a minor hiccup or a change in the prevailing narrative to send them plunging. Our view is that owning them at their current valuations is imprudent.

EXHIBIT 2: **Top 10 contributors to Returns in 2023 YTD**



S&P 500 Universe
Source: Factset, CRSP, Bernstein Analysis

Given our view that many of these stocks are overvalued—some absurdly so—it shouldn't surprise clients to know that we only own one of them: **Alphabet** (GOOG/GOOGL).

Over short periods, stock prices reflect their popularity with investors. At present, anything related to artificial intelligence (AI) is fueling another round of frenzied speculation. But over the long term, valuations are what determine stock prices.

As Benjamin Graham so beautifully put it, "Over the short-term, the market is a voting machine. Over the long term, it is a weighing machine".

The voting machine is currently running hot, and we are being cautious. We will remain disciplined and continue scouring the investment universe for high-quality businesses trading at levels that are more likely to deliver attractive long-term returns.

Portfolio Update

The most significant contributor to the portfolio in H1 was our position in **Alphabet** (GOOG/GOOGL) +36.3%. Last year's selloff related to the launch of AI-powered chatbot ChatGPT is now in the rearview mirror. The company delivered decent Q2 results; as we suspected, its search dominance remains intact.

Berkshire Hathaway (BRK.A/B) +10.4% was the second-largest contributor YTD. Its collection of diversified businesses will continue to throw off a growing stream of cashflows for decades to come. We are in good hands.

Our third-largest winner YTD was **Fiserv** (FI) +24.8%. The company recently delivered another solid quarter and raised its full-year guidance. Competitor **Fidelity National** (FIS) continues to struggle and recently announced a sale of a majority stake in its merchant services business to private equity. This may create an opportunity for Fiserv to take market share from a distracted competitor.

The biggest detractor from the portfolio in H1 was **Elevance Health** (ELV) -13.4%. Investors are less interested in defensive sectors like healthcare at the moment. Trading at a low teens forward earnings multiple and consistently delivering double-digit earnings growth, we are happy to own Elevance at these prices.

We made no significant portfolio moves in H1, only adding one new position after the quarter end. Our top-ten holdings remain unchanged. Additional portfolio disclosures, including performance statistics, can be found on the pages immediately following this letter.

GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express	Financial Services
Berkshire Hathaway Inc.	Insurance
Elevance Health	Healthcare & Pharma
Fiserv Inc.	Technology
Intercontinental Exchange, Inc.	Financial Services
Merck & Co., Inc.	Healthcare & Pharma
S&P Global Inc.	Technology
Vertex Pharmaceuticals	Healthcare & Pharma
Visa Inc.	Technology

* As of June 30, 2023. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

Firm Update

It has been a busy quarter. I recently did a podcast with Scott Reardon of Dakota Value Funds, where we discussed the Berkshire Hathaway annual meeting, running an investment firm and many other topics. Links to the podcast can be found here.

After a brief trip to Omaha in May, we hosted over 40 people at GreensKeeper's Annual Meeting in June. The research team is currently hard at work updating our models as reporting season is in full swing. We are constantly analyzing hundreds of companies, trying to uncover mispriced bargains.

For firm clients, our Six-Month report will be distributed next month after the finalization of our financial statements by our fund administrator.

Each of our employees has their entire investment portfolio invested at GreensKeeper. In my case, it represents the bulk of my household's net worth. We invest in the same stocks as our clients, and our approach is one of partnership. If you could use some help with your investments, please give us a call.

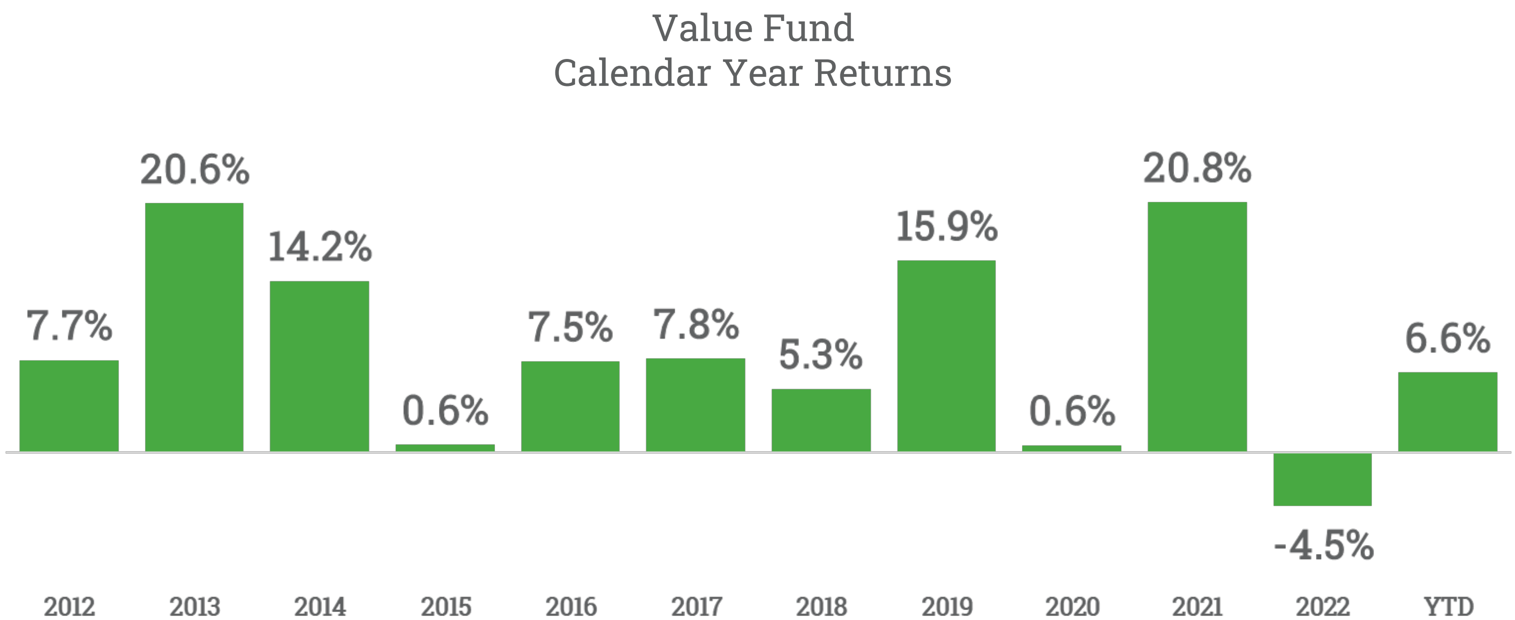
Michael P. McCloskey

President, Founder &
Chief Investment Officer

October 26, 2023

Quarter Century

The Value Fund was up +0.3% in Q3 and is up +6.6% year-to-date as of Sept. 30. The CAD/USD exchange rate is close to where it started the year, and currency impacts have been immaterial. The broader markets were lower in Q3, with the S&P/TSX -2.2% and the S&P500 -0.8%. (1)



Taking a broader perspective, over the past twenty-five (25) months, the major North American indices have been essentially flat (S&P/TSX +1.3%, S&P500 -2.0%), except for the tech-heavy Nasdaq, which is down -11.9%. (2) We appear to be in a sideways market.

Over that same period, the Value Fund was up +2.4%, albeit without the extreme declines of the broader markets. Given the quality of the names in our portfolio and our discipline regarding risk mitigation, that shouldn't come as much of a surprise to clients.

(1) Index returns are for the total return indexes, which include dividends and are measured in Canadian dollars, the Value Fund's reporting currency.
(2) Index returns for this period are for the total return indexes, which include dividends and are measured in local currencies.

We don't mind the current market environment as we are finding new places to put capital. Bull markets stretch valuations and tend to lift all stocks, making it harder to find bargains. Conversely, when the investment world frets about rising interest rates, the state of the economy and geopolitics, opportunities present themselves for discerning stock pickers.

Portfolio Update

The most significant contributor to the portfolio in Q3 was our position in **Alphabet** (GOOG/GOOGL) +9.0%. Last year's concern was the launch of AI-powered chatbot ChatGPT. As Alphabet's just-released Q3 report demonstrated, this search behemoth is still growing core advertising revenues at high single digits, which is remarkable given its size. Google Cloud revenues are now "only" growing at 22% and have caused the stock to pull back this week from its recent highs. Alphabet's wide moat is intact, and the company has plenty of tailwinds. Alphabet should continue to grow at attractive rates for the foreseeable future.

Berkshire Hathaway (BRK.A/B) +2.7% was the second-largest contributor to the portfolio in Q3. Given the diversity of the businesses under the Berkshire umbrella, some are thriving (insurance) while others are struggling (real estate brokerage). Overall, the company is performing respectably, and we view the stock as being modestly undervalued at current levels. Berkshire is a compounder and a core position in our portfolios.

Our third-largest winner in Q3 was **CBOE Global Markets** (CBOE) +13.2%. Given the business' inherent operating leverage, increasing option volumes and pricing power in its datasets are growing revenues and driving EPS growth. With a cost base of $82.60, the stock has been a double for GreensKeeper, even ignoring the dividends.

The biggest detractor from the portfolio in Q3 was **Merck & Co.** (MRK) -10.8%. Merck's life-saving drugs continue to generate a flood of free cash flow that the company uses to make acquisitions to replace branded drugs nearing the end of their patent lives. The company also returns $7.5 billion annually to shareholders via dividends while maintaining a healthy balance sheet. Big Pharma companies go in and out of favour, depending on market sentiment. We purchased Merck when it was cheap and will continue collecting dividends until we find a better place for our capital.

We added one new position to the portfolio in Q3. As we are still accumulating shares in the company, we will reveal this position at a later date. Post Q3, we added a starter position in luxury goods leader **Compagnie Financière Richemont SA**. (SWX:CFR) to the portfolio. We lay out our investment thesis for **Richemont** below.

The Value Fund's top-ten holdings remain unchanged and are listed in the table below. Additional portfolio disclosures, including performance statistics, can be found on the pages immediately following this letter.

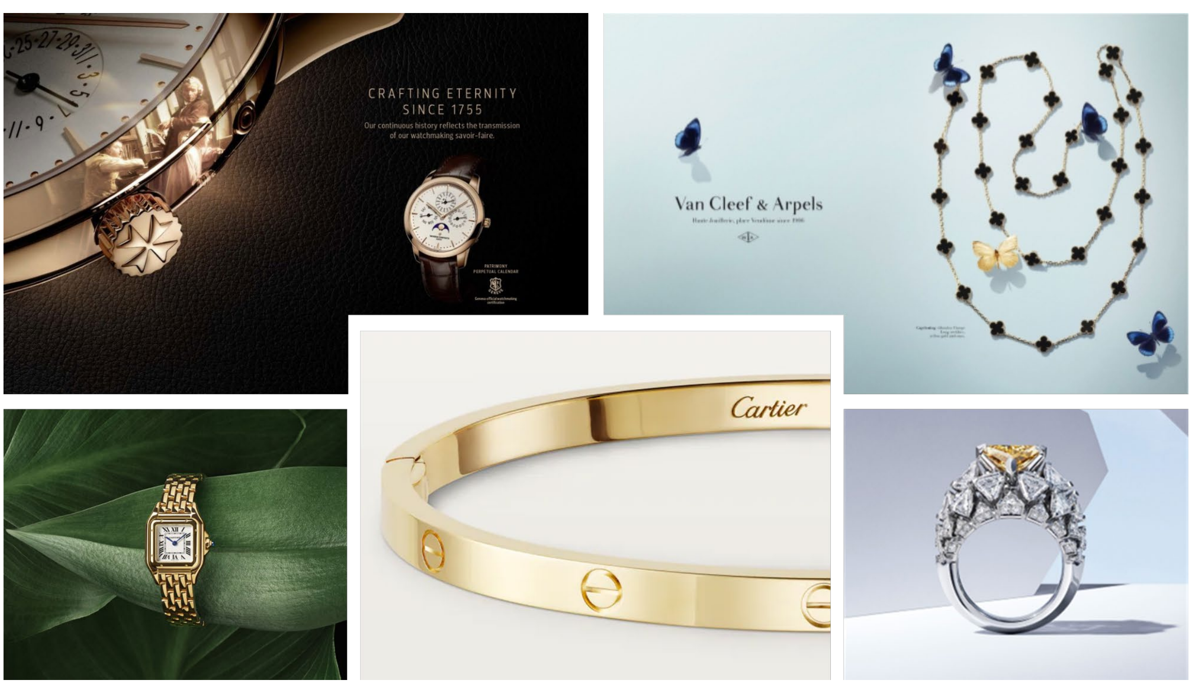
GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express	Financial Services
Berkshire Hathaway Inc.	Insurance
Elevance Health	Healthcare & Pharma
Fiserv Inc.	Technology
Intercontinental Exchange, Inc.	Financial Services
Merck & Co., Inc.	Healthcare & Pharma
S&P Global Inc.	Technology
Vertex Pharmaceuticals	Healthcare & Pharma
Visa Inc.	Technology

* As of September 30, 2023. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

Richemont

Compagnie Financière Richemont SA. ("**Richemont**") is a leading global hard luxury company based in Switzerland. You may not know the company, but we suspect that you are familiar with its brands:



Richemont is an exceptional business with iconic brands that are nearly impossible to replicate (Cartier, Van Cleef & Arpels, Vacheron Constantin, etc.). The company's flagship Cartier brand, established in Paris in 1847, is almost twice as large as the #2 branded jewellery brand (Tiffany) which is owned by luxury heavyweight LVMH Moët Hennessy Louis Vuitton (**LVMH**). We have little doubt that LVMH would love to buy Richemont (it is not for sale).

The luxury market has grown at 6% annually over the past 17 years, and the branded luxury segment even faster. Richemont's revenue growth over that period has exceeded 10%. We expect these trends to continue.

Branded jewellery currently represents only 25% of the overall jewellery market and is taking share as affluent consumers look for ways to differentiate themselves and project their status. Richemont's business benefits from several powerful tailwinds: growing global wealth, increasing volumes and untapped pricing power.

The company raises its prices annually but at slower rates than many of its competitors. Their philosophy of ensuring that resale values remain high and protecting brand equity at all costs resonates with us. Management is focused on building long-term trust with customers. The controlling shareholder (Johann Rupert) is a strong owner-operator who shares our long-term mentality.

Richemont's jewellery segment earns 30-35% EBIT margins, and its specialty watch segment earns EBIT margins in the high teens. The company maintains ROICs in the 30% range and returns excess capital to shareholders annually via dividends. This is a high-quality business.

Luxury Watch Market

- Richemont owns 5 of the top 15 luxury watch brands worldwide
- Distribution channels consolidating giving more power to brands
- Ultra-Luxury watches continue to take share as mid-market loses to smartwatches

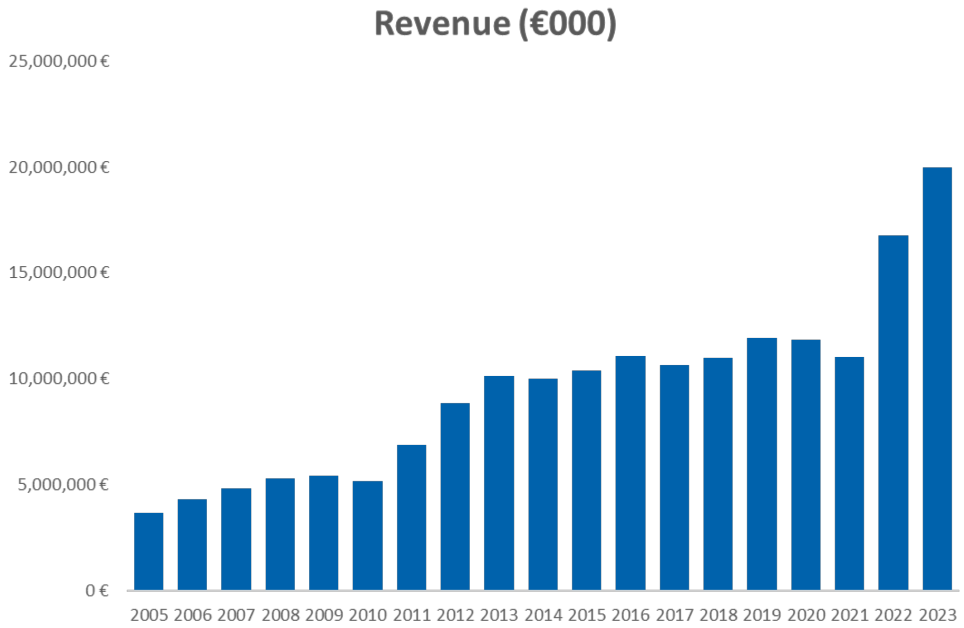
Hard luxury goods (jewellery, watches) are less prone to changes in fashion than soft luxury goods (designer clothing, handbags). As Coco Chanel so beautifully put it, “Style stays, fashion goes.”

Chinese customers have become significant purchasers of luxury goods, and given the Covid lockdown and disappointing rebound, concerns about the health of the Chinese consumer are mounting. Talk of a possible recession in many other countries is also weighing on sentiment. As a result, shares of Richemont are down 34% from their May highs.

Based on our estimates, the stock is trading on about 14x current-year earnings compared with a historical trading multiple of over 20x. The company also sports a pristine balance sheet with no net debt.

The current fears about the spending habits of affluent consumers have given us an opportunity to start a position in this wonderful company at a fair price. Our bet is that a decade from now, there will be many more wealthy people buying Richemont’s products at significantly higher prices. The desire to demonstrate one’s status is innate to the human condition and unlikely to change. Provided that Richemont remains an excellent steward of its unique brands, the company will continue to grow its revenues and profits.

Admittedly, the stock isn’t dirt cheap—great companies rarely are. But we believe that at our recent purchase price, we will earn an attractive return. If it turns out that we bought too early and sales decline over the near term, we can add to our starter position and make it a more significant weight in the portfolio at lower levels.



Quarter Century

Google recently celebrated its 25th anniversary by posting a special Google doodle (see above). The occasion made me nostalgic about the start of my career on Bay Street some 25 years ago.

My youngest daughter is now working on the capital markets trading desk at a major Canadian bank not far from where I once worked. GreensKeeper's full-time research analyst—Michael Van Loon—is a recent graduate of the Ivey HBA program. The next generation is taking over … which is how it should be. My, how time flies.

******

GreensKeeper continues to grow and thrive, largely due to referrals from existing clients. Our entire team takes to heart Charlie Munger's advice that the best way to get more business is the work on our desk. As long as we continue to deliver attractive returns to our existing clients while prudently managing risk, our business will continue to succeed.

Each of our employees has their entire investment portfolio invested at GreensKeeper. In my case, it represents the bulk of my household's net worth. We invest in the same stocks as our clients, and our approach is one of partnership. If you could use some help with your investments, please give us a call.

Michael P. McCloskey

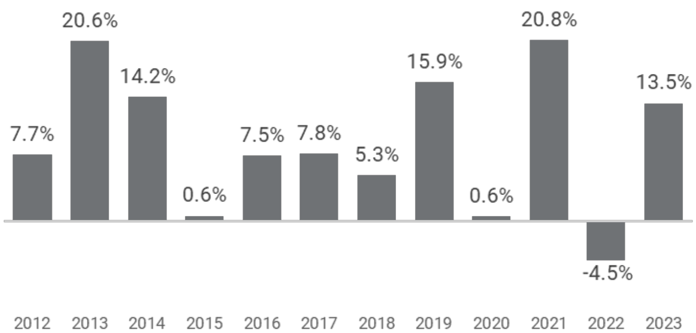
President, Founder &
Chief Investment Officer

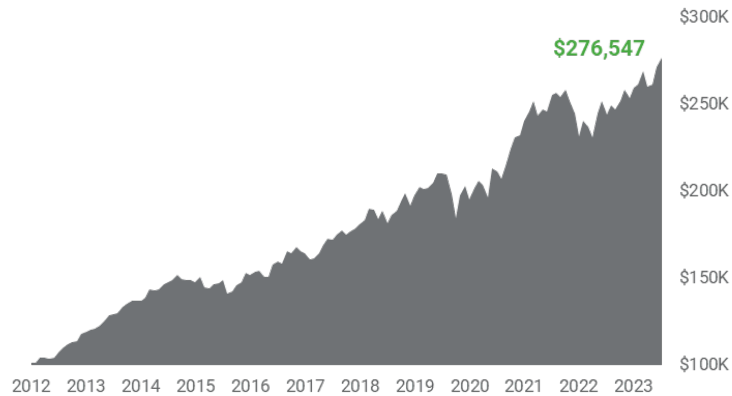
January 17, 2024

Farewell, Charlie

The Value Fund finished the year +13.5% net of fees and expenses. The US dollar weakened against most major currencies, including the Canadian dollar, and lowered our returns by approximately -2% for the year.

The challenging market conditions of 2022 are a distant memory, and we are back in compounding mode. Hopefully, 2023 will mark the first year of a new 10-year streak of positive returns.





After trouncing the major US benchmarks in 2022, we finished 2023 slightly ahead of the S&P/TSX (+11.8%), in line with the DJIA (+13.7%) and trailing the S&P500 (+23.6%). (1)

The major market-capitalization-weighted indices were heavily influenced by a handful of stocks. Two-thirds of the S&P500's returns for the year were generated by just seven companies (known as the "Magnificent 7"). By comparison, the equal-weight S&P500—comprised of the same 500 companies as the S&P500 but with equally-weighted positions—finished the year +10.8%. (2)

While the Magnificent 7 consists of some quality companies (**Alphabet**, **Amazon**, **Apple**, **Google**, **Microsoft**, **Nvidia**, and **Tesla**), most trade at valuations we avoid.

For example, **Tesla** ended the year trading at 67x forward earnings while competing in an industry not known for generating attractive shareholder returns. Tesla is a leader in the EV transition. However, BYD and many traditional manufacturers of internal combustion engines (ICEs) are vying to compete for a finite number of EV consumers. Tesla may maintain its early lead and eventually grow into its valuation. But that is an outcome we are not prepared to underwrite, especially with the brilliant but highly erratic Musk at the helm. It only takes a few bad quarters from companies trading at lofty multiples to trigger a severe multiple contraction and permanent loss of shareholder capital.

We prefer the better odds of generating solid returns while avoiding severe declines that come with buying high-quality companies purchased with a large margin of safety.

(1)(2) Index returns are for the total return indexes, including dividends and measured in Canadian dollars, the Value Fund's reporting currency.

Portfolio Update

The biggest contributor to the portfolio in 2023 was **Alphabet** (GOOG/GOOGL) +58.8%. We first invested in Alphabet in Q1 2018 as we were attracted to the dominance of their search engine (Google is a verb), its economics and the long-term tailwinds from the world's continued shift online. Over the past 5+ years, we have opportunistically increased our Alphabet position whenever the shares traded at a material discount to our calculation of its intrinsic value.

Our latest purchase occurred in December 2022 after Alphabet's share price fell 40% from its 2021 highs. That selloff was driven by market fears of a weak advertising outlook and the threat of artificial-intelligence-powered chatbots stealing market share from Google Search. We disagreed with that assessment and made our bet. One year later, Alphabet is on pace to report a mid-double-digit increase in operating income for 2023, fears of an artificial intelligence (AI) takeover have diminished, and the shares have responded accordingly.

Although much has changed in the world over the past five years, our investment thesis in Alphabet hasn't. Its core businesses (Search and YouTube) have maintained their dominance, and the company has used its scale and significant resources to develop strong positions in emerging fields such as cloud computing and AI.

Our investment in Alphabet illustrates our investment approach at GreensKeeper. We prefer to purchase the best businesses in the world whenever they are offered to us at an attractive price. Provided that we correctly identify and assess their sustainable competitive advantages (or "moats"), we can then allow their value to compound over time. Since our initial investment in 2018, GOOG's share price has increased 181% (20% per annum) while experiencing multiple drawdowns of more than 30%. We use selloffs as opportunities to reassess our thesis and, if unchanged, add to our position. Benjamin Graham had it right. Mr. Market is there to *serve* us, not to *guide* us.

Vertex Pharmaceuticals (VRTX) was the second largest contributor to the Value Fund in 2023, finishing the year +40.9%. Vertex's world-leading cystic fibrosis (CF) therapies continue to generate a torrent of cash flow (approaching $10 billion in sales at 88% gross margin). We also benefitted from the market's reaction to several positive developments from their pipeline assets. Late in 2023, the FDA approved a Sickle Cell Disease (SCD) therapy that Vertex co-developed with CRISPR Therapeutics. The therapy, known as CASGEVY, offers the potential of a functional *cure* for patients with this debilitating disease. Earlier this week, CASGEVY was also approved by the FDA for the treatment of Transfusion-Dependent Beta Thalassemia. CASGEVY is the company's first step towards diversifying its revenues beyond the core CF franchise. While our original thesis was based solely on the projected earnings generated by the CF franchise, we are pleased with these pipeline developments for Vertex and patients battling these life-threatening genetic diseases.

Our third most significant contributor to the portfolio for the year was **Berkshire Hathaway** (BRK.A/B) +15.5%. As expected, Berkshire's diversified portfolio of businesses performed well throughout the year, with its insurance underwriting segment having its best year in recent history. Perhaps the biggest news out of Berkshire in 2023 was the passing of Berkshire's Vice-Chairman Charlie Munger in late November (more on that below). While we were saddened by the news, Buffett and Munger have built Berkshire Hathaway into a financial fortress which should compound in value at a high-single-digit rate for the foreseeable future, regardless of who is at the helm.

Finally, our payment networks, **American Express** (AXP) +26.8% and **Visa** (V) + 25.3%, significantly contributed to our performance in 2023. Both companies benefited from the continuing post-COVID global travel and consumer spending rebound. We love the economics of the payments industry, which is supported by the long-term secular decline in the use of cheques and cash. We suspect these stalwarts will be in our portfolio for years.

Our worst performer for the year was **TVA Group** -21.1%. The French-Canadian broadcasting company struggled during a challenging year for media companies battling over shrinking advertising dollars. Many of TVA's customers pulled back on their ad budgets due to rising interest rates and a potential consumer spending slowdown. Despite the revenue decline, TVA's channels continue to maintain their dominant market share with their French-speaking audiences, reaching 75% of Quebecers weekly. We believe the advertising market will eventually bounce back, and TVA's recently announced cost cuts will leave it in a stronger position to benefit from operating leverage in the coming years. But as long as ad revenues remain soft, the company's financial results will suffer.

Our second largest laggard was **Elevance Health** (ELV) -8.1%. Elevance's financial performance was strong throughout the year, and the company should report record earnings following its Q4 release. Elevance continues to compound its intrinsic value at a double-digit pace, and we are happy to own the company at its current valuation despite last year's selloff.

Overall, 2023 was a good year for the Value Fund. We added two new companies to the portfolio, both of which we hope to hold for the long term. In November, we released an in-depth report on our purchase of **Compagnie Financière Richemont SA** (SWX:CFR), which lays out our investment thesis. Richemont has performed well through the first half of its fiscal year, and we were delighted to be able to purchase a company of this quality at a reasonable price. The second new position was added to the portfolio in Q3, and because we are still accumulating shares, we will defer the discussion to a later date.

The Value Fund finished the year +13.5% (net) with a 4% cash position and nearly $20 million of unrealized gains on its $50 million of equity investments. Our average portfolio turnover for the past five years has been 15% (which implies an average holding period of over 6.5 years). Choosing stocks carefully and for the long run has allowed us to minimize transaction costs and defer the triggering of capital gains for our clients while prudently compounding their capital.

Additional portfolio disclosures, including performance statistics, can be found on the pages immediately following this letter. Upon the completion of MNP's audit of the Value Fund's financial statements in March, we will provide clients with a more detailed snapshot of the entire portfolio at year-end. There were no changes to our top 10 holdings from the prior quarter.

GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express	Financial Services
Berkshire Hathaway Inc.	Insurance
Elevance Health	Healthcare & Pharma
Fiserv Inc.	Technology
Intercontinental Exchange, Inc.	Financial Services
Merck & Co., Inc.	Healthcare & Pharma
S&P Global Inc.	Financial Services
Vertex Pharmaceuticals	Healthcare & Pharma
Visa Inc.	Technology

* As of December 31, 2023. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

Farewell, Charlie

In late November, Charlie Munger passed away just one month shy of his 100th birthday. In recent years, when making my annual pilgrimage to Omaha for the Berkshire Hathaway Annual Meeting, I thought it might be the last time I saw him. But I'm not sure that I truly believed it.

In a lifetime, only a handful of people outside of your immediate family impact you deeply. For me, Charlie was one of those special people. Charlie was a true Renaissance man. The breadth and depth of his knowledge, his multidisciplinary mental model approach to life and his innate curiosity always resonated with me.

I can't adequately describe how much his shared wisdom taught me about investing and life (the kids and I even named our family dog Charlie: sorry, Warren!). But perhaps I can share a few of the more meaningful things I learned from him. As Charlie once said, the best thing a human being can do is to help another human being know more.

With a razor-sharp mind and an equally sharp tongue, Charlie was Warren without the filter. He certainly didn't suffer fools gladly. But if you watched closely, you would see signs of his midwestern upbringing. He often flew coach—despite his billionaire status—so as not to lose touch with the average person. He knew dynastic wealth could ruin his children, so he fought against its pernicious effects by living in the same house for 70 years. Wealth gave him the freedom to live life on his terms. But he was thoughtful about how he used it and gave much of it away. Wealth doesn't change a person's character. It magnifies it.

Hard work, intelligence, and grit are all significant contributors to success in life. But Charlie possessed just enough humility to acknowledge that the role of luck—both good and bad—is often underestimated. The story below drives home the point.

IT'S 1931, AND A BOY and girl, both about seven years old, are playing on a swing set on N. 41st St. in Omaha. A stray dog appears and, without warning, charges. The children try to fight the dog off. Somehow, the boy is unscathed, but the dog bites the girl.

She contracts rabies and, not long after, dies. The boy lives.

His name? Charles Thomas Munger.

Charlie Munger, the brilliant investing billionaire who died on Tuesday in a California hospital 34 days before his 100th birthday, told me that story when I interviewed him last month. I'd asked the vice chairman of Warren Buffett's Berkshire Hathaway: What do you think of people who attribute their success solely to their own brilliance and hard work?

"I think that's nonsense," Munger snapped, then told his story, which I can't recall him ever publicly recounting. "That damn dog wasn't 3 inches from me," he said. "All my life I've wondered: Why did it bite her instead of me? It was sheer luck that I lived and she died."

He added: "The records of people and companies that are outliers are always a mix of a reasonable amount of intelligence, hard work and a lot of luck."

Source: Jason Zweig, Wall Street Journal.

In his late twenties, Munger found himself divorced and broke. A few years later, his son developed leukemia, which was incurable at the time. While his son lay dying in the hospital “inch by inch,” after each visit, Charlie walked the streets alone at night and cried. Decades later, a failed cataract surgery left him with only one eye. He held no resentment towards the surgeon. Despite these hardships, by the time he passed away, Munger was a billionaire, revered by his many followers and surrounded by a gaggle of his children and grandchildren, many the fruit of his loving second marriage of 54 years.

Ill fortune, hardship and struggle are inescapable in life. You can minimize them by surrounding yourself with good people and making good decisions. But you can’t avoid them entirely. We have to play the hand we are dealt in life. When these unpleasant episodes arrive, we are all presented with the same choices: wallow in self-pity, give up, or soldier on. Munger’s life teaches that there is only one rational choice. Accept hardship with as much grace and equanimity as you can muster. And then power through it, knowing that it will eventually end.

Charlie was a voracious reader and lifelong learner until the end: he did his first podcast at the age of 99! There is no shortcut to worldly wisdom: knowledge, like capital, compounds over time. Progress requires putting in the work every day for decades. We all have weaknesses and blind spots and can sometimes be overcome by our emotions. Charlie was the epitome of continually working at self-improvement. He read broadly and deeply, learned from his mistakes and took on new challenges.

> In my whole life, I have known no wise people, over a broad subject matter area, who didn’t read all the time -- none, zero... You’d be amazed at how much Warren reads -- at how much I read. My children laugh at me. They think I’m a book with a couple of legs sticking out.
>
> Charlie Munger

Often overshadowed by his business partner and friend of 60 years, Warren Buffett, Charlie understood that Warren needed the limelight and was prepared to play a supporting role at Berkshire. He didn't let his ego get in the way of a wonderful partnership.

For those in the know, in 1972, Munger was instrumental in convincing Buffett to purchase See's Candies for $25 million. The asking price was a few million dollars more than Warren was prepared to pay, but Charlie convinced him that some businesses are worth paying up for.

See's Candies has since returned over $2 *billion* to Berkshire. Prior to the purchase of See's Candies, Buffett focused mainly on buying very cheap stocks, often in less-attractive businesses (also known as "cigar butts"). The purchase of See's Candies marked the turning point of Buffett's investment style away from cigar butts toward high-quality compounders. And that pivot was primarily due to Munger's insight and influence on Warren.

That change, in turn, led to future investments in Coca-Cola, American Express, Apple and many other great businesses, creating hundreds of billions of dollars of value for Berkshire shareholders. Warren and Charlie *both* deserve the credit, and Charlie's contribution to what Berkshire has become may not be truly appreciated by most people.

Wise. Rational. Stoic. Ethical. Teacher. Witty. Those words come to mind when I think about Charlie Munger. But despite his many talents, Charlie was human. He recognized that, like all people, he wasn't perfect:

> … nobody has ever accused me of being humble. Although humility is a trait I much admire, I don't think I quite got my full share."
>
> Charlie Munger

Safe journey, Charlie. Boy, I am going to miss you.

Firm Update

Our team is growing, and every one of our employees has their *entire* investment portfolio invested alongside our clients. We eat our own cooking at GreensKeeper, and our approach is one of partnership.

With the additional investments we have made in our business, we have the capacity to take on new clients. If you are looking for someone new to manage your money, please give us a call.

Michael P. McCloskey

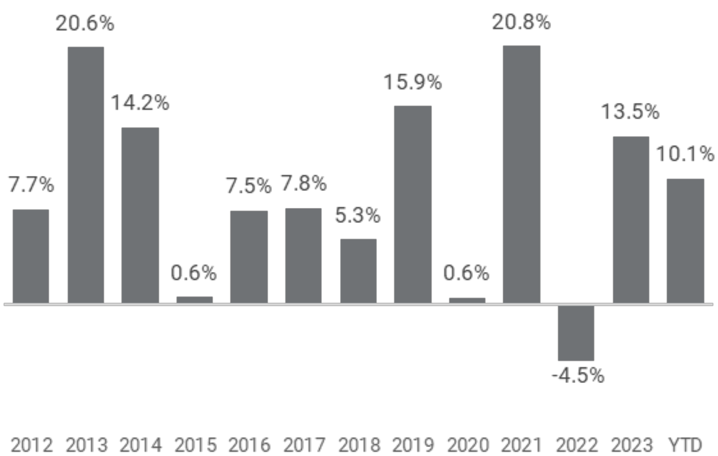
President, Founder &
Chief Investment Officer

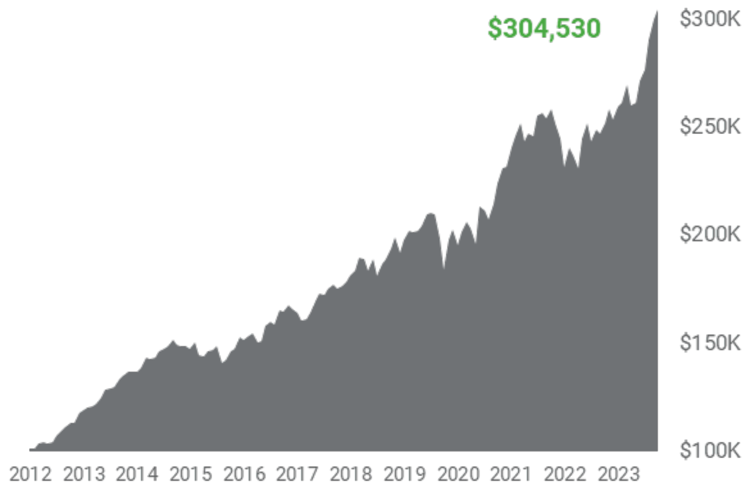
April 10, 2024

Bedtime Stories

The Value Fund finished the first quarter +10.1% net of fees and expenses. The US dollar, a headwind in 2023, strengthened and added about 2.1% to our returns for the quarter. Currency swings tend to even out over time.

We are off to a great start in 2024 and are firmly back in compounding mode.





The Value Fund's first-quarter performance beat the S&P/TSX (+6.6%), and the DJIA (+8.5%) and trailed the S&P500 (+13.0%). (1)

Expanding price-to-earnings (P/E) ratios accounted for nearly 70% of the market's rally during the first quarter and now sit well above historical averages. Investors' appetite for speculation appears to have intensified, with Bitcoin rising +61.5% year-to-date. At GreensKeeper, we remain steadfastly focused on finding high-quality businesses trading at attractive earnings multiples. We have no desire to risk permanent loss of capital on speculative assets.

Our unique equity portfolios at GreensKeeper result from the fusion of ideas from many disciplines, our life experiences, our temperament, and the deep work that goes into applying a consistent value investing process. There is no magic formula.

Given the judgment involved, we don't lose any sleep at night worrying about being replaced by Artificial Intelligence (AI). Besides, we have an unfair advantage: our parents read us bedtime stories as children.

In this Scorecard, we discuss how our clients benefit from our experience and the lessons drawn from fairy tales. But first, a brief portfolio review.

(1) Index returns are for the total return indexes, including dividends and measured in Canadian dollars, the Value Fund's reporting currency.

Portfolio Update

The largest contributor to portfolio returns in the first quarter was **Berkshire Hathaway** (BRK.A/B) +17.9%. Berkshire continues to compound intrinsic value, with operating earnings increasing by 21% in 2023. The benefits of owning a diversified collection of high-quality businesses were evident at Berkshire throughout the year.

Given Berkshire's size and diversification, it comes as no surprise that a few of the company's segments are facing challenges. Berkshire's railroad operations are seeing declining railcar volumes while employee wages continue to rise, resulting in a 14% decline in operating earnings for the segment during the year. The Utilities and Energy segment also had a challenging year driven by losses relating to wildfires in Oregon and Northern California.

On the positive side, Berkshire's insurance segment had an exceptional year, with a strong rebound in underwriting profitability and rising investment income at GEICO. Berkshire's diversified portfolio allows the company to consistently compound its earnings power year-over-year. Bolstered by over $163 billion in cash available to acquire additional quality businesses or repurchase its own stock, BRK remains our top holding in the Value Fund.

Our second largest contributor in the first quarter was **American Express** (AXP) +21.5%. AXP has been owned by the Value Fund since 2015, and we increased the size of the position in September when the stock was trading significantly below our estimate of intrinsic value.

AXP's high spend, high cardholder reward formula has long been attractive to affluent consumers. The company's customers spend considerably more than users of competing card networks, allowing AXP to charge merchant rates that match or exceed those of Visa and Mastercard.

AXP has had success with its model for decades, but last year, investors became skeptical that the American Express brand would resonate with younger generations. Investors were also worried about the loss of market share due to aggressive offerings from competing card issuers in the premium segment (e.g., J.P. Morgan's Chase Sapphire Reserve card).

Despite the emergence of formidable competitors in the premium category, AXP demonstrated the resiliency of its model in 2023, growing revenues by 14% and cards in force by 6.5%. Notably, most of the card growth was attributable to Millennial and Gen Z consumers. As these younger generations advance in their careers, AXP will capture a portion of their growing spend. We believe AXP has a long runway of profitable growth ahead of it, which should translate into strong shareholder returns for the foreseeable future.

Merck & Co (MRK) +21% was our third largest contributor in the quarter. MRK's performance was primarily driven by the recent FDA approval for Winrevair™, one of its pipeline therapies. Winrevair™ is set to launch as the first disease-modifying treatment for pulmonary arterial hypertension (PAH). PAH is a rare, rapidly progressing disease in which the blood vessels narrow in the lungs, increasing blood pressure and leading to heart failure. It affects roughly 40,000 people in the US alone, with a high fatality rate. Winrevair™ is the first drug that targets the root cause of PAH and has shown improved pulmonary function along with a reduced occurrence of fatalities or worsening events during clinical trials.

Beyond the significant societal benefits, the Winrevair™ approval is an important milestone in protecting MRK's revenues in the coming years. Large drug manufacturers like MRK generate most of their profits from therapies during the post-approval phase while they are still under patent protection. With the Keytruda® patent cliff looming in 2028, the Winrevair™ approval positions MRK to make up for a significant portion of that future revenue loss.

S&P Global Inc. (SPGI) -3.4%, was a laggard in the first quarter. SPGI's credit ratings play an important role in the financial system worldwide. Fixed income investors value the ratings SPGI assigns, as it helps them assess risk and properly price assets. Debt and bond issuers value the ratings SPGI assigns as it lowers their financing costs even after accounting for rating agency fees.

SPGI's expertise has been built up over many decades, and despite repeated attempts, the credit rating duopoly of SPGI and Moody's has proven nearly impossible for newcomers to disrupt. In addition to overcoming the incumbents' existing network effect, regulations require emerging competitors to have a nationally recognized statistical rating organization (NRSRO) designation from the Securities and Exchange Commission (SEC).

SPGI's wide moat (scale, brand, network effects) in credit ratings gives the firm strong pricing power. The company typically increases the price of its ratings by 3-4% per year. However, credit ratings are cyclical, as revenues rely on new debt and bond issuance volumes across capital markets. Following years of strong issuance when interest rates were at historical lows, SPGI has seen a falloff in volumes over the past two years.

The good news is that while debt issuance can experience short-term downturns, corporations cannot hold off on issuing debt indefinitely. Over the next five years, an estimated $12 trillion of corporate debt will mature (up +11% compared to 2022), creating a large volume of new debt issuance that SPGI will be requested to rate. When combined with steady growth in SPGI's data-driven Indices and Market Intelligence unit, we remain highly confident that the reacceleration of debt issuance across the globe will result in strong returns for SPGI over the coming years.

Overall, Q1 was quiet, as there were no material changes to the Value Fund Portfolio. We are diligently hunting for attractive investment opportunities.

GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express	Financial Services
Berkshire Hathaway	Insurance
Compagnie Financière Richemont	Consumer & Retail
Elevance Health	Healthcare & Pharma
Fiserv	Financial Services
Intercontinental Exchange, Inc.	Financial Services
Merck & Co	Healthcare & Pharma
Vertex Pharmaceuticals	Healthcare & Pharma
Visa	Technology

* As of March 31, 2024. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

We Believe in Fairy Tales

When GreensKeeper's summer analysts arrive for their first day of work, they aren't surprised when we discuss discounted cash flows (DCFs) and other standard fundamental stock analysis taught in business school. But little did they expect that the investment curriculum at GreensKeeper would include discussions of childhood Fairy Tales, Greek Mythology, Stoicism, and Zen Buddhism.

Like the reveal in **The Wizard of Oz**, let's pull back the curtain on the multipronged investment process at GreensKeeper, see what goes on behind the scenes, and ultimately how it benefits our clients.

One-Foot Hurdles

Goldilocks was a very picky eater, not content to settle for the hot or cold porridge. She demanded that things be just right. We take the same approach to stocks and restrict our portfolio investments to situations that check ALL our investment boxes.

For example, before investing, it should be obvious that a stock is undervalued relative to its earnings power and prospects. If we need a detailed DCF model to justify an investment, it probably isn't cheap enough.

> *After 25 years of buying and supervising a great variety of businesses, Charlie and I have not learned how to solve difficult business problems. What we have learned is to avoid them. To the extent we have been successful, it is because we concentrated on identifying one-foot hurdles that we could step over rather than because we acquired any ability to clear seven-footers.* - Berkshire Hathaway - 1989 Letter.

People tend to underestimate and adequately appreciate the amount of randomness in the world. Given the many possible events that can impact a business, investors need to understand that investing is mainly about evaluating probabilities. But even good decisions can result in bad outcomes, and bad decisions can result in good outcomes.[(2)]

> *It is difficult to make predictions, especially about the future. - Danish proverb.*

Great opportunities—highly mispriced valuations in high-quality, growing businesses—are rare and fleeting. When they present themselves, we can only take advantage of them if we have done the work in advance and are ready to pounce. Consequently, we spend most of our time at GreensKeeper doing that work, not trading. Our preparation also gives us an added benefit: the conviction to make sizable bets when the right price is on offer.

One investment lesson we learned the hard way is that once we own a great company that is growing at an attractive rate, we should resist the temptation to sell it just because the price has increased. A few large winners can compensate for the mediocre ones and the inevitable mistakes. Some of our biggest mistakes in the past have been selling our compounders because we thought they were fully valued (e.g., **Microsoft** in 2015).

Buffett is notorious for holding stocks forever, even as a few came to dominate his equity portfolio. He understands that long holding periods come with two added benefits: the deferred realization of capital gains and an ever-improving understanding of a company and its industry over time. This is a lesson that took us some time to learn.

[(2)] Decision making expert and professional poker player Annie Duke refers to this phenomenon as 'resulting'. We recommend her book Thinking in Bets: Making Smarter Decisions When You Don't Have All the Facts.

Compounders are like the **Goose that Laid the Golden Eggs**. They are to be nurtured, not culled. That doesn't mean that we will never sell. If our investment thesis is no longer valid or we have a *materially* better opportunity for the funds, we won't hesitate to sell. But we need to be highly confident that we are getting much better value in the new position and not some **bag of magic beans**.

Our Financial House is Made of Brick

To survive Mother Nature's inevitable storms, a house must be built on a solid foundation with quality materials. We teach this to our children via the fable of **The Three Little Pigs**. Yet, especially in bull markets, many adults seem to forget that childhood lesson when it comes to their financial house.

Seeking quick riches and egged on by the media and envy, we see many investment portfolios built of straw (Bitcoin and other speculative assets) and sticks (unprofitable companies trading at insane valuations like **Snapchat** (SNAP)). We prefer our investment portfolios to be constructed of brick.

The risk of the unexpected (e.g., the COVID-19 pandemic) compels us to restrict our portfolio investments to companies with limited debt and solid economics, the bedrock that our portfolios are built upon. As a result, they can cope with inflation, higher interest rates, recessions, and other negative surprises. In other words, they are resilient.

As an added layer of protection, we limit purchases to securities trading at a material discount to their intrinsic value, conservatively calculated. By building in some additional cushion (margin of safety), our portfolios can weather some adversity and the occasional error of judgment.

Trying to predict and successfully time when the next storm will arrive is not a substitute for sturdy construction. Financial storms tend to arrive with little warning, as they did in 2008 and 2022. The key to resilience is to know that they will inevitably come and to prepare in advance.

Maintaining Intellectual Humility

To be successful in the investment game, investors need to have the conviction that their investment thesis is correct. Like **The Little Engine that Could**, one needs to believe. But when that belief becomes immutable, bad things can happen.

Buying or selling a stock is an inherently arrogant act. In every trade, there is someone on the other side. When you trade, in effect, you are saying that I am right, and my counterparty is wrong. The market eventually humbles every investor. Knowing that you are going to make mistakes when investing is a start.

Another form of helpful investment humility is being brutally honest about the limits of your knowledge. Buffett and Munger call this staying within your 'Circle of Competence.' Investors must ask themselves if they truly understand what they are doing.

> *The first principle is that you must not fool yourself, and you are the easiest person to fool.*
> *- Physicist Richard Feynman*

A complex investment thesis makes an investor feel smart but is also fraught with peril. At GreensKeeper, we stick to investing in businesses and industries that we understand and can be reasonably confident about the business' prospects. Unless a company has a moat (sustainable competitive advantage), that isn't easy to do.

As a result of these and other self-imposed constraints, there are many businesses that we won't invest in. Our research team knows there is no shame in admitting that we don't know if a stock is a good investment and simply moving on. We don't need to have an opinion about every stock. We only need to have a few great ideas every so often and to remain invested.

Beginner's Mind and Curiosity

There is a wonderful concept in Zen Buddhism called *Shoshin,* or '*Beginner's Mind*.' It means having an attitude of openness, eagerness, and lack of preconceptions when studying, even at an advanced level, just as a beginner would. (3) Beginner's mind is a staple of many yoga practices and is a useful concept to apply to investing.

As the groundbreaking work of the late behavioural economist Daniel Kahneman revealed, humans struggle to change their minds and accept that a prior belief was misguided. Once a person takes a position, multiple forces (confirmation bias, commitment and consistency bias, genetics) conspire to make it very difficult to abandon.

In the context of investing, there is another specific pitfall. Once a person speaks or writes about a stock they own, the endowment effect and ego become involved, making it even more difficult to pivot.

A beginner's mind, combined with insatiable curiosity, is an effective antidote for the aforementioned mental pitfalls. Great investors learn to master the skill of seeking out opposing views. In fact, we insist on actively studying opposing views (the bear case) on a stock before making any investment. Taking in different perspectives and listening to counterarguments with a genuinely open mind takes practice.

> *The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function. - F. Scott Fitzgerald*

For those seeking wisdom and truth, we recommend asking questions of those who disagree with your positions and listening with an attitude of curiosity. Listening is a skill that is highly underrated in our society.

Learning from Mistakes

Even if an investor does everything right (deep research, solid investment rationale, etc.), investing, like golf, is not a game of perfect. Circumstances change, and mistakes will be made. How you respond to these events matters.

> *Mistakes are the portals of discovery. James Joyce*

GreensKeeper's firm culture is one of constant learning, seeking wisdom and truth, and owning up to mistakes. It is impossible to learn from mistakes unless you admit to them and ensure that they are not soon forgotten.

Twenty-five years ago, our founder purchased shares in a speculative company, which quickly went to $0 when the dot-com bubble burst. Despite repeated requests, he refuses to allow his broker to remove the shares from his investment statement. Additionally, he shares this story openly with firm employees (and now our clients) to reinforce our firm's culture.

(3) Source: https://en.wikipedia.org/wiki/Shoshin.

Asset Details

	Symbol	Status	Quantity	Average Unit Cost ($)	Book Cost ($)	Market Price ($)	Market Value ($)	% of Portfolio
Equities and Equity Funds								
SWISSLINK FINANCIAL CORP		SEG	1,500	2.656	3,984.00	N/A[1]	N/A	N/A

Staring at that market value of $0 constantly reminds us of what can happen if we get careless. Some things cannot be taught; they must be experienced. Never again.

We also find it helpful to keep a written investment journal documenting our reasons for making an investment decision. The timestamped journal helps us to fight hindsight bias and to look back objectively when doing a post-mortem on an investment.

Temperament

Every investment style falls out of favour at times as market conditions change. However, over the long term, value investing has been shown to work *if consistently applied*. Yet it has been estimated that less than 5% of all investors are true value investors.

Our hypothesis for that surprising statistic is that most people lack the temperament demanded. When value is out of favour, the temptation to switch to another investing style or to trade portfolio holdings becomes too strong to resist. Much like the enchanting songs of the **Sirens of Greek mythology**, most captains can't stay the course.

But flitting from one strategy to another based on market conditions is a fool's game as it requires consistently making well-timed pivots. We believe that this is impossible to do consistently.

Success in investing requires matching your temperament with your investment style: they must be in harmony. Value investors need to be comfortable taking the path less travelled as their stock picks are often at odds with market popularity. A contrarian streak helps.

Being comfortable with inactivity is another asset for value investors. There have been years when we made no material changes to the Value Fund's holdings. Our team doesn't require the constant dopamine hits craved by day traders and the TikTok generation. When there is 'nothing to do' in the markets, our research team is content to study new businesses and update our models and watchlists.

In our experience, many investors lack interest in doing more than a cursory analysis of a company. Sometimes, a convincing narrative at a cocktail party is sufficient. Being great at investing means putting in deep work every day over decades and constantly improving your craft. Being obsessed with markets and stocks and analyzing businesses helps. However, that intensity is only sustainable when someone truly loves what they do.

Most people can force themselves to do unpleasant things for only so long. To be great at this amazing game, it needs to be play, not work. Fortunately, our research team is endowed with the right wiring.

> *This is a profession that is as demanding as any other, including medicine or law. But too many individuals approach investing more like it's a salad bar. They hear a bunch of ideas, and then they go pick certain ones out. But we can't stress enough how hard one really has to work at this. - Laszlo Birinyi, Founder, Birinyi Associates*

It also helps to be competitive. We know that we are competing daily against the best in the world. This is a high-stakes game, and we play to win. If you don't love this game and give it your very best, you are roadkill.

Consistency

We are all familiar with Aesop's fable of **The Tortoise and the Hare**. The slow but steady tortoise is our investing hero. He ignores the hare's taunts, puts his head down and relentlessly focuses on the task at hand.

Value investing, done well, requires the tortoise's consistency, long-term mindset and a willingness to look foolish in the short term. Value investors usually buy things hated by the market (and hence cheap).

One way to ensure consistency is to have a repeatable investment process. Our investment process at GreensKeeper incorporates numerous checklists that are rigorously consulted and constantly improved upon over time. [(4)]

Using Our Time Wisely

Like **Cinderella** at the ball, we only have a limited amount of time, and we need to make the best use of it. Yet we are constantly baffled by the amount of time and energy that is squandered by the investment industry.

Turn on the television, and you will repeatedly hear the same questions discussed ad nauseam: 'What will the markets do over the next month/year?' 'What will the stock price of X do over the next year?' 'Will the Fed cut interest rates two or three times this year?'

The answer to each of these questions is the same: we don't know, and neither does the talking head on TV. We believe these are the wrong questions for those seeking long-term investment success.

> *All the effort that goes into unknowable questions comes at the expense of things we can know.*
> *- Shane Parrish, Farnam Street.*

Successful investors should be constantly asking an entirely different question. Namely, '**What is this Stock Worth**'? In many cases, the answer to that question is knowable with effort.

Our research team spends its time answering that question for as many quality businesses as we are able to understand. Once we know what a stock is worth, we anchor to it. The market quote is only relevant if we choose to take advantage of it by transacting with the market (buying or selling). When the current stock quote is attractive, we act. If it isn't, we refine our estimate of intrinsic value, add the stock to our watchlist and move on to analyzing the next company.

> *Market prices for stocks fluctuate at great amplitudes around intrinsic value, but, over the long term, intrinsic value is virtually always reflected at some point in market price. - Buffett Partnership Letter, December 5, 1969.*

Investors would benefit by constantly asking themselves, "What is this Stock Worth"? With the answer to that question in hand, the investing game becomes much more rewarding.

Controlling Our Emotions

Every investor can benefit from studying Stoic philosophy. One of its core tenets is embracing logic and rational thought over emotion.

[(4)] We highly recommend the book The Checklist Manifesto by Dr. Atul Gawande.

> *"Individuals who cannot master their emotions are ill-suited to profit from the investment process." - Benjamin Graham.*

In addition to pursuing rationality, the Stoics also advise that it is essential to divide the world into things that are within our control and things that are not. As investors, we must accept that ill fortune and challenges will sometimes befall every life and business. When they do, all that we can control is how we respond. The ability to maintain a sense of equanimity while under stress is a very valuable skill.

Market panics reveal those who have prepared and can remain calm and measured and those who quickly lose their heads when adversity strikes. Since our founding over twelve years ago, tough times are when we have been at our best. The Stoic mental models are a useful tool to add to every investor's toolbox.

Investing is Hard

Will AI take our jobs? Hardly.

For those still reading this report, we suspect you have a better sense that investing done well is about much more than mechanical number crunching. If math were the only thing that mattered, then yes, AI would be a threat to active managers like GreensKeeper. But the math is the easy part. The real art of investing lies in the judgment involved in predicting the future with any degree of certainty.

> *Within capitalism, some businesses will flourish for a very long time while others will prove to be sinkholes. It's harder than you would think to predict which will be the winners and losers. - Berkshire Hathaway 2023 Annual Report.*

This quote comes from the guy with one of the best investment track records in history. The Oracle of Omaha once said that value investing is simple but not easy. As usual, he is right. **Investing is hard!**

Accept that you will make some mistakes. Keep learning from them and working at it. Knowledge, like interest, compounds over time. Enjoy the journey!

Firm Update

As you can tell, like our equity portfolios, our firm is different. Every one of our employees has their *entire* investment portfolio invested alongside our clients. We believe in our product, and our approach with clients is one of partnership.

If you are looking for someone new to manage your money or know someone who is, please give us a call.

Enjoy the Masters!

Michael P. McCloskey
President, Founder & Chief Investment Officer

GreensKeeper Value Fund

Performance as of March 31, 2024

Fund Overview

The fund invests in a concentrated portfolio (15-20 stocks), primarily in equities from any sector and market capitalization.

Fund Details

Load Structure	**No Load**
Perf. Fee	**20% over 6.0% annual hurdle. High-water mark (perpetual).**
Registered Plan Status	**100% Eligible (RRSPs, TFSAs, RESPs, RDSPs, LIRAs, RIFs, etc.)**
Inception Date	**November 1, 2011**
Type of Fund	**Long equity, Long-term capital appreciation**
Fund Category	**Global Equity**
Currency	**CAD**
Valuations	**Monthly**
Redemption	**Monthly on 30 days' notice**
Distribution Frequency	**Annually (December)**

	Class A	Class F*	Class G**
Fund Codes	**GRN 101**	**GRN 105**	**GRN 107**
NAV	**$24.34**	**$26.05**	**$21.57**
MER (%)	**1.8%**	**1.3%**	**< 1.8%**
Min. Initial Investment	**$150,000**	**$150,000**	**$1 million**

Fund Distributions ($/Unit Class A)

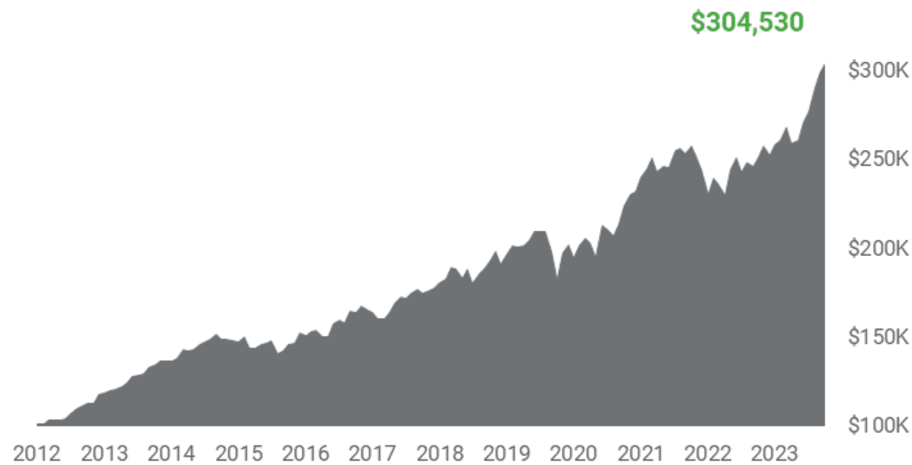
2015 - $0.2939	2016 - $0.5416	2017 - $0.0000
2018 - $0.5752	2019 - $0.5626	2020 - $0.0000
2021 - $0.0000	2022 - $0.1440	2023 - $0.0000

Service Providers

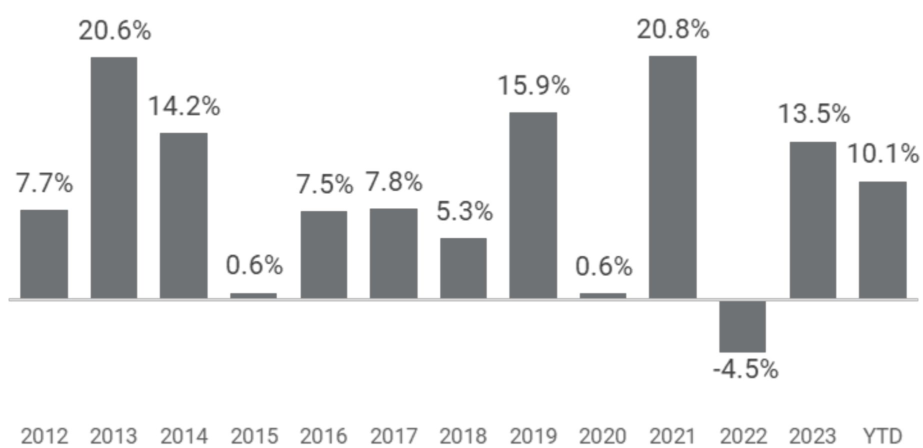
Investment Manager	GreensKeeper Asset Management
Admin. and Registrar	SGGG Fund Services Inc.
Auditor	MNP
Custodian	National Bank Independent Network
Legal Counsel	BLG Borden Ladner Gervais

Portfolio Performance (Class A)

Growth of $100,000



Calendar Year Returns

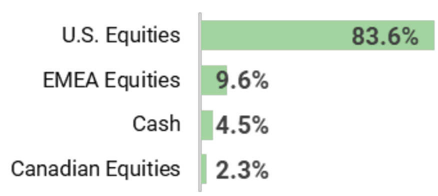


Annualized Compound Returns

	1 MO	YTD	1 YR	3 YR	5 YR	10 YR	Inception
Value Fund	**1.7%**	**10.1%**	**21.0%**	**10.8%**	**9.5%**	**8.5%**	**9.4%**

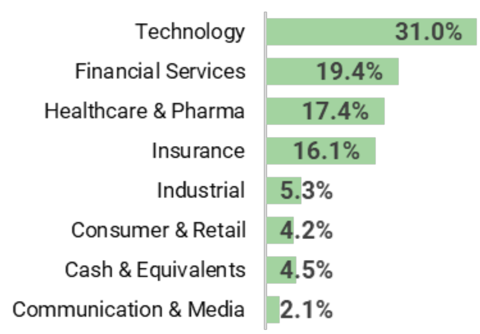
Portfolio Allocations

Asset Mix*



*based on corporate domicile

Sector



GreensKeeper Value Fund

Testimonials

Don't just take our word for it. See what our clients are saying:

"We began investing with GreensKeeper in 2013. A large portion of our three grandchildren's education money is guided by Michael McCloskey and his patient advice. We have a long-term view towards investing and trust in the fund's risk aversion strategy for preservation of capital. I recommend GreensKeeper to my friends and family."

Timothy B.
President & CEO

"My family has known Michael for over 20 years, and we have invested in the Value Fund. He has a track record of success, and we sleep soundly at night knowing that he is growing our investments safely."

Dr. Erin R.
Anesthesiologist

"I have known Michael for over 15 years and consider him a valued and trusted adviser. His prudent investment approach for the long term that ignores the short-term market volatility is the reason we have invested much of our long-term savings with him."

Erik D.
Entrepreneur, President

The preceding testimonials are from existing GreensKeeper client families and may not be representative of the views of all people or investors. Certain testimonials were provided unsolicited, and others were provided by request.

The GreensKeeper Team

Michael McCloskey
Founder & CIO
michael@greenskeeper.ca

James McCloskey
SVP - Sales
james@greenskeeper.ca

Michelle Tait
Executive Assistant
michelle@greenskeeper.ca

Michael Van Loon
Financial Analyst
mvanloon@greenskeeper.ca

What Makes Us Different

Disciplined

Value Investing is simple, but not easy. At GreensKeeper, we put in the work and have the proper temperament to succeed in the stock market.

Alignment of Interests

Our founder is among our largest investors and has most of his family's net worth invested alongside our clients. Does your investment manager have any of their own money invested alongside yours?

Owner Managed

Our clients deal directly with the people making the investment decisions. Do you know who is managing your money?

Disclosures

(1) All returns are as of March 31, 2024, for Class A Units. (2) GreensKeeper Asset Management Inc. (GKAM) assumed the investment management responsibilities of the Value Fund on January 17, 2014. Before that date, the Value Fund was managed by Lightwater Partners Ltd., while Mr. McCloskey was employed by that firm. (3) Where applicable, all figures are annualized and based on Class A monthly returns since inception. The risk-free rate was calculated using the 90-day CDN T-bill rate. Class F Units are available to purchasers participating in fee-based programs through eligible registered dealers. ** Class G Units are for purchasers who have over $1 million managed by GreensKeeper and enter into a Class G Agreement with us. Class G Units are not charged a management or performance fee by the Fund as Fees are paid directly to the Manager under the Class G Agreement.

This document is intended for informational purposes and should not be construed as an offering or the solicitation of an offer to purchase an interest in the GreensKeeper Value Fund or any other GreensKeeper Funds (collectively, the "Funds"). Any such offer or solicitation will be made to qualified investors only by means of an offering memorandum and only in those jurisdictions where permitted by law. GKAM is registered in Ontario, Canada under the categories of Portfolio Manager, Investment Fund Manager, and Exempt Market Dealer. Investing in the GreensKeeper Value Fund is speculative and involves a high degree of risk. Opportunities for withdrawal, redemption and transferability of interests are restricted, so investors may not have access to capital when it is needed. There is no secondary market for the interests, and none is expected to develop. Investments should be evaluated relative to an individual's investment objectives. The information contained in this document is not and should not be construed as legal, accounting, investment or tax advice. You should not act or rely on the information contained in this document without seeking the advice of an appropriate professional advisor. Please read the Fund offering memorandum before investing.

The Funds are offered by GKAM and distributed through authorized dealers. Trailing commissions, management fees, performance fees, and expenses may all be associated with an investment in the Funds. The fees and expenses charged with this investment may be higher than the fees and expenses of other investment alternatives and may reduce returns. There is no guarantee that the investment objective will be achieved. Past performance should not be mistaken for, and should not be construed as, an indicator of future performance. The performance figures for the GreensKeeper Value Fund include actual or estimated performance or management fees and are presented for information purposes only. GKAM has compiled this document from sources believed to be reliable, but no representations or warranty, express or implied, are made as to its accuracy, completeness or correctness. All opinions and estimates constitute GKAM's judgment as of the date of this document and are subject to change without notice. GKAM assumes no responsibility for any losses, whether direct, special or consequential, that arise out of the use of this information. Certain statements in this presentation are based on, *inter alia,* forward-looking information that is subject to risks and uncertainties. All statements herein, other than statements of historical fact, are to be considered forward-looking. Such forward-looking information and statements are based on current expectations, estimates and projections about global and regional economic conditions. There can be no assurance that such statements will prove accurate; therefore, readers are advised to rely on their own evaluation of such uncertainties. Further, to the best of GKAM's knowledge, the information throughout the presentation is current as of the date of the presentation, but we expressly disclaim any duty to update any forward-looking information. The GreensKeeper Value Fund strategy in no way attempts to mirror the S&P/TSX or the S&P500. The S&P/TSX Composite Index and the S&P500 Index are provided for information purposes only as widely followed indices and have different compositions and risk profiles than the GreensKeeper Value Fund.