The Scorecard

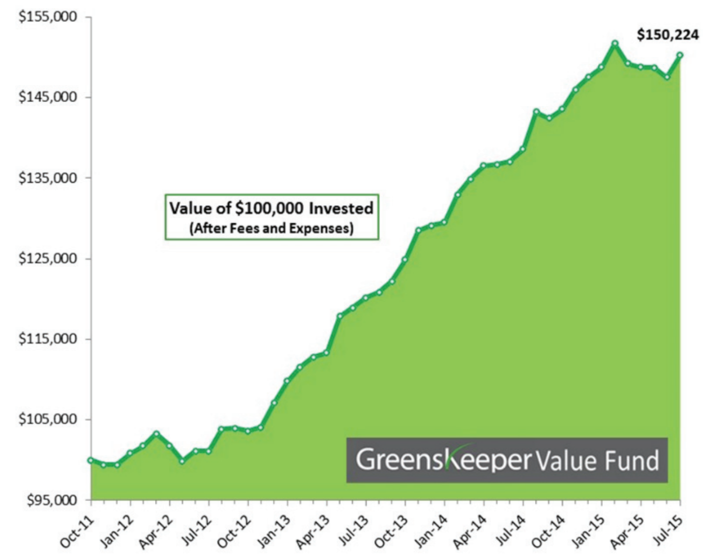
Issue #12 – August 2015

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.

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.

"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

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.

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

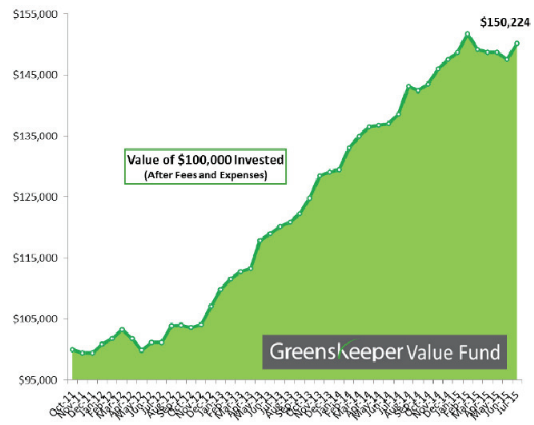
Minimum Investment	$150,000 ($50,000 for Accredited Investors)
Eligible for Registered Plans?	Yes (RRSPs, TFSAs, RESPs, etc.)
Launch Date	November 1, 2011
Type of Fund	Long equity, Long-term capital appreciation
Valuations	Monthly
Redemptions	Monthly on 30 days' notice
Management Fee	1.5% annual - (A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

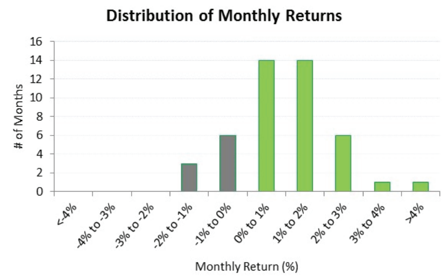
Service Providers

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.

The GreensKeeper Value Fund





2015	YTD	1-Year
Value Fund	**1.8%**	**8.4%**
S&P/TSX TR Index	0.6%	-2.9%
S&P 500 TR Index ($CAD)	16.5%	33.6%

Statistical Analysis

	Value Fund	S&P/TSX	S&P500 (CAD$)
Standard Deviation [1]	4.49%	8.19%	8.26%
Total Positive Months	36	28	35
Total Down Months	9	17	10
2014 Annual Turnover Rate	10.1%		

[1] Annualized and based on monthly returns since inception (Nov. 1, 2011).
[2] All figures as at July 31, 2015.

Corporate Profile

GreensKeeper Asset Management Inc. is an independent, owner-managed asset management company. GreensKeeper was over 15 years in the making. After successful careers as a lawyer at a major Toronto law firm (M&A, Corporate Finance) and an investment banker with Cormark Securities, a leading independent investment bank, Michael McCloskey established GreensKeeper in 2010.

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.

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

Michael McCloskey – Founder & President
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To learn more, please visit our website www.greenskeeper.ca or contact us.