GreensKeeper
ASSET MANAGEMENT INC.

2015 Annual Report

Chairman's Letter

Fellow Unitholders,

Two thousand and fifteen was the Value Fund's fourth full calendar year of existence. As promised in last year's Annual Report, in addition to enclosing the audited financial statements of the fund (courtesy of KPMG), we will continue to provide you with some commentary on the portfolio's performance for the year and to delve deeper into a major investment topic. This year the topic is the Sources of Investment Returns. It may be too detailed for casual readers, but we would recommend it to those looking to further refine their own investment approach.

Our goal at GreensKeeper, and the reason for the firm's existence, remains unchanged. Namely, to deliver attractive above-market returns to the firm's 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 done properly does just that. Long-term, steady compounding of capital may be less exciting than investing in a hot stock tip. But our conclusion is that it remains 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 GreensKeeper's clients. The reason for doing so is quite simple. I believe that GreensKeeper's approach to investing 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 the firm's clients with the benefit of knowing that we are paying attention to what we are doing. Having all of my own eggs in one basket tends to focus the mind. In my opinion, 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 +0.6% in 2015 (after all fees and expenses). The markets were largely bearish and more difficult to navigate this past year. However, we successfully used the volatility of the markets to our advantage. During periods when Mr. Market was happy and prices elevated, we elected to take profits on certain investments that we believed were selling at or above their intrinsic value. When fear and panic prevailed, we were able to accumulate shares in companies that we had been monitoring at attractive prices.

One example is our investment in **Microsoft Corporation** (Nasdaq:MSFT). We started buying Microsoft in November 2011 at an average cost of approximately $26.58 per share or what we calculated were 7.8x earnings after adjusting for the billions of net cash sitting on the company's balance sheet. The stock had been dead money for nearly a decade but earnings continued to grow handsomely. Multiple compression was the culprit for the poor stock returns during that period. The stock had traded at over 75x earnings in 2000 during the tail end of the dot-com bubble but the market had clearly lost interest in the company while we were buying it.

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Fast forward to May 2015. A new CEO was in place and he brought some fresh ideas to this sleepy but enormously profitable company. More importantly, the market was more upbeat on Microsoft's future prospects and began to value each dollar in earnings much more favourably. We took advantage by selling our entire position in May 2015 when the stock was trading at $46.96. Factoring in the $3.77 in dividends received along the way and our investment in Microsoft worked out quite well for us. Given the quality of the business and the price that we paid, we also viewed our investment as being fairly low risk.

Another example of how we used the market to our advantage in 2015 is **Home Capital Group** (TSX:HCG). The stock was down (43.9%) for the year, however our own experience was entirely different. As we disclosed in last year's report, we sold slightly more than one-half of our position at $52.43 in November 2014 as we believed the stock fairly valued. Calendar 2015 was a difficult year for the company as they discovered that certain mortgage brokers had submitted fraudulent loan applications to the company. Mortgage loans were then advanced by Home Capital based on those applications. Combine that company-specific issue with an overvalued Canadian housing market and the company once again attracted the attention of US short-sellers.

As a result of the foregoing, the stock sold off materially and traded in the mid-twenties at which point we started buying the stock aggressively. We believe that management now has a handle on the issue, the credit risk very low and the earnings impact short-lived. Earnings for Home Capital in 2016 should be at least $4.10 per share. In other words, we believed the shares to be materially mispriced at 6.6x earnings given the company's track record. The adjusted cost base of our position is $27.31, the company pays a dividend which it regularly increases and its capital ratios very strong. In fact, they have too much capital and management seems to agree as they recently launched a $150 million share buyback that will likely close in April 2016. Management clearly believes their shares to be undervalued. That doesn't make them right, but in this case our assessment agrees with theirs and we applaud the capital allocation decision.

Before moving on from Home Capital I would be remiss if I didn't acknowledge the incredible track record of Home Capital's 77 year-old co-founder and CEO Gerald Soloway who is retiring in May. Over the past 30 years, Mr. Soloway has built an extraordinary business. Equally as important, he has managed the company in a shareholder-friendly way. Ever-increasing dividends, prudent capital allocation, modest management compensation, etc. One specific example stands out in my mind. Way back in 2003, Mr. Soloway and a few others voluntarily converted their multi-voting founder shares into common shares without seeking or receiving any compensation for doing so. It was the right thing to do, but all too often senior executives put themselves first and not their shareholders. Mr. Soloway is that rare exception and we all owe him a debt of gratitude.

During the year **AT&T** (NYSE:T) successfully completed its acquisition of DirecTV. The purchase price, comprised of a combination of cash and shares of AT&T, was $93.24. The average cost of our former holding in DirecTV was $67.92 resulting in a decent capital gain. As a result of the transaction we now hold shares of AT&T with a cost basis of $34.22. The stock is up over 15% since we acquired them as a result of the transaction and they sport a 4.9% dividend yield. Until we find a more attractive investment opportunity, we are comfortable holding the shares for now.

As you might expect, we made our share of mistakes during the year. Our basket of supermajor oil companies (**Exxon Mobil**, **Royal Dutch Shell** and **Chevron**), originally purchased at the end of 2014 has not turned out as expected to date. We still own two of the three and are underwater on our investment, even after factoring in dividends received. The oil supply/demand imbalance is still slowly working its way out. This investment thesis may take longer than expected to bear fruit.

Another misstep was our investment in coal-mining equipment manufacturer **Joy Global** (NYSE:JOY) which we sold during the year. Our investment thesis in the company was simple, and simply incorrect. We knew that the mining of coal in North America was bound to decrease. But we believed that global demand for coal, from China in particular, would continue to grow as its energy demands increased. Coal has always been a dirty form of energy. What has changed is that coal is now a dirty word. Public opinion has clearly changed on the use of coal to generate electricity, even in developing economies such as China (the consumer of 50% of the world's coal). A hostile Environmental Protection Agency (EPA) in North America and a cheap and abundant substitute (natural gas) means that coal's headwinds are likely to continue.

Joy Global manufactures high quality coal mining equipment. When the coal market comes back, they are likely to generate attractive returns once again. But we struggle to find the conviction to be able to predict with any certainty when that will happen. It is important in investing to constantly evaluate new facts, question your assumptions, acknowledge when you are wrong and to then be able to accept that uncomfortable fact. We used the capital loss from our sale of Joy Global to offset some capital gains that we realized during the year in order to minimize the tax burden to our investors.

Finally, we added several new positions during 2015 including **Corus Entertainment** (TSX:CJR.B). We purchased the shares late in the year after a lengthy sell off at an average cost of approximately $9.90. The company also pays a monthly dividend of $0.095. To our surprise, shortly after purchasing the stock the company announced a major acquisition in a related-party transaction with Shaw Communications. We will discuss our investment in Corus and the transaction in greater detail shortly in the April edition of the Scorecard. For now, we will simply say that we remain comfortable with our investment and believe the shares undervalued despite the recent share price appreciation.

American Express (NYSE:AXP) was another meaningful addition to the portfolio. Our average cost is $71.73 and the shares are currently trading below that level. It isn't very often that you get to buy shares in a company of the quality of an American Express for 14x earnings. At current prices they are actually trading at 12x. The loss of their Costco co-branded relationship is weighing on the stock as are regulatory concerns, a strong US dollar and fears that technological changes could bring additional competition. But we believe the business intact and that this steady profit-generator will continue to grow its future earnings and will eventually be revalued by the market.

Overall, our total return of +0.6% for 2015 (after all fees and expenses) was the Fund's lowest full-year return in its four-plus year history Needless to say, we are happy to put 2015 behind us and are focused on delivering improved performance in 2016.

Annual Meeting

We hope that you can join us at our **5th Annual Meeting** at **7:00 p.m.** on **Thursday, June 9**. 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 at GreensKeeper. To all of our clients, thank you for your continued trust and for referring us to others.

Michael McCloskey
Chairman, President & Founder

March 30, 2015

Sources of Investment Returns

GreensKeeper's Approach to Stock Valuation

Before trying to calculate a stock's intrinsic value, it is critically important to keep in mind what a stock actually represents. When you invest in a stock, it is not merely a stock certificate or a blip on a computer screen that you have just acquired. You have just purchased an ownership interest in an operating business. Private business owners often have a better understanding of this concept and spend their time focused on operations, generating profits and how much cash they can take out of the business over time. They are not constantly obsessed with the value of their enterprise. But put a business broker outside of the owner's office and have them shout buy and sell prices for the business every few seconds and you can imagine how the owner's focus will quickly shift from the business to the latest price quote.

We have come across many definitions of a business' value over the years. But to us, the most rational definition of the intrinsic value is the discounted value of the cash that can be taken out of the business by its owner over its remaining life. Recognizing that a dollar in hand today is worth more than a dollar in hand ten years from now, future cash flows need to be discounted back to their present value using an appropriate discount rate. The appropriate discount rate is a function of the risk-free rate, or the amount that one can earn by investing money in virtually risk-free assets such as government bonds. In periods of low interest rates like the present where government bonds yield next to nothing, the discount rate will be lower and hence business valuations generally higher. In periods such as the 1970s when inflation was running higher than 14%, discount rates are higher and business valuations lower. If you can earn 15%+ on government-guaranteed bonds, you will certainly demand a higher return in exchange for assuming the risks that come with equity investments.

Our preferred approach to valuation leads us to favour businesses that generate significant *free cash flow* [1] – and the more of it the better. For companies that do not currently generate a profit or any free cash flow, provided that they will do so in the future, they still have value. However, we prefer businesses with a proven history of doing so. For every Facebook and Google, there are thousands of start-ups that die by capitalism's competitive roadside. Businesses with a long term track record of profitability and that are protected by an economic moat give us some comfort that future profits are reasonably predictable. And unless we can make a conservative and reasonable prediction of the future profits and free cash flow of a business, we are unable to properly value it. In those situations we simply pass on the opportunity and look for ones that meet our criteria.

Sources of Investment Returns

Assuming that we can get comfortable with a business' future prospects, we move to our next step in our calculation which is to consider the key drivers of investment returns as they apply to the company. Morningstar provides an elegant formula that will help demonstrate the critical factors that drive equity returns over the long term:

$$\textbf{Total Return} = \underset{A}{\underline{\textbf{Dividend Return}}} + \underset{B}{\underline{\textbf{Earnings Growth}}} + \underset{C}{\underline{\textbf{\% Change in P/E}}} + \underset{D}{\underline{\textbf{(Earnings Growth) x (\% Change in P/E)}}}$$

[1] *Free cash flow (FCF) is defined as operating cash flows less capital expenditures. The actual metric that we prefer is FCF's close cousin - Owner Earnings - which, in our view, is a better 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".*

Over time, the return on an equity investments is a function of three factors: (i) earnings growth; (ii) dividends and (iii) the multiple that the stock market places on a company's earnings (also known as the price-to-earnings or P/E ratio). A specific example of a former Value Fund investment will help to illustrate. For purposes of simplicity, we will ignore any currency impact.

We purchased shares of **Microsoft Corporation** (Nasdaq:MSFT) for the Value Fund starting in November 2011 at an average price of $26.58. Microsoft earned approximately $3.01 in cash earnings in 2011. Factoring in the excess cash held and repatriation taxes, we figure that we paid about 7.8x earnings. We sold our entire position in May 2015 at $46.96 per share. Microsoft earned $3.35 in cash earnings last year and traded at about a 12.4x earnings multiple (once again making an adjustment for the cash held). We received $3.77 in dividends over the 3.5 years that we held the shares. Using our formula, our total return on our investment was 92.3%. Our annualized return over the 3.5 years that we held the stock was approximately 20.5%.

A - Dividend Return = 14.2% (dividends received / original purchase price).
B - Earnings Growth = 11.3% ($3.35/$3.01 – 1).
C - Change in P/E = 60.0% (12.4x/7.8x-1)
D - (Earnings Growth) x (% Change in P/E) = 6.8% (11.3% x 60.0%)

Total Return = A + B + C + D
= 14.2% + 11.3% + 60.0% + 6.8%
= 92.3%

Dividends and earnings growth both contributed to our investment returns with Microsoft. But the most important factor by far, was the increased earnings multiple that the market placed on the company.

Warren Buffett has always encouraged investors to focus on the underlying business to earn your returns and not to the stock market. Our interpretation of this advice is that investors should seek out companies that are trading at reasonable earnings multiples, are growing their earnings and distributing excess cash to shareholders. If the earnings growth rate plus the dividend yield is attractive on its own, you don't need *any* earnings multiple expansion in order to earn a satisfactory return. If your analysis is correct on the business' prospects, eventually the market will reflect the value of the underlying business by way of an expanding P/E multiple. This can lead to extraordinary investment results. But a key to investing success is not to count on it. If the market's view of the company doesn't change over time and the earnings multiple remains constant, an investor's return will be equal to the earnings growth rate of the business plus the dividend yield. If you are happy with that result, you have likely found an attractive investment opportunity.

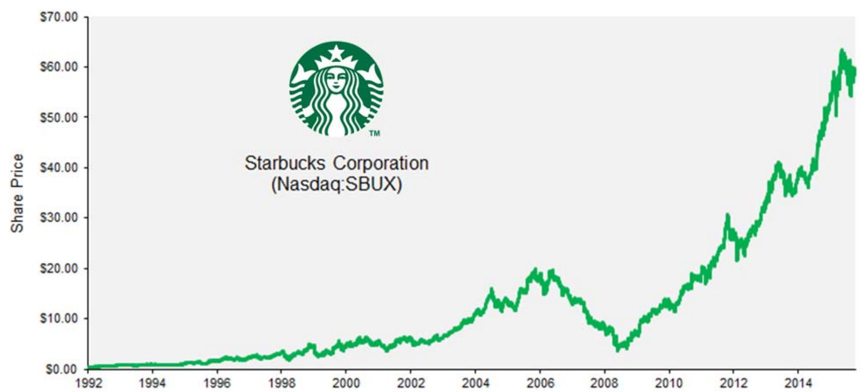
Earnings Growth

Let's assume that there are two businesses – Company A and Company B – that both make identical widgets. Also assume that both companies currently earn profits of $1.00 per share and retain all profits to fund future growth (e.g. no dividends). But the management of Company A is more skillful and is able to grow earnings at 10% per year while the management of Company B struggles to grow earnings at 5%. In five-years' time, Company A will be earning $1.61 per share while Company B will only be earning $1.28 per share. All else being equal, which business would you rather own? Clearly Company A is the better investment. If the stock market is places a 10x earnings multiple on all widget makers, the stock of Company A will increase from $10.00 today to $16.10 in five years' time while company B's stock will increase from $10.00 to $12.80.

In short, the faster that a company grows its earnings, the more valuable the business. The stock market recognizes this fact which is why faster growing businesses usually command higher trading multiples. But assuming that the earnings multiple doesn't change, an investor's return will be equal to the company's earnings growth rate plus the dividends received long the way (as both C and D in the formula above are equal to 0).

The foregoing should help you to understand our natural attraction to companies that generate high returns on equity (ROE). When a company can retain its earnings and then earn 20%+ on the incremental capital that it retains, they are in effect investing it on our behalf at attractive rates leading to rapid earnings growth. The power of compounding then takes over and over long periods of time, will deliver some truly extraordinary results.

Companies that steadily grow their earnings at attractive rates for long periods of time are often referred to as *compounders*. Starbucks (Nasdaq:SBUX) is but one example. The value of these companies grows or compounds over time. As a result, they are our preferred type of investment when we can purchase them cheaply. Unfortunately that doesn't happen very often. When you invest in a compounder, even if you make a mistake and pay a little too much, the business' value continues to grow and eventually catches up with the stock.



The alternative is to invest in what Warren Buffett refers to as *cigar butts.* These are unattractive businesses that are not growing in value. However, they are valued so cheaply by the market that you are bound to make a profit by investing in them. As Warren so eloquently puts it, these businesses may only have one last puff in them, but that puff is pure profit. We own one such business today.

The problem with cigar butt investments is that the longer it takes for the market to assign a reasonable valuation to the company, the lower our average return over our holding period. Buffett was right when he said that time is the friend of the wonderful business and the enemy of the mediocre. Charlie Munger's influence eventually led Warren to largely abandon his earlier style and focus on compounders. This switch has been a major factor in Buffett's unsurpassed track record of success. Learning from the best, we try and spend our time hunting for undervalued compounders.

Dividends

Unfortunately most of the great companies cannot indefinitely reinvest their earnings in their core businesses at attractive rates. In other words, these businesses generate too much cash to deploy intelligently. Management teams are tempted to retain the capital and to use it to diversify away from the core business, all too often with subpar results. This approach may not be optimal, but it does satisfy their own objective of increasing the size of their business empire. The more rational and shareholder-friendly approach that we seek are management teams that have the discipline to return the excess capital to the owners of the business. In theory, our preference for how they do so is a function of the trading price of a company's shares. When they are undervalued by the market, share repurchases are our preference. When they are fully valued or expensive, dividends are the better method.

Unfortunately most CEOs struggle to time their share repurchases appropriately.(2) Consequently, we generally prefer the discipline that dividends impose on management teams as shareholders expect them to be paid (and grown over time) uninterrupted. Studies have shown that dividends have historically comprised a large portion of investors' overall equity returns.

(2) *For a good book on those rare CEOs with an exceptional track record of capital allocation, I recommend reading "The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success." by William N. Thorndike.*

Earnings Multiples

Earnings growth and the P/E multiple are tied at the hip. As stated earlier, the market generally assigns higher multiples to companies that are growing their earnings quickly (as it should). As companies mature and growth slows, earnings multiples generally contract. It is simple math and we will avoid boring you with the details. A complicating factor is that highly stable business are awarded higher earnings multiples, even if their earnings growth rates are modest. The predictability of the earnings stream despite changing economic conditions is highly valued (think consumer staples stalwarts like **Colgate Palmolive** (NYSE:CL) and **The Coca-Cola Company** (NYSE:KO)).

As value investors, we prefer to invest in companies with lower earnings multiples. Companies with earnings that the market isn't currently placing a high value on for one reason or another. By doing so, provided that our assessment that the business challenges are temporary, earnings multiples are unlikely to contract in the future. In fact, the opposite (multiple expansion) is more likely to occur as the market's view of the company evolves. Our investment in **Microsoft** detailed above is a perfect example.

One final point is worth highlighting. There will be years where the companies that we invest in are increasing the value of their businesses by growing earnings and making investments that will result in increasing future earnings. Sometimes the stock market recognizes this and rewards a company for its efforts. At other times, the market may not appreciate the increase in business value or be focused on other factors (market panics are a good example of the latter case). It is always important to separate a business' intrinsic value from whatever price the market places on that business at any point in time. When the former is materially higher than the latter, we are buyers of the stock. Conversely, when the market is pricing the business in excess of our calculation of its intrinsic value, we are often sellers. And that, in a nutshell, is what value investing is all about.

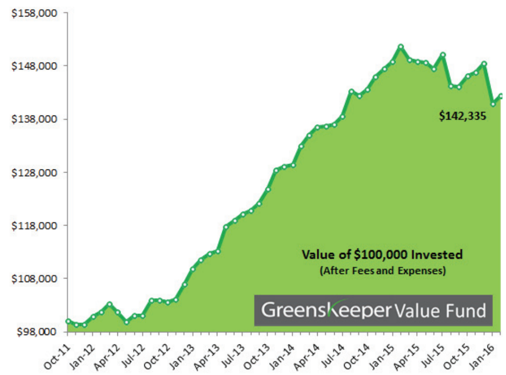
Putting it All Together

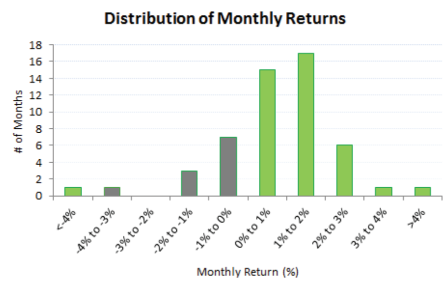
Using the tools above and others, we can come up with a reasonable estimate of the intrinsic value of certain businesses, conservatively calculated. That is how we arrive at our best estimate of a stock's true worth. The history of the stock market has shown that eventually the stock market's assessment of the business will mimic its true worth. 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.

Formulas are all well and good, but the real world is messy and the future largely unpredictable. Our estimate of intrinsic value is not an exact science. The intrinsic value of a business is impossible to calculate with pinpoint accuracy. As a result, it is important to buy a stock cheaply enough that we leave ourselves plenty of cushion or *margin of safety*. By doing so, even if our analysis isn't entirely correct, the results often turn out to be quite satisfactory.

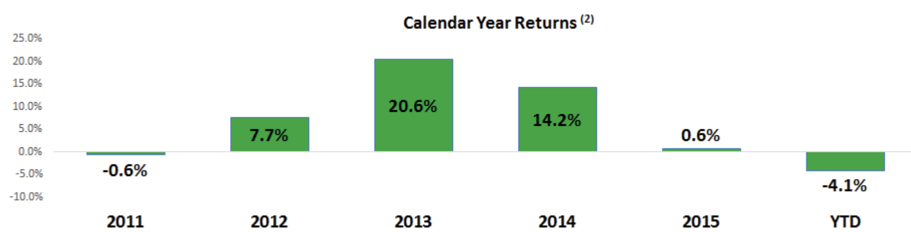
We hope that the foregoing gives you a better understanding of the drivers of equity returns and our approach to stock picking at GreensKeeper.

The GreensKeeper Value Fund





Returns (1)(2)	1 MO	YTD	Annualized 1 YR	3 YR	4 YR	Inception
Value Fund	**1.0%**	**-4.1%**	**-6.2%**	**8.5%**	**8.8%**	**8.5%**
S&P/TSX TR Index	0.5%	-0.7%	-12.9%	3.2%	3.5%	4.2%
S&P 500 TR Index ($US)	-0.1%	-5.1%	-6.2%	10.8%	11.4%	12.9%
S&P 500 TR Index ($CAD)	-3.5%	-7.2%	1.5%	21.4%	20.6%	21.3%



(1) Returns are as at Feb. 29, 2016.
(2) Prior to January 17, 2014 the Value Fund was managed by Lightwater Partners Ltd.

Investment Objective

We aim to deliver absolute returns to our 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.

Alignment of Interests

"I have over 70% of my family's net worth and 100% of our investable assets invested alongside our clients."

Michael McCloskey
B. Sc., J.D., MBA., CIM, AR
Founder & President

The GreensKeeper Value Fund

Minimum Investment	$150,000 ($50,000 for Accredited Investors)
Eligible for Registered Plans?	Yes (RRSPs, TFSAs, RESPs, etc.)
Launch Date	November 1, 2011
Type of Fund	Long equity, Long-term capital appreciation
Valuations	Monthly
Redemptions	Monthly on 30 days' notice
Management Fee	1.5% annual - (A series) 1.0% annual - (F series)*
Performance Fee	20% over 6.0% annual hurdle
Loss Carry-forward?	Yes

Service Providers

Investment Manager	GreensKeeper Asset Management Inc.
Custodian and Account Administrator	National Bank Correspondent Network
Auditor	KPMG LLP
Fund Administrator	SGGG Fund Services Inc.

* F series issued generally to purchasers who participate in fee-based programs through eligible registered dealers.

Investment Philosophy

Bottom-up fundamental analysis combined with the value investing methodology taught by our investing heroes: Benjamin Graham, Philip Fisher, Warren Buffett and Charlie Munger. We strive to purchase interests in high quality businesses for less than their *intrinsic value*. That discount provides us with our *margin of safety* to safeguard our clients' investments.

What We Look For :

Great Businesses: We prefer to stick to investments in businesses that we understand, with attractive underlying economics and that possess durable competitive advantages.

Solid Management: We seek investments in companies that are being run by competent and shareholder-friendly management teams.

Margin of Safety: We patiently wait for the stock market to offer us a price that allows us to buy a stock for a sufficient discount to our estimate of its intrinsic value.

GreensKeeper ASSET MANAGEMENT

Investment Philosophy (cont'd)

Our Best Ideas - The Value Fund is managed as a concentrated or "conviction" portfolio. We prefer to make a few large bets on 15-18 situations that we understand well and where we like the risk/reward trade-off. In other words, *our best ideas*.

Aversion to Leverage - We avoid the use of leverage. Doing so provides us with the benefit of never being forced to sell when market conditions are difficult.

"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 Ray,
Anesthesiologist
Royal Victoria Hospital

GreensKeeper ASSET MANAGEMENT

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