GreensKeeper ASSET MANAGEMENT INC.

The Scorecard

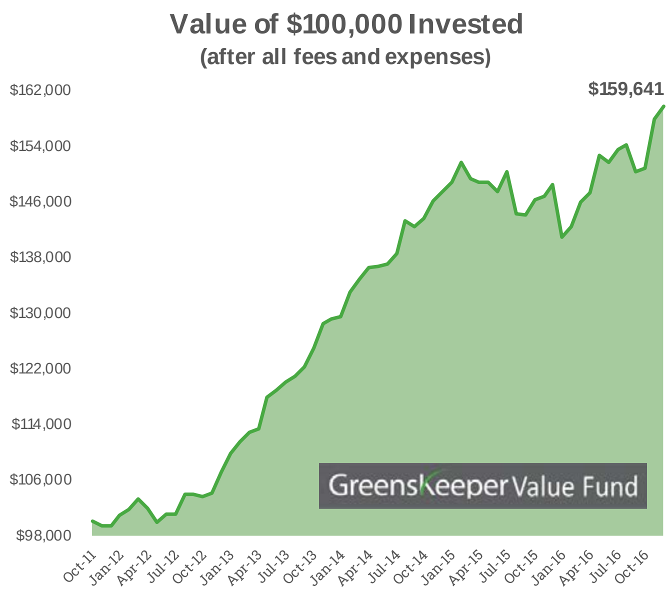
Issue #17 - February 2017

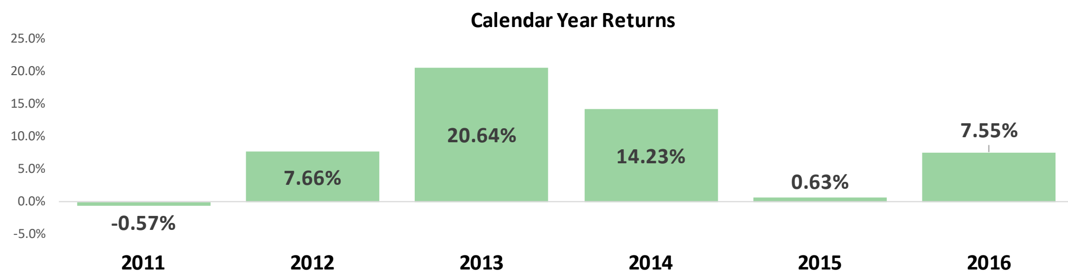
Avoiding Stupidity

The Value Fund returned +6.21% in the fourth quarter (net of fees and expenses) and we also established a number of new stock positions. Our best performers for Q4 were Urbana Corp. +34.7% and Wells Fargo +24.5%. Our worst performer was Cisco Systems (4.7%).

For the year, the Value Fund finished +7.55% (net). Currency headwinds from a strong Canadian dollar cost us about 3% of performance for the year. Overall, it was a so-so year for the Value Fund.

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 (KPMG) financial statements.





Notes: All returns and Value Fund details are based on Class A units and are net of all fees. The Value Fund was launched on November 1, 2011. Prior to January 17, 2014 the Value Fund was managed by Lightwater Partners Ltd. while Mr. McCloskey was employed by that firm.

Amazon.com, Inc. (Nasdaq: AMZN)

Before you jump to conclusions, we will state at the outset that we do not currently, nor have we ever owned Amazon in the portfolio. However, an examination of the company will help you to understand our stock filtering process and how we think about capital allocation at GreensKeeper.

We were inspired to write about Amazon after reading a recent newspaper article touting the stock. The author acknowledged that the company generates razor-thin profit margins and that the stock trades at a "ridiculously high" price-to-earnings multiple (171x to be exact). However, the columnist's conclusion was that despite the ridiculously high P/E, the stock was worth purchasing as it was likely to be even more pricey a year from now. That advice left us scratching our heads and eager to share a different perspective on the (un)attractiveness of Amazon as a potential investment.

"Everyone must choose one of two pains: The pain of discipline or the pain of regret."

Jim Rohn

Author and Entrepreneur

" I think part of the popularity of Berkshire Hathaway is that we look like people who have found a trick. <u>It's not brilliance. It's just avoiding stupidity</u>. "

Charlie Munger

While the future is always uncertain, let's be generous and assume that over the next five years, all of the following things transpire at Amazon (we would characterize this as an optimistic scenario):

1. Revenue continues to grow at 20% per year;
2. Profit margins triple from 1.6% at present to 4.9%;
3. The company doesn't issue any more stock options; and
4. Amazon is able to finance its growth without issuing any additional shares.

If all of that happens, Amazon will earn approximately $32 per share in 2021 versus $4.90 today. At the current share price of $839, this implies a 26x price-to-earnings multiple on those future earnings. By comparison, one of the best retailers in the world - Costco (Nasdaq:COST) - currently trades at a 30x price-to-earnings multiple. In other words, even if things go very right for Amazon, shareholders may not earn a satisfactory return given the current stock valuation.

Now, what could go wrong? First, the law of large numbers suggest that Amazon will likely struggle to maintain its current 20% revenue growth rate for the next five years. Second, even the best of retailers struggle to earn a 4.9% profit margin. For example, Costco earns about a 2% profit margin. Finally, dilution via stock options is virtually guaranteed. From our perspective, the risk/reward proposition for Amazon is markedly unattractive.

Recommending the stock based on a different view of how the future will unfold for Amazon is perfectly legitimate.[1] However, recommending the stock because it is likely to be even more pricey a year from now isn't. In fact, it has a name in the investment industry. It's called the *greater fool theory*. We would posit that this is not investing, it is pure speculation. Amazon may ultimately turn out to be a profitable investment - only time will tell. But for GreensKeeper and our clients, we will take Charlie Munger's advice (at left) and simply pass. A component of compounding capital is avoiding unforced errors. With a broad investment universe in which to look for value, we prefer putting our money to work when the odds of a favourable outcome are decidedly in our favour.

Thinking Like an Investor

The Amazon case study also highlights another important investing concept. Despite our distaste for the stock at current prices, we wish to be clear on one point. Amazon is an amazing company. Under CEO Jeff Bezos' visionary leadership, the company continues to grow rapidly by reinventing retail and online business services. As a consumer, we are big fans as our 14 orders of the past six months will attest. It is the *valuation* that we take exception with as illustrated in the graphic below.

Source: visualcapitalist.com, Yahoo Finance and Google Finance.

[1] For example, rapid expansion of higher margin services such as Amazon Web Services could cause future profit margins to exceed our 4.9% "optimistic" assumption. Unlikely in our view, but still feasible.

Amazon belongs to that class of companies that are wonderful from the perspective of the consumer. They deliver fantastic products and services and lower costs for us all. But as an investor, that is not nearly enough. In order to meet our standards and make it past our investment screening process, we require much more.

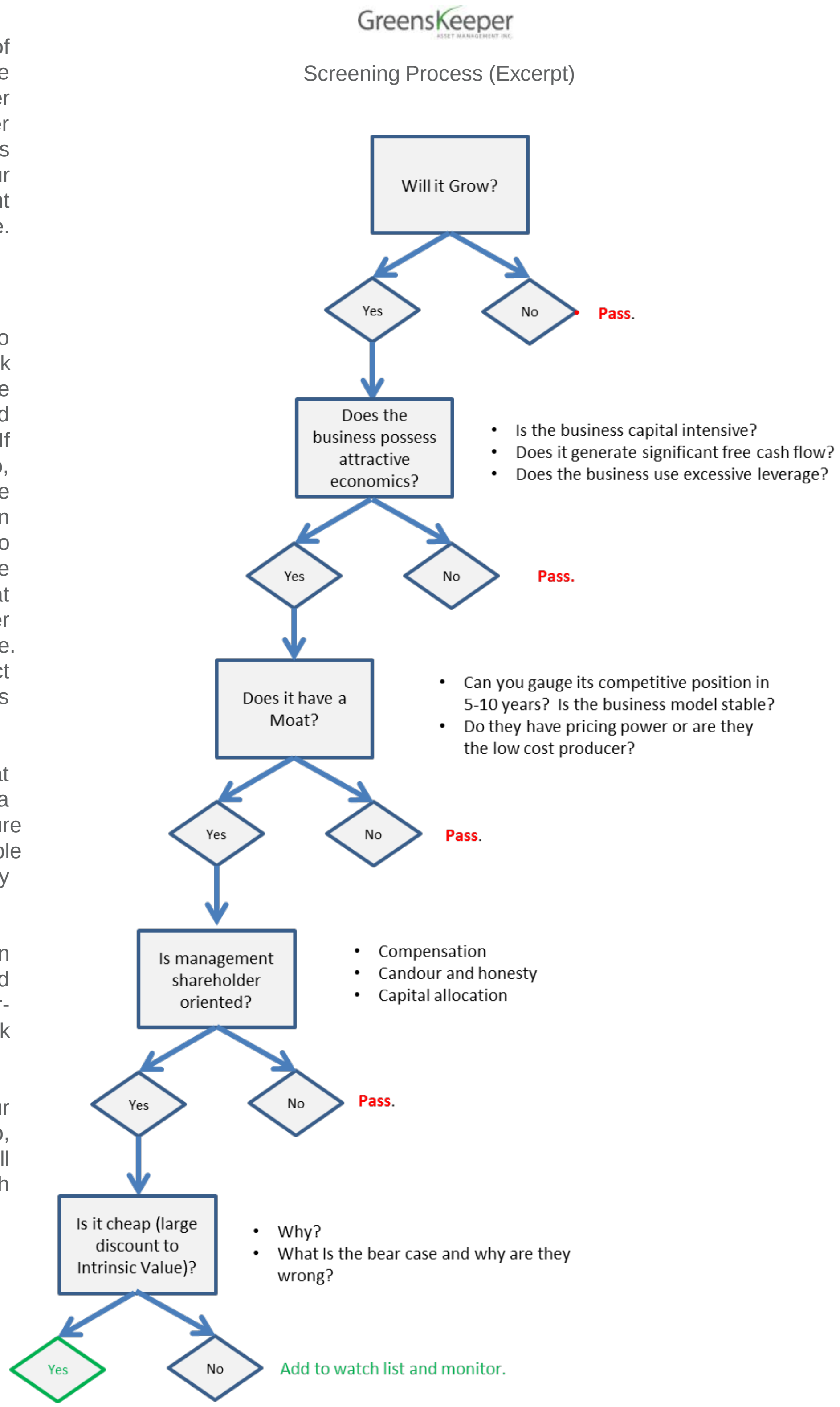
Our Screening Process

Businesses that we invest in also need to possess attractive economics. We look for companies that generate attractive returns on the capital that they employ and that generate plenty of free cash flow. If they do not, we simply pass. If they do, we still need to be convinced that the company's profitability is sustainable. In other words, the business needs to possess a durable competitive advantage that gives us the confidence to predict that the business will continue to deliver attractive returns on its capital in the future. Capitalism ensures that high profits attract competition which tends to lower margins and profits over time.

It is only certain special companies that possess both attractive economics and a moat that protect them from future competition. **Moats** come in multiple forms including patents, regulatory licenses, scale or a consumer brand.

Finally, for the few companies still in consideration, we need to be convinced that the management team is shareholder-friendly. In other words, they need to look after our interests and not just their own.

Very few companies make it through our stock filtering process. For those that do, we refer to them internally as our "All Stars". This is the fertile ground in which we hunt for opportunities.



But being an All Star is still not enough as even the best business is not worth an infinite amount of money. The price of a stock relative to our calculation of its true worth or **intrinsic value** is critically important. It is when you can find an All Star trading at a big discount to its intrinsic value that you will experience truly superior investment returns.

When the stars all line up, not only will the business continue to deliver increasing profits for years to come, but eventually what those earnings are worth will be repriced by the market. The combination of dividends, earnings growth and multiple expansion lead to killer returns for investors. It doesn't happen often, but on occasion these opportunities present themselves like **Starbucks** did in 2008. And that, in a nutshell, is how value investors like GreensKeeper succeed in the stock market while also mitigating risk.

Five Years and Counting

On October 31, 2016, we marked the five-year anniversary of the Value Fund and celebrated by welcoming a new employee to the GreensKeeper team. Michelle Tait is now assisting us with administration, compliance and also helping out with client enquiries. Our growth would not be possible without the support of our existing clients who continue to refer new clients to us. Thank you!

For those less familiar with our firm, you should know that we invest our own money alongside our clients (in my case, over 70% of my family's net worth and 100% of our investible assets). We are employee-owned and our clients get to deal with the principals of the firm who actually make the investment decisions. We are believers in capital preservation and disciplined practitioners of a time-tested valuing investing methodology which should be a component of every investor's portfolio.

In short, we are different. If you are interested in learning more over coffee, feel free to give either Kristine Beese or I a call.

Michael McCloskey
President & Founder

GreensKeeper ASSET MANAGEMENT INC.

"Value stocks are about as exciting as watching grass grow. But have you ever noticed just how much your grass grows in a week?"

- Christopher Browne

Investment Philosophy

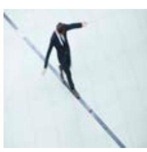
GreensKeeper believes in buying an interest in a quality business for less than its *intrinsic value.* That discount provides us with our *margin of safety* to safeguard our clients' investments.

AVERSION TO LEVERAGE

We avoid the use of leverage. As a result, we are never forced to sell when market conditions are difficult (and stocks are undervalued).

OUR BEST IDEAS

Only our best ~16 ideas find their way into the Value Fund. The benefits of further diversification make sense for some, but we prefer to assume shorter term volatility in exchange for what we expect will be longer-term outperformance.



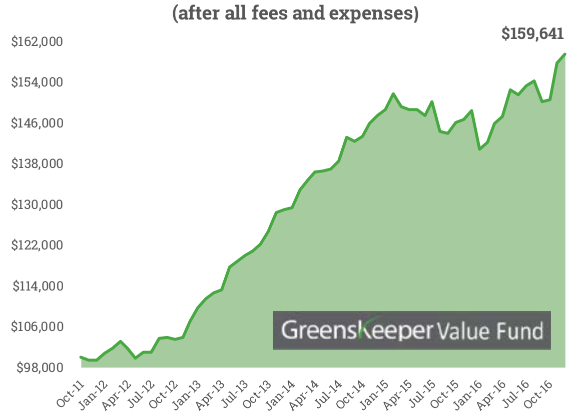
HOW WE VIEW RISK

We reject the Efficient Market Hypothesis and the premise that volatility is the proper way to define and measure risk. Instead we take the view that risk is best defined as the risk of a permanent loss of our clients' capital.

Performance

Value of $100,000 Invested

(after all fees and expenses)



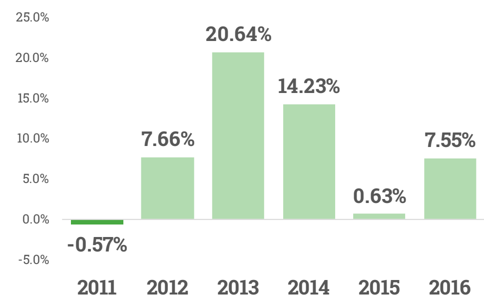
Investment Objective

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.

			Annualized			
Returns [(1)(2)]	**1 MO**	**YTD**	**1 YR**	**3 YR**	**5 YR**	**Inception**
Value Fund	**1.1%**	**7.5%**	**7.5%**	**7.3%**	**9.9%**	**9.5%**
S&P/TSX TR Index	1.7%	21.1%	21.1%	7.1%	8.2%	7.6%
S&P 500 TR Index ($US)	2.0%	12.0%	12.0%	8.9%	14.7%	14.3%
S&P 500 TR Index ($CAD)	2.0%	8.6%	8.6%	17.7%	21.2%	21.2%

Calendar Year Returns

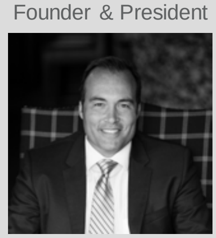
(after all fees and expenses)



Alignment of Interests

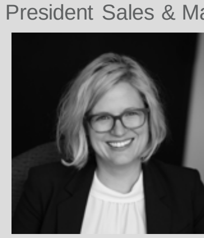
We invest our own money alongside our clients. In addition, our clients get to deal directly with the people making the investment decisions. Those same people are also the firm's principals.

Michael McCloskey
B Sc, JD, MBA, CIM, AR
Founder & President



905.827.1179
michael@greenskeeper.ca

Kristine Beese
B Sc, P Eng, MBA, AAR
Vice- President Sales & Marketing



647.784.6258
kristine@greenskeeper.ca

GreensKeeper ASSET MANAGEMENT INC.

Testimonials

"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

"I have known Michael for over 15 years and consider him a valued and trusted adviser. His prudent investment approach for the long term that ignores the short term market volatility is the reason we have invested much of our long term savings with him."

Erik de Witte
Entrepreneur, Former President
TD Financing Services

"Michael has a conservative yet productive approach to selecting companies to invest one's hard earned cash. I will be increasing my level of funds with Michael."

Peter McDonnell
Retired, Former President
Adcom Inc

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.

(1) Returns are as at December 31, 2016. (2) 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. 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. 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.