

Fear and Courage

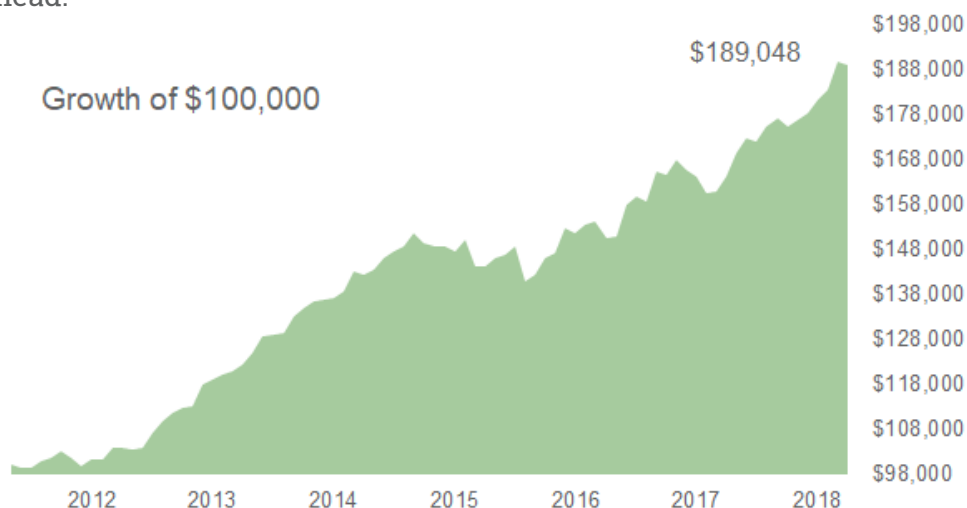
The Value Fund gained +4.4% in Q3 and is up +9.9% for the nine-months ended September 30, 2018. Year-to-date the S&P/TSX Total Return Index has gained +1.4% and the S&P500 is up +10.6% (+13.7% measured in Canadian dollars – the Value Fund’s reporting currency). Currency moves lowered our returns in Q3 but have helped us modestly in 2018.

Before diving into a portfolio review, the October market selloff is worth discussing. As of October 27, the S&P/TSX is down -7.4%, the S&P500 -8.8% and the Nasdaq -10.9% for the month. So why are we so sanguine? It isn’t just due to the fact that we are faring better than the major indices as we have during past pullbacks (we are down -5.5% this month). The real reason is that as longtime students of the market we have seen this movie play out before and plan to take advantage of it.

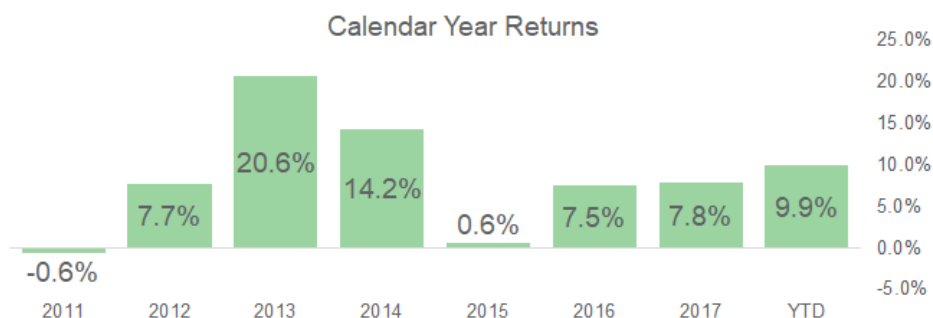
Every day for the past decade, CNBC, BNN Bloomberg and others have paraded a stream of intelligent guests voicing strong opinions about the equity markets’ next move. Occasionally their predictions were right. Often they were wrong. In our opinion, they are all missing the point and playing the wrong game (but it does make for entertaining TV).

When asked about the current market selloff and our prediction of the future market direction we simply shrug and admit that we have no idea. We also believe wholeheartedly that no one else does either. That may not make for great television – but we believe it to be true.

In order to be a successful equity investor, one must: (i) be able to accept the fact that markets will do crazy things from time to time and (ii) be able to keep one’s wits about one when they do. Volatility is the price one pays for equity-like returns. With risk-free (treasury) yields averaging about 2% since we launched the Value Fund, you could have invested \$100,000 without any worry and watched it grow to ~\$114,680. Instead, we have taken the bumpier ride and even with the recent decline have grown it into ~\$178,670. Even with the occasional severe pullback, we are still much farther ahead.



Notes: All returns and Value Fund details are as of September 30, 2018, 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.



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We also know that when markets are frothy, it is best to [avoid folly](#). In bull markets, it is tempting to invest in Bitcoin and emerging industries such as the Canadian cannabis sector, especially when everyone else seems to be making money doing it. At the risk of missing out on all the fun, we have been and will remain disciplined. While the cannabis sector will certainly grow, current valuations led us to conclude that it will end badly for most “investors”.

There is a concept in cycling that has been adopted by famed value investor [Tom Russo](#) that resonates with us – namely the **capacity to suffer**. There will be times when our prudent value investing approach will be out of step with the markets and we will experience the pain of looking foolish for ignoring expensive and/or poor-quality stocks. But our long-term and patient approach when things aren’t going our way serves us well when panic returns. The ability to endure short-term pain (be it psychological, emotional and/or physical) often leads to long-term rewards. Buffett has often said that temperament is more important than intelligence in investing. Fortunately we were wired a certain way that happens to be helpful in the investing arena.

We can’t predict *when* markets (or individual stocks for that matter) will correct. But we do know for a fact that they will. Markets continuously oscillate between greed and fear, albeit with varying frequencies. We also know that over the long term, markets rise due to inflation and the accumulation of retained earnings. That is a rising tide that we wish to take advantage of for many years to come.

**“Prediction is very difficult,
especially about the future.”**

Niels Bohr– Physicist, Nobel Laureate

While we can’t time short-term market moves, we do know how to value certain businesses, how to spot a bargain and how to take advantage of them when they appear. Plunging markets provide the environment in which great opportunities (the seeds of future capital gains) are found.

In a declining market, we are able to acquire additional earnings power for each incremental dollar invested. Accordingly, lower stock prices actually *reduce* the riskiness of an investment. When the market is down 7-10% from its peak, certain stocks that we track can be off significantly more than that. And when they are, we pounce. For long-term investors, widespread fear is our friend.


Portfolio Review

In Q3 we closed out our position in **Express Scripts** (Nasdaq:ESRX). We have [previously](#) laid out our investment thesis in detail. Given our familiarity with the company, our conviction on the M&A situation and our assessment of limited downside risk, we made a large bet (6.8% weighting) that the acquisition by **Cigna** (NYSE:CI) would successfully close. Once all regulatory and shareholders approvals were obtained, the deal spread narrowed significantly and we fully exited the stock. We ended up with a +23% return on our Express Scripts investment in just over five months.

During the quarter, we also fully exited our previously-undisclosed position in **Williams-Sonoma** (NYSE:WSM). Our investment thesis was straightforward. In late 2016 the stock sold off significantly due to fears of emerging competition in furniture and home goods from online competitors **Amazon** (Nasdaq:AMZN) and **Wayfair** (NYSE:W). With the economy healthy and the housing market in good shape, we viewed the selloff as overdone and acquired the stock at \$48.52 per share.

Our view was that WSM's strong brands (including Williams-Sonoma, Pottery Barn, West Elm, etc.), physical stores and customer loyalty would enable the company to successfully fend off these emerging online competitors. Importantly, WSM has also fully embraced online selling for consumers that prefer that option. Over 50% of the company's sales are through its online (higher-margin) channel. The company's debt-free balance sheet also gave WSM the ability to maneuver.

Fast forward 20 months and the company delivered revenue growth, decent margins and increasing dividends. The market rerated the stock and we sold out in August at \$71.21 per share. Our overall gain was +52.3% with dividends included. Even today, the market remains enamored with fast-growing but unprofitable online companies such as Wayfair. We find the valuation discrepancies mindboggling:

	WILLIAMS SONOMA	
Market Capitalization	\$4,584	\$9,751
Sales	\$5,457	\$5,697
Net Income	\$264	-\$358
Adj. EPS	\$3.96	-\$2.91
Share Price*	\$56.90	\$108.73
P/E (trailing)	14.4x	nm

Currency in millions of US\$ (except per share items).

* As at October 27, 2018

In addition to our sales of ESRX and WSM, our top three contributors for Q3 were **Berkshire Hathaway** (NYSE:BRK.A) +14.7%, **Cisco Systems** (Nasdaq:CSCO) +13.1% and **Visa** (NYSE:V) +13.3%. Our laggards for the quarter were **Wells Fargo** (NYSE:WFC) -5.2%, **S&P Global** (NYSE:SPGI) -4.2% and **Booking Holdings** (Nasdaq:BKNG) -2.1%. Subsequent to the quarter we have trimmed a few existing positions and started adding a few new names that have been selling off steeply in October. We will save a discussion of these latest moves for a future newsletter.

Bookshelf

I recently had the pleasure of attending an investment conference in Toronto where the keynote speaker was Bill Browder - the author of *Red Notice* which is one of my favourite books on the investment industry.

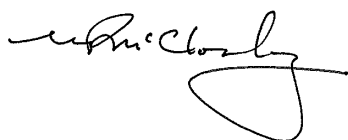
Red Notice is a gripping and sad but true story about corruption in post-Soviet Russia and the author's quest to deliver justice to the family of his former accountant Sergei Magnitsky. Mr. Magnitsky was murdered by the Russian state while wrongfully incarcerated in prison.

The book reinforced in my mind why we avoid investments in countries like Russia, China and Saudi Arabia that fail to embrace the rule of law. Beyond taking in the book's investment lessons, I was inspired by Mr. Browder's courage in trying to right a grave injustice despite his long odds and powerful adversaries. To date, he has been successful in getting a "Magnitsky Act" enacted in the US, Canada and several other countries to punish those responsible.

Unfortunately Mr. Browder's fight has come at a tremendous personal cost. His considerable security detail is a stark reminder that Mr. Browder will likely live the rest of his life in constant fear of being killed by the Russian state. I highly recommend *Red Notice* to finance and non-finance professionals alike.

We recently updated the [Bookshelf](#) section of our website with some of our favourite reads. We are voracious readers at GreensKeeper but can't read everything. If you come across something that is noteworthy, please drop me a note.

October 27, 2018



Michael McCloskey
President & Founder



GreensKeeper Value Fund

As at September 30, 2018

Fund Details

	Class A	Class F*	Class G**
Fund Codes	Pending	Pending	Pending
NAV	\$16.33	\$16.47	\$12.67
MER (%)	1.8%	1.3%	< 1.8%
Load Structure	No Load		
Performance Fee	20% over 6.0% annual hurdle		
Min. Initial Investment	\$50,000		
Min. Investment Term	1 Year		
Registered Plan Status	100% Eligible (RRSPs, TFSA's, RESP's, RDSP's, LIRAs, RIFs, etc.)		
Inception Date	November 1, 2011		
Type of Fund	Long equity, Long-term capital appreciation		
Fund Category	Global Equity		
Currency	CAD		
Valuations	Monthly		
Redemptions	Monthly on 30 days' notice		
Distribution Frequency	Annually (December)		
	Dec. 31	(\$/unit)	
	2012	\$0.2318	
	2013	\$0.2147	
Fund Distributions (Class A)	2014	\$0.6542	
	2015	\$0.2939	
	2016	\$0.5416	
	2017	\$0.0000	

Service Providers

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

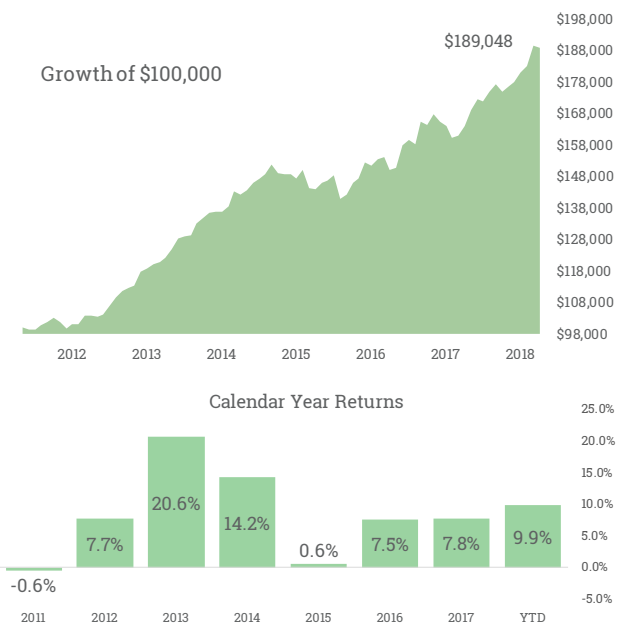
Investment Objective

To deliver absolute returns to unitholders (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. The Fund seeks to accomplish its set objective through investments in a concentrated portfolio, primarily in equities from any sector and market capitalization.

Investment Eligibility

Accredited Investors including Investment Advisors (IAs) with long-term time horizons seeking to better protect and diversify their clients' equity portfolios.

Portfolio Performance (Class A)



Compound Returns ⁽¹⁾⁽²⁾	Annualized					
	1 MO	YTD	1 YR	3 YR	5 YR	Inception
Value Fund	-0.2%	9.9%	15.3%	9.5%	9.1%	9.6%

Portfolio Allocations

Asset Mix *

U.S. Equity	77.1%
Cash and Equivalents	14.2%
European Equity	7.6%
Canadian Equity	1.1%

Sector

Technology	24.3%
Financial Services	18.6%
Insurance	17.6%
Cash & Equivalents	14.2%
Consumer & Retail	7.5%
Energy	5.8%
Healthcare & Pharma	5.3%
Industrial	4.0%
Communication & Media	2.8%

* Based on corporate domicile.

GreensKeeper Value Fund

Portfolio Manager



Michael McCloskey
B Sc, JD, MBA, CIM, AR
Founder, President &
Chief Investment Officer
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Our founder is among our largest investors and has over 70% of his family's net worth invested alongside our clients.

- Former Investment Banker (2002-2010)
- Former Lawyer (Partner), Securities and M&A (1995-2002)

Statistical Analysis ⁽³⁾

	Value Fund	S&P/TSX	S&P500 (SCAD)
Fund Beta vs. Selected Index	n/a	0.34	0.45
Standard Deviation	5.9%	7.7%	9.4%
Sharpe Ratio	1.47	0.84	1.90
Best Month	4.7%	5.3%	6.9%
Worst Month	-5.1%	-6.1%	-5.5%
Percentage Positive Months	73.5%	63.9%	73.5%
Maximum Drawdown	-7.1%	-14.3%	-7.8%
CAGR Since Inception	9.6%	7.2%	19.9%

Investment Philosophy

We follow a time-tested value investing process and conduct bottom-up fundamental research to identify attractive and underpriced equity investments for the portfolio. GreensKeeper believes in buying an interest in a quality business for less than its true worth or *intrinsic value*. That discount provides us with our *margin of safety* to safeguard our clients' investments.



Aversion to Leverage

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 ~20 ideas find their way into the Value Fund. 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 premise that volatility is the proper way to define and measure risk. Instead we believe that risk is best defined as the risk of a permanent loss of our clients' capital.

Disclosures

⁽¹⁾ All returns are as at September 30 2018. ⁽²⁾ GreensKeeper Asset Management Inc. (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. ⁽³⁾ Where applicable, all figures are annualized and based on monthly returns since inception. Risk-free rate calculated using 90-day CDN T-bill rate. * Class F Units are for purchasers who participate in fee-based programs through eligible registered dealers. ** Class G Units are for purchasers and dealers who have greater than \$1 million managed by GreensKeeper and who enter into a Class G Agreement with us. Class G Units are not charged a management fee or performance fee by the Fund as Fees are paid directly to the Manager pursuant to the Class G Agreement.

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The Funds are offered by GKAM and distributed through authorized dealers. Trailing commissions, management fees, performance fees and expenses all may be associated with an investment in the Funds. The fees and expenses charged in connection with this investment may be higher than the fees and expenses of other investment alternatives and may reduce returns. There is no guarantee that the investment objective will be achieved. Past performance should not be mistaken for, and should not be construed as an indicator of future performance. The performance figures for the GreensKeeper Value Fund include actual or estimated performance or management fees and are presented for information purposes only. This document has been compiled by GKAM from sources believed to be reliable, but no representations or warranty, express or implied, are made as to its accuracy, completeness or correctness. All opinions and estimates constitute GKAM's judgment as of the date of this document, are subject to change without notice. GKAM assumes no responsibility for any losses, whether direct, special or consequential, that arise out of the use of this information. 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. 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 GKAM's knowledge the information throughout the presentation is current as of the date of the presentation, but we 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.

GreensKeeper Value Fund



Disciplined

Value Investing is simple, but not easy. At GreensKeeper we put in the work and have the proper temperament to succeed in the stock market.

Alignment of Interests

Our founder is among our largest investors and has over 70% of his family's net worth invested alongside our clients. Does your investment manager have any of his/her own money invested alongside yours?

Owner Managed

Our clients deal directly with the people actually making the investment decisions. Do you know who is managing your money?

#DemandMore

GreensKeeper Value Fund

Testimonials

Don't just take our word for it. See what our clients are saying :

"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 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

"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

"We began investing with GreensKeeper in 2013. A large portion of our three grandchildren's education money is guided by Michael McCloskey and his patient advice. We have a long-term view towards investing and trust in the fund's risk aversion strategy for preservation of capital. I recommend GreensKeeper to my friends and family."

Timothy A. Brown
President & CEO
ROI Corporation

The foregoing testimonials are from existing GreensKeeper client families and may not be representative of the views of all people or investors. Certain testimonials were provided unsolicited and others were provided by request.