GreensKeeper ASSET MANAGEMENT

The Scorecard

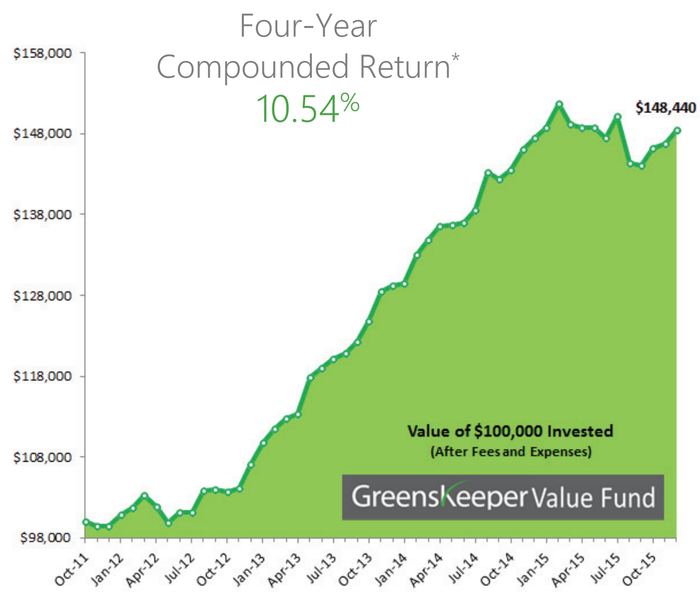
Issue #13 – January 2016

Tug of Wa℞

The Value Fund finished up +0.63% in 2015 (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.

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.

"Look at the cannibals."

Charlie Munger
Berkshire Hathaway

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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.

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.

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

Michael Pearson
CEO, Valeant

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.

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

Tim Wentworth
President,
Express Scripts

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.).

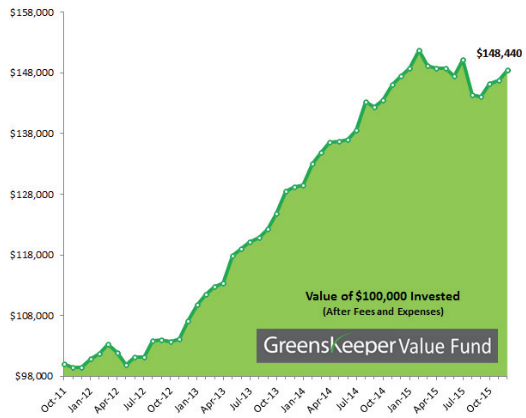
The investment game is a long one. Long term, we believe that we will continue to deliver attractive returns to our clients while prudently managing risk and preserving their capital. You should know that our approach is not merely academic. Our founder has over 70% of his immediate family's net worth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

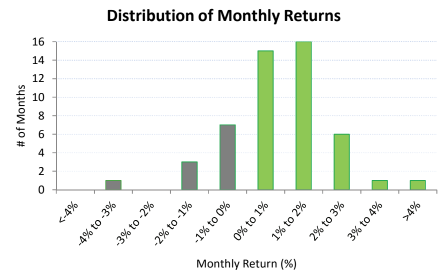
If our approach resonates with you or anyone you know, please give us a call.

Michael McCloskey
Founder & President

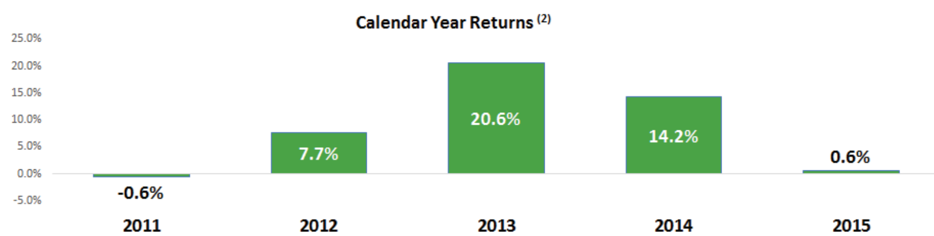
GreensKeeper ASSET MANAGEMENT

The GreensKeeper Value Fund





Returns (1)(2)	1 MO	YTD	1 YR	3 YR	4 YR	Inception
Value Fund	**1.2%**	**0.6%**	**0.6%**	**11.5%**	**10.5%**	**9.9%**
S&P/TSX TR Index	-3.1%	-8.3%	-8.3%	4.6%	5.3%	4.6%
S&P 500 TR Index ($US)	-1.6%	1.4%	1.4%	15.1%	15.3%	14.9%
S&P 500 TR Index ($CAD)	2.0%	21.0%	21.0%	28.5%	24.6%	24.4%



(1) Returns are as at Dec. 31, 2015. 1YR, 3YR, 4YR and returns since Inception (Nov. 1, 2011) are annualized.
(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.

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

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To learn more, please visit our website www.greenskeeper.ca or contact us.