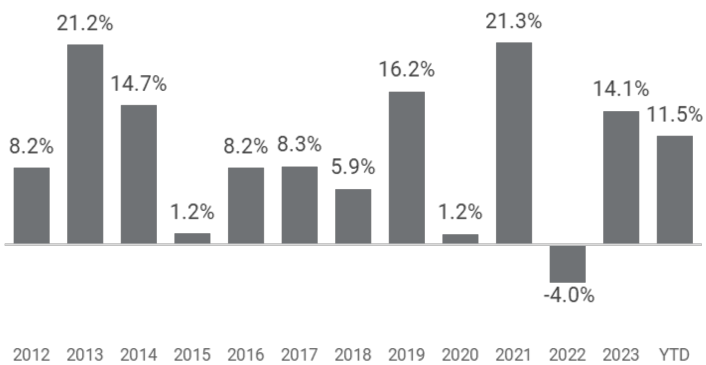
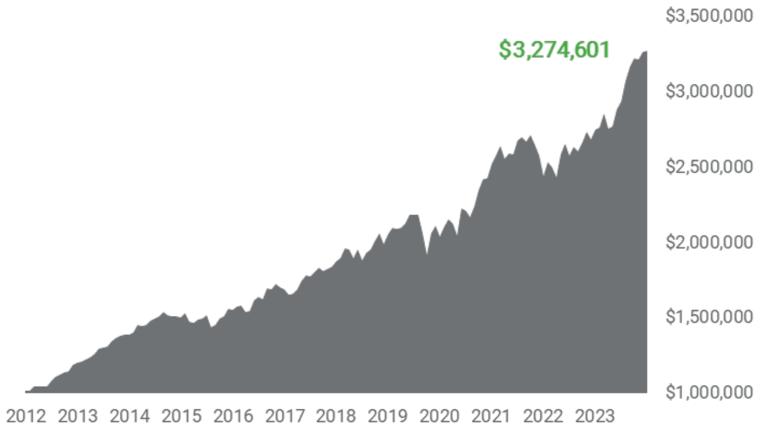
July 19, 2024

Playing the Long Game

The Value Fund was up +1.6% net of fees and expenses in the second quarter, is up +11.5% year to date (YTD), and +19.3% over the past 12 months. The US dollar added about +1.0% to our returns for the quarter.



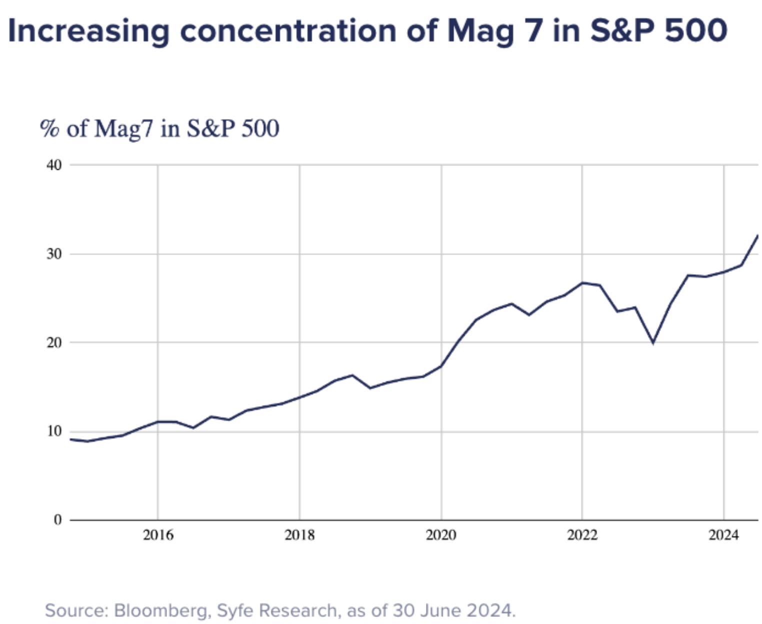


The Value Fund's first-half performance beat both the S&P/TSX (+6.1%), and the DJIA (+8.2%), and trailed the S&P 500 (+19.1%). (1)

We note that a few large technology companies have driven most of the S&P 500's gains in 2024. Just five companies—**Alphabet** (GOOGL), **Amazon** (AMZN), **Meta** (META), **Nvidia** (NVDA) and **Microsoft** (MSFT)—accounted for *63.2%* of the index returns YTD. By contrast, the equal-weighted S&P 500 Index (RSP) is up only 5.0% YTD.

Given its capitalization-weighted nature, the S&P 500 index has become highly concentrated (see chart at right). The five stocks mentioned above, along with **Apple** (AAPL) and **Tesla** (TSLA), known as the "Magnificent 7," now represent over 30% of the index.

We concede that most of these are good businesses. However, capital flowing into these names, driven by indexing and momentum traders, has resulted in many of them trading at frothy levels. It is worth remembering that Icarus was once a high-flyer, too.



(1) Index returns are for the total return indexes, including dividends and measured in Canadian dollars, the Value Fund's reporting currency.

For example, NVDA is currently trading on 99x FY24 EPS. Analysts expect the company's rapid growth to continue, with earnings projected to increase nearly 5x from $1.19 in 2024 to $5.49 in 2028. While not impossible, given AI's pace of adoption and NDVA's dominant position in the GPU market, we believe significant risk is embedded in NVDA's current valuation. Markets have started to recognize this risk, with the stock down -12.6% in the past seven trading days (as of writing).

At GreensKeeper, we will stick to buying high-quality companies at valuations that provide our clients with a large margin of safety. "Must-own" AI stocks are not for us: we are immune from the FOMO virus. When markets are frothy, we are comfortable patiently waiting for opportunities to present themselves.

Portfolio Update

Our top contributor in the second quarter was **Alphabet Inc.** (GOOGL) +20.7%. The company posted 31% adjusted operating earnings growth y/y in Q1, bolstered by double-digit revenue increases across all its major segments. GOOGL's search revenues continue to advance at a healthy rate despite investor fears that they will begin losing search market share to emerging AI competitors like ChatGPT. ChatGPT4 has been accessible to the public for 16 months now, and GOOGL's search market share stands at 91%, down marginally from 93% at ChatGPT4's launch. Importantly, GOOGL also continues to make progress in developing its own AI capabilities. We highlight that GOOGL's compute costs for its AI search platform fell 80% y/y, along with an increase in queries driven by its Search Generative Experience.

Our second largest contributor in Q2 was **Vertex Pharmaceuticals** (VRTX) +12.1%. VRTX's cystic fibrosis (CF) portfolio continues to generate robust revenue growth, and on July 1, the FDA announced approval for the improved Vanza Triple therapy. This new CF therapy is subject to meaningfully lower royalty payments compared to the rate payable on the current CF portfolio. During the quarter, the company also announced positive results for a pipeline therapy, VX-880, a stem-cell therapy that can potentially restore the body's ability to regulate glucose levels and reduce or eliminate the need for insulin injection in type-1 diabetics.

Our third largest contributor in the quarter was **Elevance Health** (ELV) +4.5%. ELV continues to perform well despite headwinds from fewer Medicaid enrollees following the unwinding of government-funded Medicaid programs in response to COVID-19. Elevance's conservative approach to underwriting policies has allowed the company to avoid the margin compression experienced by some of its major competitors. ELV's earnings grew 15.5% y/y in Q1.

Our biggest laggard in the quarter was **Berkshire Hathaway** (BRK.B) -3.3%. Berkshire's railroad and utility segments continue to struggle due to weakening volumes and wildfires, respectively. Despite these challenges, operating income continues to grow steadily, aided by acquisitions. Book value per share also continues to compound yearly, and we remain confident owning BRK.B as a core position in the Value Fund.

Our second largest detractor in the quarter was **Visa Inc.** (V) -6.0%. Visa continued to chug along with revenues increasing +10% y/y on payment volume growth of +8%. In March, Visa announced it had reached a settlement on a long-standing antitrust lawsuit that would result in slightly lower credit interchange rates and cap fees at current levels for five years. However, in June, the judge informed Visa that she deemed the changes inadequate and rejected the settlement. A potentially more costly settlement, combined with concerns of payment volumes decreasing as the American economy softens, have weighed on the stock price. However, we remain convinced that Visa's growth algorithm will continue to drive double-digit earnings growth for the foreseeable future.

In Q1, we made one new addition to the portfolio: **The Hershey Company** (HSY). Our top 10 holdings are shown in the table on the next page. 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	Insurance
Compagnie Financière Richemont	Consumer & Retail
Elevance Health	Healthcare & Pharma
Fiserv	Technology
Intercontinental Exchange, Inc.	Financial Services
Merck & Co	Healthcare & Pharma
Vertex Pharmaceuticals	Healthcare & Pharma
Visa	Technology

* As of June 30, 2024. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security

Is Now a Good Time to Invest?

We get asked this question a lot. An entertaining story we shared with clients at our recent Annual Meeting provides a different perspective and is worth repeating.

Tennis

Suppose you are introduced to tennis at a young age and become pretty good at it. You handily beat all the neighbourhood kids, winning 80% of your points. Eventually, you advance to playing in tournaments with other high-quality amateur players. You still win most of your matches, but your points won percentage decreases to 70%, given the tougher competition.

Fast forward a few years, and your childhood dream comes true—you are playing professional tennis for a living. Competing against the best in the world, your points won rate naturally declines. But you still manage to win 54% of all points played over your professional career. How do you think your career turned out?

It may surprise you to learn that you would be on par with Roger Federer, arguably one of the greatest players ever to play the game. That 54%-point win percentage led to Federer winning 82% of his matches over his entire career and 20 Grand Slam titles (2). Compare Federer's record with that of Andy Roddick, who won 53% of his career points (1% fewer than Federer) but only 62% of his matches and a single Grand Slam. (3)

The lesson? A tiny edge, consistently compounded over a very long time, leads to amazing results. Casinos work on the same principle.

(2) Source: atptour.com. See also Roger Federer – 2024 commencement address at Dartmouth College. https://home.dartmouth.edu/news/2024/06/2024-commencement-address-roger-federer
(3) Source: atptour.com.

Casinos

Casino games of chance are structured to give the house a slight edge of just a few percent over its customers. But over long periods, the house is *guaranteed* to come out ahead despite fluctuations in their daily profits and losses. That small edge on every roll of the dice and spin of the slot machine resulted in US casino gaming revenues of $49.4 billion last year. (4)

Do you think that casino operators think about the best days to open the casino to the public or which games they should offer? Do you think Roger Federer ever woke up in the morning and asked himself if today was a good day to play tennis? Obviously not. In both cases, these professionals knew the odds were in their favour. Despite the occasional bad day, exceptional results were sure to follow over the long run. The stock market is no different.

Source: ChatGPT

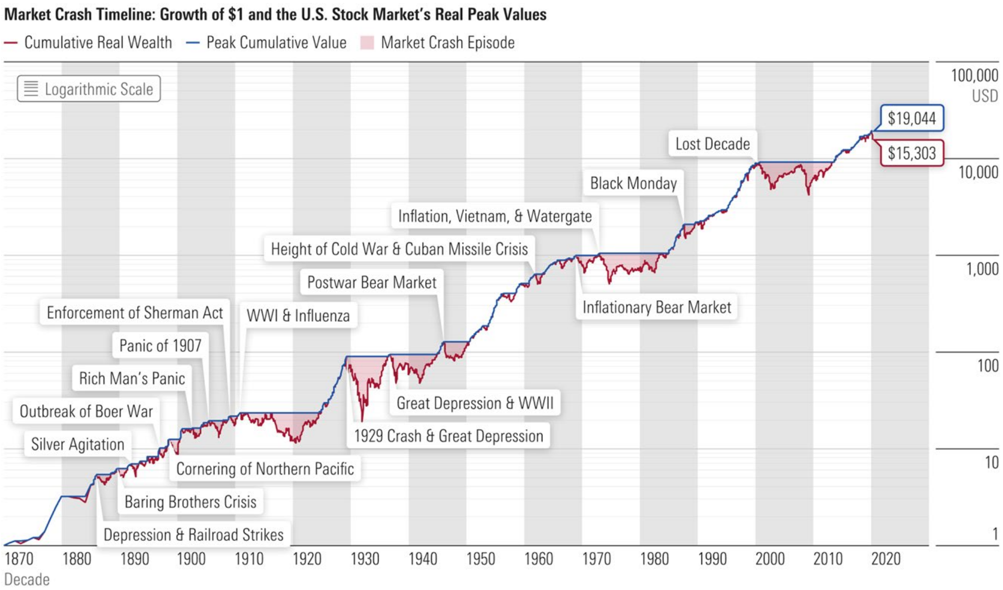
The Stock Market

Stock markets increase over time primarily due to earnings growth (companies generally retain a portion of their earnings) and inflation.

Measured daily, over the past 50 years, the stock market has been positive 53.6% of the time. (5) A win rate very similar to our prior examples. And like Roger Federer and casino operators, that slight edge compounds.

A study of the US stock market over the past 152 years (1871 to 2023) showed that the market was positive in 69% of those years. (6) Over rolling 10-year periods, that figure increases to 89%. Over rolling 20-year periods—100%. In other words, over those 152 years, the US market has *never* declined over any 20-year period. Market crashes trigger fear and panic in our primitive brains and lead investors to make poor short-term decisions. But zoom out (per the chart on the following page) and see those pullbacks for what they are: mere blips in the market's long-term rise.

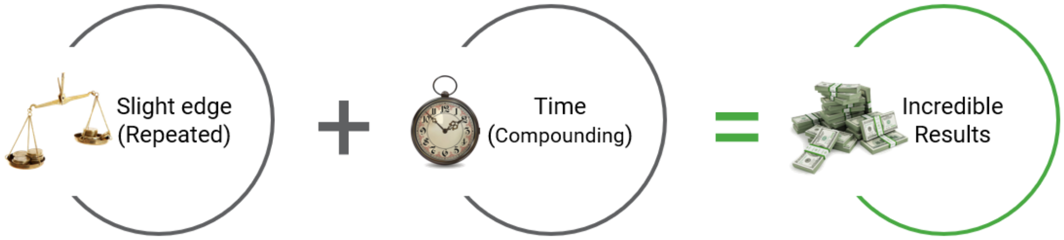
(4) Source: American Gaming Association. https://www.americangaming.org/resources/aga-commercial-gaming-revenue-tracker/
(5) Crestmont Research. https://www.crestmontresearch.com/docs/Stock-Yo-Yo.pdf
(6) Robert Shiller and Yahoo Finance. https://themeasureofaplan.com/us-stock-market-returns-1870s-to-present/.



Source: Tsai Capital and Ned Davis Research

Takeaways

On a recent safari in South Africa, I was reminded that evolution is an exemplar of this concept. Over hundreds of thousands of years, small advantages compound over generations, leading certain species to adapt and thrive at the expense of others.



The valuable takeaways for investors:

- Day traders are playing a game with very narrow odds (possibly negative after factoring in trading costs and taxes). Even a casino can lose big in a single game or have a losing day but will always win over the long term.
- No one knows what the market will do over the next year or two. No one.
- Value investing, done right, stacks the odds even more in your favour than these historical market statistics.
- Equities are a winning game if you have a sufficient time horizon and can handle the volatility. The secret is to just keep playing. Use your long-term funds that you don't intend to touch for years and get invested as soon as possible. Like Federer and casino operators, play the long game!
- Once invested in the market, stay invested. Investors who think they can consistently predict when to exit and reenter the equity markets are delusional. Market timers deliberately forgo playing this wonderful game.

> *"The slight edge can carve the Grand Canyon. It can do anything. But you have to give it enough time for the power of time to kick in." -- Jeff Olson*

A Better Question

Instead of focusing on the ideal time to invest, we posit that intelligent investors should ask themselves a better question: **What is the stock I am contemplating buying worth**?

> *"All the effort that goes into unknowable questions comes at the expense of things we can know."*
> -- Shane Parrish, Farnam Street

For certain businesses with sustainable competitive advantages (e.g., Value Fund holdings **Fiserv** (FI), **Richemont** (CFRUY), **Vertex** Pharmaceuticals (VRTX), **Visa** (V)), that question is answerable.

With that answer in hand and knowing that stock prices tend to fluctuate around intrinsic value, the decision to purchase or not becomes apparent very quickly, based on the market quote. If the stock is undervalued, buy it. If it isn't, then look for bargains elsewhere.

Firm Update

Thanks to the 40+ people who attended GreensKeeper's 2024 Annual Meeting last month. You can find a video recording of the event here.

Our firm's growth continues, with assets under management (AUM) up over 50% over the past year and a new full-time employee joining us next month. However, our goal as a firm has never been to hit a certain level of AUM or employee count.

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 our partnership approach resonates with you or someone you know, please give us a call.

Michael P. McCloskey
President, Founder & Chief Investment Officer

GreensKeeper ASSET MANAGEMENT INC.

GreensKeeper Value Fund
Performance as of June 30, 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	$24.70	$26.47	$22.00
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

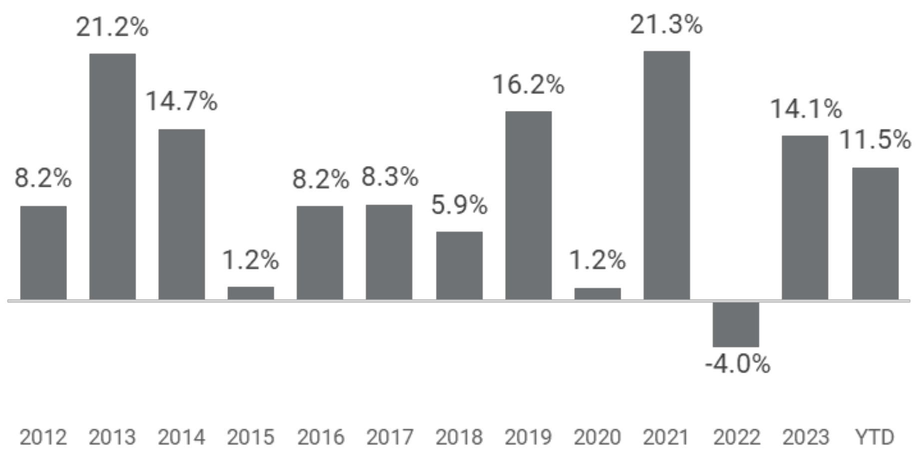
Service Providers

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 F)

Growth of $1,000,000

Calendar Year Returns

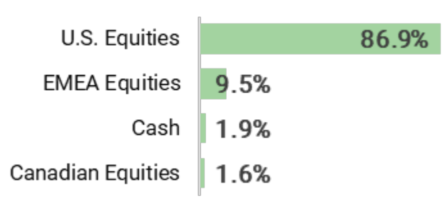


Annualized Compound Returns

	1 MO	YTD	1 YR	3 YR	5 YR	10 YR	Inception
Value Fund	0.2%	11.5%	19.3%	9.2%	9.8%	9.0%	9.8%

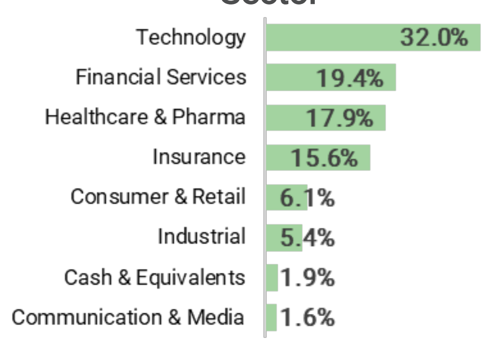
Portfolio Allocations

Asset Mix*



*based on corporate domicile

Sector



GreensKeeper Asset Management Inc.

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

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SVP - Sales
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Michelle Tait
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Michael Van Loon
Financial Analyst
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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 June 30, 2024, for Class F 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 F 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.

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