The Scorecard

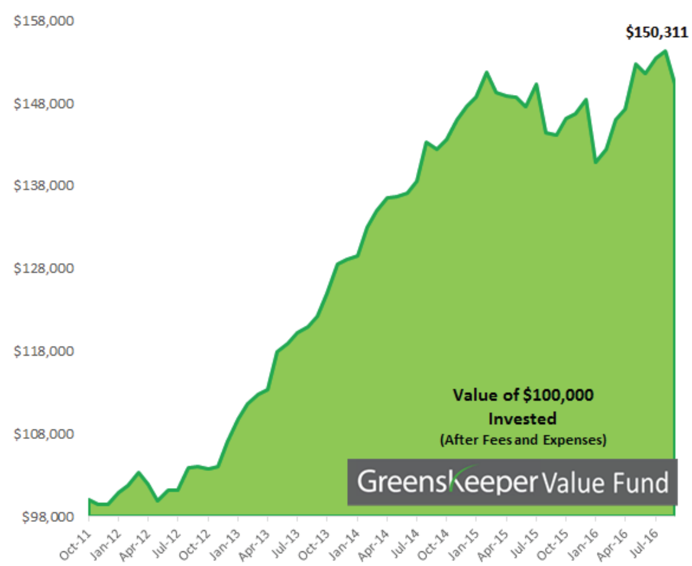
Issue #16 – October 2016

Do The Right Thing

The Value Fund finished down (0.8%) in Q3 (after all fees and expenses) and is up a modest +1.3% year-to-date (YTD).* Our best performers for the quarter were Cisco Systems +10.6% and American Express +5.4%. Our laggards were Home Capital (15.7%) and Coach (10.3%).

Our heavy weighing of US Financials (the worst-performing S&P Sector in September) and our holdings in Wells Fargo (NYSE:WFC) in particular were the primary contributors to the fund's pullback in September.

Given the recent events surrounding Wells Fargo and our holdings of the stock, it is the main topic of this quarterly Scorecard.



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%**
2016	-5.1%	1.0%	2.5%	0.9%	3.7%	-0.7%	1.2%	0.5%	-2.5%				**1.3%**

Spike Lee's Masterpiece

As a lover of film, I found myself reflecting on the recent passing of actor Bill Nunn who played the memorable role of Radio Raheem in Spike Lee's 1989 film *Do the Right Thing*. Having seen the movie during my formative years and given the film's cultural significance and controversial ending, I remember it well.

The film's title comes from a line given by another memorable character - DA Mayor – when he tells the film's protagonist Mookie to "always do the right thing" in life. That advice is equally useful when evaluating the management teams of companies that we are considering an investment in. After determining that a company possesses attractive economics and is also undervalued, we attempt to evaluate whether or not management is shareholder friendly. When evaluating a management team's skill, candour with shareholders and their capital-allocation decisions, we assess whether or not they 'do the right thing' for the company's stakeholders.

**Returns are as of September 30, 2016 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.*

Wells Fargo & Co. (NYSE:WFC)

In early September, Federal regulators fined Wells Fargo $185 million after discovering that the company's employees had been secretly issuing credit cards and other banking products to customers that hadn't requested them. Now, in any large organization, there will always be a number of employees engaged in wrongdoing. But this was different. It turns out that this fraudulent activity involved 1.5 million unauthorized bank accounts and 565,000 credit cards. Moreover, the misconduct had been going on since 2011 and the company had fired at least 5,300 employees that were involved. The scale of the problem caught our attention, and also that of the U.S. Congress in the midst of an election.

Wells Fargo Chairman and CEO John Stumpf was unceremoniously hauled before the Senate and House of Representatives to testify about the affair. As shareholders, we watched the proceedings with great interest. Despite expressing his regret for the improper activities of certain employees, Mr. Stumpf's answers to Congress left them (and me) disappointed. In short, he did not seem to grasp the gravity of the situation nor did he seem willing to accept any of the blame.

"Mr. Stumpf … evidently your definition of 'accountable' is to push the blame to your low-level employees who don't have the money for a fancy PR firm to defend themselves."

U.S. Senator Elizabeth Warren

Wells Fargo is known for its cross-selling prowess. Most consumers require numerous banking products throughout their lifetime (e.g. mortgages, credit cards, lines of credit). Whereas the average US customer has fewer than 3 products with their main bank, Wells Fargo prided itself on its industry-leading average of over six. Not being satisfied, Stumpf created an "Eight is Great" campaign to increase that metric further. This is where I believe that Mr. Stumpf lost the plot.

Incentives drive behavior and the senior management of any business is responsible for putting the proper incentives in place and defining a company's culture by setting the tone at the top. Wells Fargo employees were clearly incentivized to cross-sell which isn't bad per se. However, the stories that have since come to light demonstrate that the level of pressure being put on branch-level employees was unhealthy.

To make matters worse, several employees complained to senior management about the problem and were either ignored or fired. The fake products reportedly earned the company less than $2.6 million in fee income which has since been refunded. To give you some context, Wells Fargo earned $22.3 billion over the past year.

" Integrity is doing the right thing … when no one else is looking or will ever know…"

Charles Marshall
Author

A major goal of capturing more of a customer's banking business is to increase switching costs (e.g. making it more difficult for them to move their business elsewhere). Most consumers prefer the convenience of dealing with just one financial institution provided that they are offered competitive rates and decent service. Implicit in that relationship is that the products being offered are either desired and/or needed by the customer.

In our opinion, the entire affair has been poorly handled by both Mr. Stumpf and Wells Fargo's board of directors. This was a management and board failure that was entirely avoidable had the issues been properly addressed earlier when they first came to light. Fortunately, Mr. Stumpf finally, albeit belatedly, realized the seriousness of the situation and did the right thing by tendering his resignation. Being the CEO comes with the perks of extraordinary compensation. But it also comes with the responsibility of leadership which includes accountability when things go awry.

While Mr. Stumpf's resignation, in and of itself, will not put an end to this unfortunate chapter for Wells Fargo, it is a necessary first step in putting the matter behind the company. Wells Fargo has also committed to reimbursing affected customers and "making it right". A good start. The entire episode is disappointing to us as shareholders and has caused real reputational damage to the company. With that said, where to from here with our investment in Wells Fargo? Back to first principles.

Our Current View

Banking is largely a commodity business. In any commodity business, having a lower product cost than your competitors can be an attractive competitive advantage provided that the advantage is sustainable. In banking, scale and a low cost of deposits are two such advantages.

Wells Fargo has one of the lowest cost of deposits in U.S. banking due to their massive branch network and scale. The bank currently has $900 billion of deposits on hand with a remarkably low average cost of 0.16%. To a bank, deposits are its *cost of goods sold* as they lend those deposits out at higher rates and earn a spread known as a bank's Net Interest Margin (NIM). Wells Fargo currently earns a NIM of 2.82% on $1.73 trillion of interest-earning assets which produces about $47 billion of pre-tax net interest income.

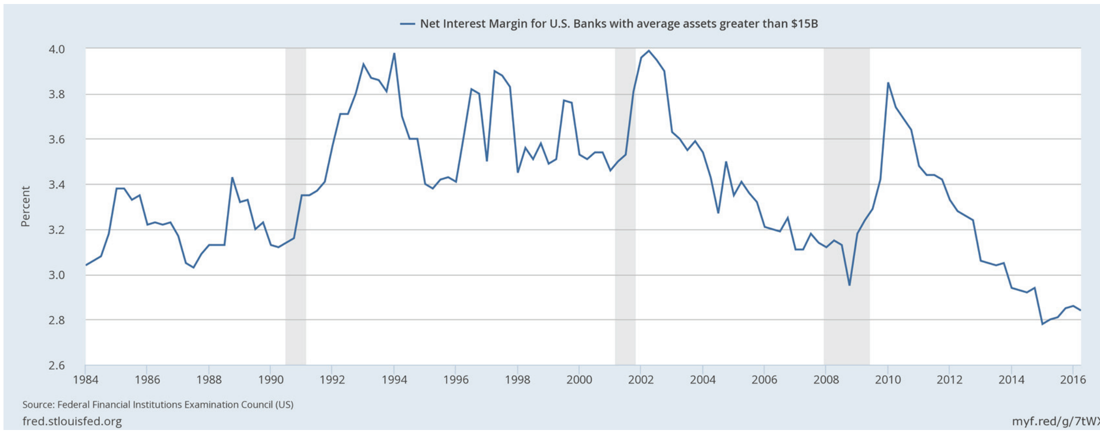
The bank is also very diversified in its business lines with lending being only about one-half of its revenues. Non-interest income (service charges, investment fees, credit card fees, etc.) from a diverse group of businesses generates another $41 billion in revenue. Add up those two income streams, deduct salaries, loan loss provisions and other operating costs and Wells Fargo generates about $33 billion of pre-tax income or about $4.00 per share (after-tax). It is a *very* good business.

However, the fake-accounts scandal has done real brand damage to the company. Banking, like investment management, is a business of trust. Wells Fargo will certainly lose some customers and some business as a result of their improper behaviour. There will be additional fines and likely additional litigation and settlements. But in our view, the core earnings power of Wells Fargo and the business franchise remains intact. Unless a material number of customers refuse to deal with Wells Fargo going forward and decide to leave the bank, we believe that this self-inflicted wound will heal in time as the headline risk dissipates. We believe that most customers that were not directly affected will be disappointed but then stay put rather than go through the hassle of moving their accounts, mortgages, etc.

Further, we have no reason to believe that the bank's conservative underwriting culture, which served them so well during the 2008 U.S. housing crisis, has been affected in any way. Loan delinquencies and charge-offs remain very low and the U.S economy remains healthy. The company's attractive return on assets (ROA) and operating leverage also appear to remain intact. At US$45.20 the stock currently yields 3.36% and Wells Fargo has consistently returned capital to shareholders through share repurchases. In this regard, the pullback in the stock is actually a positive as they can retire more shares for each buyback dollar spent.

"If something cannot go on forever, it will stop."

Herbert Stein
Economist



Equally as important to our investment thesis is our long-term view on interest rates. Eventually the US Federal Reserve will start to raise rates from their current all-time lows. Perhaps as soon as December. The result of increasing interest rates will be a widening Net Interest Margin on the company's $1.73 trillion of earning assets. A 0.25% increase in the Federal Reserve Rate will add approximately $600 million to the company's net interest income in the first year alone. As recently as 2009-2011 the company earned a NIM of 4.16% (vs. 2.88% today). We estimate that a reversion to those historical margins in a more normalized interest rate environment would increase earnings by over 70%. Now, that is unlikely to happen any time soon. But we like the fact interest rates should provided a tailwind for the company for years to come.

For all of the foregoing reasons, we remain comfortable owning the stock which we started buying in 2012 at $30.27 and have collected over four years' worth of dividends along the way. In summary, we believe that Wells Fargo's problems are surmountable and the stock modestly undervalued at current prices. Wells Fargo is a *compounder* that should continue to increase its *intrinsic value* for many years to come provided that its management team regains their focus on the customer and avoids additional self-inflicted wounds.

We've Moved

After six years we have moved offices (albeit only one building over). Please note our new address and phone number:

GreensKeeper Asset Management Inc.
2010 Winston Park Drive, Suite 200
Oakville, Ontario L6H 6P5
Tel. 905.827.1179

We are continuing to grow both our team and our assets under management. A heartfelt thanks to our existing clients for referring GreensKeeper to others. Please keep them coming!

Michael McCloskey
Founder & President

GreensKeeper
ASSET MANAGEMENT

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

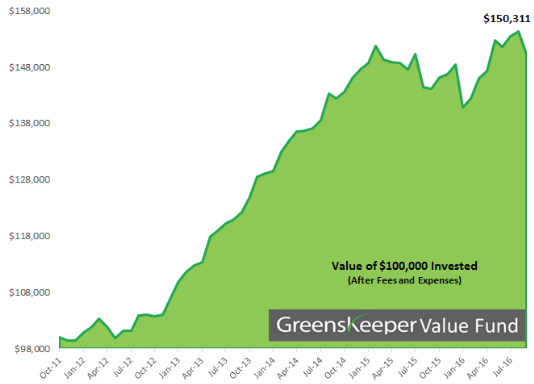
Minimum Investment	$150,000 ($50,000 for Accredited Investors)
Eligible for Registered Plans?	Yes (RRSPs, TFSAs, RESPs, RDSPs, LIRAs, RIFs, etc.)
Launch Date	November 1, 2011
Type of Fund	Long equity, Long-term capital appreciation
Valuations	Monthly
Redemptions	Monthly on 30 days' notice
Management Fee	1.50% annual - (A series) 1.00% annual - (F series)* ≤0.75% annual – (G series)**
Performance Fee	20% over 6.0% annual hurdle
Loss Carry-forward?	Yes

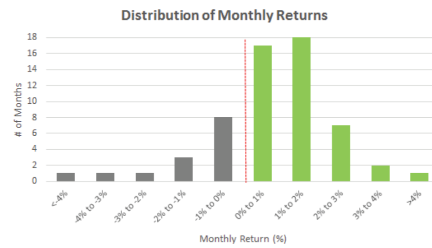
Service Providers

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

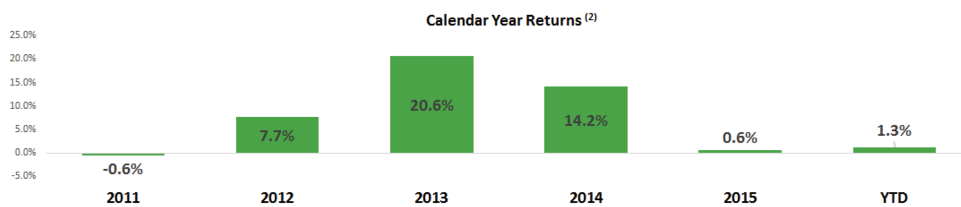
* F series issued generally to purchasers who participate in fee-based programs through eligible registered dealers.
** G series issued to large purchasers, institutional investors and dealers who have > $1 million managed by us.

The GreensKeeper Value Fund





Returns (1)(2)	1 MO	YTD	1 YR	3 YR	4 YR	Inception
			Annualized			
Value Fund	**-2.5%**	**1.3%**	**4.3%**	**7.1%**	**9.7%**	**8.6%**
S&P/TSX TR Index	1.2%	15.8%	14.2%	8.0%	7.8%	7.0%
S&P 500 TR Index ($US)	0.0%	7.8%	15.4%	11.2%	13.2%	14.2%
S&P 500 TR Index ($CAD)	0.0%	2.2%	13.5%	20.5%	21.6%	20.9%



(1) Returns are as at September 30, 2016.
(2) Prior to January 17, 2014 the Value Fund was managed by Lightwater Partners Ltd.

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 approximately 16 stocks 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

This is intended for informational purposes and should not be construed as an offering or the solicitation of an offer to purchase an interest in the GreensKeeper Value Fund or any other GreensKeeper Funds (collectively, the "Funds"). Any such offer or solicitation will be made to qualified investors only by means of a final offering memorandum and only in those jurisdictions where permitted by law. GreensKeeper Asset Management Inc. (GKAM) is registered in Ontario, Canada under the categories of Portfolio Manager, Investment Fund Manager, and Exempt Market Dealer. An investment in the GreensKeeper Value Fund is speculative and involves a high degree of risk. Opportunities for withdrawal/redemption and transferability of interests are restricted, so investors may not have access to capital when it is needed. There is no secondary market for the interests and none is expected to develop.

The fees and expenses charged in connection with this investment may be higher than the fees and expenses of other investment alternatives and may offset profits. There is no guarantee that the investment objective will be achieved. Moreover, the past performance of the investment team should not be construed as an indicator of future performance. In addition, the performance of the GreensKeeper Value Fund should not be mistaken for, and should not be construed as an indicator of future performance. The performance figures for the GreensKeeper Value Fund are unaudited, include actual or estimated performance or management fees and are presented for information purposes only. GKAM 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.

Certain statements contained in this presentation are based on, *inter alia*, forward looking information that are subject to risks and uncertainties. All statements herein, other than statements of historical fact, are to be considered forward looking. Such forward-looking information and statements are based on current expectations, estimates and projections about global and regional economic conditions as well as industries that are major markets for GreensKeeper Asset Management Inc. There can be no assurance that such statements will prove accurate and, therefore, readers are advised to rely on their own evaluation of such uncertainties. Further, to the best of management's knowledge the information throughout the presentation is current as of the date of the presentation, but management specifically disclaim any duty to update any forward looking information. The GreensKeeper Value Fund strategy in no way attempts to mirror the S&P/TSX or the S&P500. The S&P/TSX Composite Index and the S&P500 Index are provided for information purposes only as widely followed indices and have different compositions and risk profiles than the GreensKeeper Value Fund.

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