Greenskeeper
ASSET MANAGEMENT INC.

2014 Annual Report

Chairman's Letter

Fellow Unitholders,

Having just completed our third full calendar year at GreensKeeper, we thought it the perfect time to start a new annual tradition. In addition to our custom of providing our clients with the Value Fund's audited financial statements (courtesy of KPMG), along with this and future Annual Reports we also plan to provide our clients with commentary on the portfolio's performance for the year and to delve deeper into a major investment topic. This year our topic is GreensKeeper's approach to risk management.

At the end of the day, our goal is to deliver attractive (above-market) returns to our investors over the long-term while also assuming *less* risk. We acknowledge that our approach goes against the conventional "wisdom" of the investment management industry. However, as demonstrated by our investing heroes (Warren Buffett, Charlie Munger, Benjamin Graham, Philip Fisher), value investing does just that.

We believe that our detailed analysis and understanding of the businesses that we invest in, combined with our patient, disciplined approach to acquiring positions at attractive prices, will lead to a superior outcome. Our approach is also one that suits my own personality and temperament. Experience has taught me that investing in "moonshots" that are promoted as being the next great thing and are "guaranteed" to deliver phenomenal returns most often turn out exactly the opposite. Long-term, steady compounding of capital may be less exciting. But our conclusion is that it is the true path to investment success.

You should know that our approach to investing at GreensKeeper is not merely academic. I have over 70% of my immediate family's net worth and 100% of our investible assets invested alongside our clients at GreensKeeper. The reason for doing so is quite simple. I believe that our approach to investing at GreensKeeper is the proper way to invest and that it will lead to attractive long-term returns. I am more than happy to back up that statement with my family's money. In addition to aligning interests, this approach provides our clients with the benefit of knowing that we are paying attention to what we are doing. Having all of our own eggs in one basket tends to focus the mind. In our view, many of the negative aspects of the investment management industry would suddenly disappear if asset managers simply invested a meaningful percentage of their own net worth in their own funds.

The Year in Review

The Value Fund was up +14.2% in 2014 (after all fees and expenses). The table on the next page provides a detailed breakdown of the performance of each stock that we held in the portfolio at any point during the year. There are a few items worth mentioning to help you better understand our results.

The Value Fund holds stocks denominated in multiple currencies (Canadian dollars, US dollars and, most recently, Swiss Francs). The results in the table below (at left) are provided on a constant currency basis. In other words, they ignore any currency impacts so as to demonstrate how the stocks performed without any currency distortion. Similarly, the highlighted benchmark returns are also provided on a constant currency basis and also include dividends. We prefer to compare apples with apples when presenting our results.

Inside

During 2014 the Canadian dollar depreciated 9.1% relative to the US dollar and thus provided a tailwind to our Canadian dollar reported results. We estimate that this provided a pickup of slightly less than 6% for the year given our mix of holdings. Factoring in our fund operating expenses (audit, brokerage, etc.), management and performance fees meant that we finished the year with a +14.2% net return to our clients. Our compounded returns (see table below right) are 17.4% over two years and 14.1% over three years.

Stock	Ticker	2014 Return [1]
DirectCash Payments Inc.	TSX:DCI	44.6%
AstraZeneca PLC	NYSE:AZN	33.9%
Cisco Systems, Inc.	NASDAQ:CSCO	27.4%
Microsoft Corporation	NASDAQ:MSFT	27.2%
Berkshire Hathaway Inc.	NYSE:BRK.B	26.6%
DIRECTV	NASDAQ:DTV	25.5%
Home Capital Group Inc.	TSX:HCG	25.4%
Wells Fargo & Company	NYSE:WFC	23.7%
Express Scripts Holding Company	NASDAQ:ESRX	23.3%
Berkshire Hathaway Inc.	NYSE:BRK.A	21.4%
S&P 500 Total Return Index ($US)	S&P500 TR	13.7%
DJIA Total Return Index ($US)	DJIATR	10.0%
S&P/TSX Total Return Index	S&P/TSX TR	10.6%
Urbana Corp.	TSX:URB.A	7.4%
Cash		0.0%
Chevron Corporation	NYSE:CVX	-1.7%
Royal Dutch Shell plc	NYSE:RDS.B	-2.1%
Exxon Mobil Corporation	NYSE:XOM	-2.5%
NOW Inc.	NYSE:DNOW	-3.4%
Sanofi	NYSE:SNY	-11.4%
National Oilwell Varco, Inc.	NYSE:NOV	-15.5%
Joy Global, Inc.	NYSE:JOY	-19.1%
Coach, Inc.	NYSE:COH	-30.7%

[1] Constant currency, including dividends.

GreensKeeper Value Fund

Calendar Year	Return
2012	7.7%
2013	20.6%
2014	14.2%

Compounded Returns [1]	
1 Year	14.2%
2 Year	17.4%
3 Year	14.1%

[1] Returns are annualized and as at December 31, 2014.

During the year we fully exited our position in AstraZeneca at a handsome profit after Pfizer came knocking on the door. Pfizer's approach was rebuffed by AstraZeneca's board and the unwelcomed suitor ultimately got the hint and walked away. We believed Pfizer's proposed purchase price compelling but as things progressed we increasingly felt that the deal was unlikely to proceed due to the interests of AstraZeneca's management being placed ahead of our own. Accordingly, we sold the stock at an average price of US$77.60 or 67.3% higher than our US$46.38 cost base.

We added several new positions during 2014 including DirectCash Payments and Express Scripts Holdings both of which we continue to hold and view favourably. Late in the year the severe pullback in oil prices caught our eye and we rolled up our sleeves and took a long look into the sector. The end result was the recent purchase of a "basket" of supermajors: Exxon Mobil, Royal Dutch Shell and Chevron. We have no idea exactly when the price of oil will stabilize but know that eventually it will and will ultimately turn higher. The best remedy for low oil prices is low oil prices. Economics 101 teaches us that they are self-correcting. In the meantime, we believe the dividends of these select companies safe, their balance sheets strong and know that their refining segments will actually benefit from lower crude oil prices. If things get worse, we suspect that these companies will pursue acquisitions to add barrels of production at attractive multiples from companies whose finances cannot withstand the pain that low oil prices are inflicting on the industry. Stay tuned.

Finally, our investment in Home Capital Group is worth mentioning as an example of our approach to rebalancing the portfolio. We accumulated shares in the company over a period of sixteen months beginning in March 2012 and ended up with a cost base of $24.41. The market (and a number of short-sellers in the US in particular) thought the Canadian housing market a bubble about ready to burst. We took a different view and believed Home Capital very well managed and likely to prosper in most market environments. During 2014 the company delivered solid financial results consistent with their long-term track record and our investment thesis. As a result, the market revalued the stock. We decided to sell slightly more than one-half of our position at $52.43. The company has recently attracted the attention of another group of US short-sellers which has put downward pressure on the stock in early 2015. After digesting Home Capital's year-end results, we believe the stock to once again be undervalued and we added meaningfully to our position in January 2015 at an average cost of $40.68. We have learned from our investing heroes that the best approach is to do your own work and to treat Mr. Market as our servant and not our guide.

Overall, our total return of +14.2% (after all fees and expenses) for 2014 was respectable, but nothing to brag about. Our cash holdings and defensive positioning held us back somewhat. That said, we would be quite pleased to prudently compound our capital at similar rates over the very long-term. Einstein was right. Compounding truly is the eighth wonder of the world as it leads to truly spectacular results over time.

Annual Meeting

As I wrote in Scorecard #1 (October 2011), the GreensKeeper Value Fund is my painting. I view our daily mission at GreensKeeper as being to constantly make it ever better. We will continue in our quest to deliver attractive returns to our clients while also prudently managing risk.

We hope that you can join us at our **3rd Annual Meeting** at **7:00 p.m.** on **Thursday, June 11**. We will once again host it at the Mississaugua Golf & Country Club. Clients, potential clients, friends and family are all welcome.

We take the responsibility of managing people's money very seriously. To all of our clients, thank you for your continued trust and for referring us to others.

Your partners at GreensKeeper,

Michael McCloskey
Chairman, President & Founder

March 27, 2015

GreensKeeper's Approach to Risk Management

Our approach to risk management at GreensKeeper is multilevel. Perhaps this goes back to our founder's past legal training. Protect the downside by identifying and managing risks before spending much time looking at the potential upside. When it comes to our approach we try and remember Warren Buffett's two golden rules of investing: Rule #1 – Don't lose money. Rule #2 - Don't forget Rule #1.

Defining Risk. What is risk? Many investors (and academics) define a stock's riskiness as its price volatility. The more volatile a stock's historical trading patterns, the more risky the stock all else being equal. We beg to differ. Concepts like risk are very difficult to objectively quantify so we understand the temptation to reach for something easily measurable like volatility. To a man with a hammer, everything looks like a nail.

Others define and judge risk by the quality of the company that they invest in. For example, Cisco Systems is a quality company and hence an investment in the company is viewed by many investors as "conservative". While we believe this view is closer to the truth, it still misses the mark in one all-important aspect, namely the price paid. The reality is that an investment in a company at one price can be highly prudent and highly speculative at another. This is a fairly simple concept that many investors fail to internalize.

Just to make sure this concept sinks in, we can look at a real-life example. We would regard purchasing Cisco Systems at over $75.00 (over 100x earnings) during the "dot com" boom in 2000 as speculative and unlikely to end well. Fast forward fourteen years and Mr. Market was offering us the same stock at $17.00 or less than 10x earnings after factoring in the company's $34 billion hoard of net cash. We decided to take advantage at that time and still own the stock today in the Value Fund (cost base of $17.68). As we wrote in Scorecard #8 (August 2013):

> "*Cisco may not be a "sexy" investment but it possesses the attributes that we look for at GreensKeeper. 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."*

The natural extension of our approach is that as a stock appreciates in price, it becomes riskier and thus less attractive to purchase or to continue to hold. The inverse is also true. If we own a stock and it declines in value, it becomes *more* attractive to own and we prefer to add to our position *all else being equal*. That last bit is important. On occasion, major market price movements are due to fundamental factors affecting the company's business. These need to be investigated. But if nothing has changed, or if the factor is deemed temporary, we view price declines (or increases) as nothing more than noise and an opportunity to be taken advantage of.

The common sense definition of risk that we adopt at GreensKeeper has been best expressed as the risk of a permanent loss of capital. Stated more plainly, it is the risk that we lose our money for good. When evaluating a potential investment, if we judge that it fails to meet this initial hurdle, we simply pass and move on to the next opportunity. This doesn't mean that we never take any risks. The future is uncertain and largely unpredictable hence all investments bear some degree of risk. However, we prefer to take those risks only when we believe the odds are heavily in our favour.

We try and think of the possible outcomes, their probabilities and then handicap the expected outcomes. If the chances of a favourable outcome far exceed the downside risk, we put our capital to work. Despite what most investors are taught, prudently minimizing (but not completely eliminating) risk and achieving superior investment returns are not mutually exclusive.

Aversion to Leverage. Ingrained within our culture at GreensKeeper is an aversion to leverage on multiple levels. We do not use *any* leverage in the Value Fund. In fact, we have lagged certain US market indices largely by virtue of the fact that we have carried cash at all times during our three-year history. Unless highly attractive investment opportunities present themselves, we prefer the optionality that comes with holding some cash, even in the current low interest rate environment.

In addition, the companies that we invest in tend to be under-levered compared with both their borrowing power and their competitors. Great businesses, even well-managed ones, inevitably face economic cycles, unexpected headwinds and the occasional streak of bad luck. By possessing solid balance sheets, these companies place themselves in a position to weather the occasional storm and thrive while others that are not so well positioned fall prey to capitalism's creative destruction. We have looked at many companies in the past that were quite cheap on an earnings basis. However their balance sheets, amongst other factors, kept us away (e.g. Weight Watchers). We prefer to give up some potential upside in exchange for sleeping soundly at night knowing that our investee companies are not vulnerable to sudden collapse, even if the odds remote.

Circle of competence. We prefer to stick to our knitting by doing our work and investing in mundane businesses and industries that possess attractive economics that rarely change and that we can actually understand. With hundreds of companies in our investable universe, there is no need to stretch. We prefer to wait for the right opportunities and say "no" to virtually everything else. Most of the time these great businesses are priced to perfection. However, over an investing lifetime, many (most?) companies encounter some form of adversity which can lead to dramatic stock price declines. Our past investments in Tempur-Pedic and Western Union are perfect examples of opportunities suddenly presenting themselves:

Market panics (1987, 2000, 2008) are another good source of opportunities but they occur much less frequently than company-specific events. In either case, provided that the company's balance sheet and business franchise is strong enough to survive, the market's short-term reaction occasionally provides us with an attractive opportunity to invest. We believe that the hardest part about value investing is having the discipline to be extremely patient and to wait for our moment. Once it presents itself, provided that we have done our work, are correct in our analysis and have the courage of our convictions at the time that others are fearful, our fundamental job is to make the initial investment. Then we can stand back and let these companies compound the value of our investment over very long periods of time.

Discipline. We follow a very disciplined investment process and do a lot of work on a company before placing a buy order for the Value Fund. Our usual process includes reading years of annual reports, 10Ks, conference call transcripts, speaking with management or competitors, analysts, etc.

We undertake this detailed review in order to ensure that before buying, the investment meets our stringent criteria:

1. The company must possess attractive economics (high returns on invested capital (ROIC), returns on equity (ROE), low financial leverage (Assets/Equity), plentiful free cash flow, etc.) and operate in jurisdictions that respect the rule of law. At first glance, Russia and China appear to present many attractive investment opportunities. However we avoid these countries given our view that the rules of the game can quickly change. We get enough exposure to these areas of the world by investing in multinationals domiciled in more shareholder-friendly countries.

2. Shareholder-friendly management teams. We look for managers the treat their shareholders like owners and/or partners. In addition to seeing a demonstrable track record of attractive intelligent capital allocation decisions, we need to be confident that they are acting in our long-term best interests and not merely their own.

3. The price offered by Mr. Market needs to be attractive. Only by purchasing at a price that is at a meaningful discount to our calculation of a stock's intrinsic value can we ensure that we are purchasing with a sufficient Margin of Safety. By doing so, even if we make a few mistakes along the way (which we will), most of our investments should turn out quite well. Ensuring that we do not overpay for a stock, and even better, buying it at a large discount to it's true worth, is the most effective way to minimize risk while maximizing returns.

Built-in investor protections. When establishing GreensKeeper and the Value Fund, we built-in a number of protections for the benefit of our clients. The financial statements accompanying this Annual Report have been audited by a reputable firm (KPMG). We also provide clients with informal monthly updates and six-month (unaudited) financial statements. All client accounts are held directly with our broker – National Bank Correspondent Network (NBCN) – a subsidiary of a Canadian Schedule I Bank. NBCN also maintains direct custody of the Value Fund's assets, acts as the Value Fund's Recordkeeper and provides reports *directly* to clients. Finally, our financial statements and monthly Net Asset Value (NAV) calculations are prepared by a professional third-party fund administrator (SGGG Fund Services Inc.). In summary, the foundations of GreensKeeper were built to last as we grow our business over time.

Patience. What do we mean by the "long-term" that we discuss so often at GreensKeeper? After completing our third full calendar year of operations we would say that we are still in the early innings at GreensKeeper.

By being patient and waiting for high-quality opportunities we hope to avoid hidden landmines that can quickly decimate an investment portfolio. Our portfolio turnover has been very low for first three years of operation (no higher than 11.3% in any year). In addition to minimizing transaction costs (please don't tell our brokers) it has the added benefit of minimizing capital gains and allowing our wins to compound.

By being patient and taking a patient, long-term, conservative approach, over time we are bound to deliver attractive results. We would argue that one of the biggest challenges in building a successful value portfolio isn't identifying the types of companies that we want to own. It is having the temperament to wait for very attractive opportunities to present themselves and then having the courage to purchase the stock when others are fearful. It is only by doing our work and truly understanding the long-term prospects of these business that we put ourselves in a position to capitalize on these rare opportunities.

We hope that the foregoing gives you a sense of our approach to risk management at GreensKeeper. It is something that we constantly strive to monitor and manage effectively.

GreensKeeper
ASSET MANAGEMENT INC.
2020 Winston Park Drive | Suite 100 |
Oakville| ON | L6H 6X7
905.287.5596