GreensKeeper
ASSET MANAGEMENT INC.

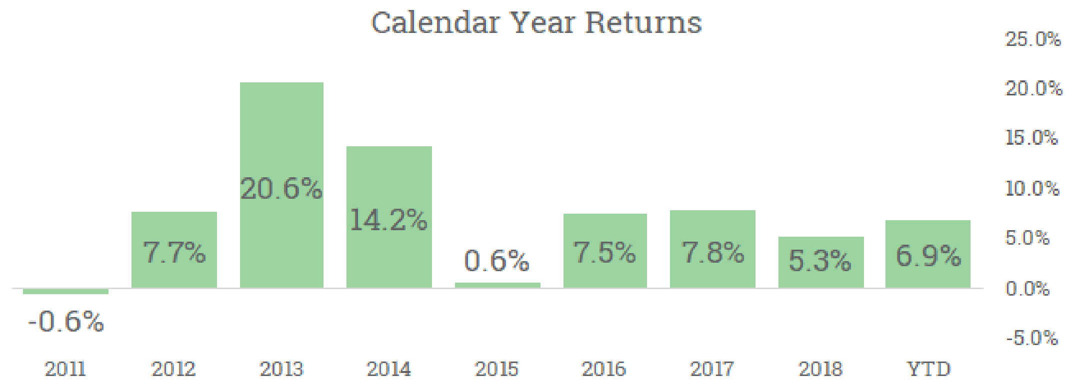
The Scorecard
Issue #25 - April 2019

Booking.yeah

The Value Fund returned +6.9% in Q1 2019 net of fees and expenses (or approximately +7.9% gross). Currency movements lowered our returns in Q1 by just over 2% as we hold a large portion of the portfolio in U.S. dollar-denominated stocks whereas our reporting currency is the Canadian dollar.

Our top performing stocks for Q1 were **Facebook** +27.2% (Nasdaq:FB), **American Express** +14.7%, (NYSE:AXP), **Apple** +20.4% (Nasdaq:AAPL) and **Visa** +18.4% (NYSE:V). Given the strength of the overall market, we only had two stocks that were down for the quarter: **Berkshire Hathaway** -1.6% (NYSE:BRK.A/B) and **Tapestry** -3.7% (NYSE:TPR).

Our Q1 returns were attractive on an absolute basis. However, we lagged our benchmarks for the quarter (having beat them in 2018). Markets have been buoyant and we remain mindful of risk given market valuation levels. We tend to really shine when markets are ugly. Which is a good segue into a discussion of where we are in the market cycle.



Mastering the Market Cycle

I recently read Mastering the Market Cycle by legendary value investor Howard Marks of Oaktree Capital. Having read his investment memos over the years, I know that Mr. Marks is a deep thinker and generously shares his useful insights on the financial markets.

In the book, he analyzes the economic cycle, cycles impacting stock, real estate and credit markets and investor psychology. He also offers advice on how best to position investments in response to these cycles.

What was most interesting from my perspective is that Oaktree, like GreensKeeper, is not a market timer. Mr. Marks shares our view that being able to gain an edge by consistently timing market cycles cannot be done. However, this doesn't mean that market cycles can or should be ignored.

The nuance is that by keeping your eyes open, one can get a sense of the relative valuation of assets, where investors are on the greed-versus-fear continuum and overall risk levels.

For example, the current economic expansion that began in 2009 is getting very long in the tooth. Unless you believe that recessions are a thing of the past—a view that we do not share—we are likely to encounter a recession in the coming years. The economic cycle will eventually turn – we just don't know exactly when. But the point is that we don't need to. We just need to be approximately right and ensure that our portfolio and the companies that we own are positioned to weather that future storm when it arrives.

Looking at another cycle, the stock market has been practically straight up for the past decade. As bull markets age, companies of lesser quality often come to market at rich valuations. I have been investing long enough to remember the dot-com mania leading up to the year 2000 and how badly it ended. In that era, an exciting business plan and not much more was a golden ticket to a multi-billion-dollar IPO valuation.

Looking at the current generation of tech companies that are now coming to market in droves, we would concede that they generally have more established businesses than the prior generation. For example, ride sharing services Uber and **Lyft** (Nasdaq:LYFT) actually provide a useful service and an improved user experience compared with traditional taxis. As a consumer, I am a user and a fan.

That said, Uber's and Lyft's business models and paths to profitability are suspect. The market environments of 2000 and today may not be identical. But as Mark Twain was reported to have said: history doesn't repeat itself but it often rhymes.

Lyft completed its IPO last month and the oversubscribed offering valued the company at $72 per share giving Lyft a valuation of more than $20 billion. Yes the company's revenues are growing quickly, but so are its expenses. Last year the company *lost $911 million* on revenues of $2.2 billion. Analysts estimate that the company will not be profitable at any time over the next four years. It doesn't surprise us that despite an initial pop, the stock has now sold off close to 20% just weeks later.

When we step back and take a look around at the current market environment, what do we see? We see many other unprofitable companies coming to market at nosebleed valuations.[(1)] We see insider selling. We see unprofitable Canadian marijuana companies trading at ridiculous levels of revenue. Tilray (Nasdaq:TLRY) is down over 50% from our bearish call of six-months ago. It is still wildly overvalued.

The current market environment strikes us as one where people have let down their guard and forgotten about risk (and history). It is never a good idea to forget about risk, especially for investors. When markets are frothy, it becomes even more important as risks are heightened and severe reversals can lead to painful consequences. We are always mindful of risk but especially so when others are not.

We are prepared to put capital to work in any market environment provided that the specific opportunity is paying us appropriately for the risk assumed. In the current market environment, those opportunities are few and far between. But we keep turning over rocks, monitoring companies that we would own at a certain price and remaining patient. If we don't find something intelligent to do today, we will simply bide our time.

"The two most powerful warriors are patience and time."
Leo Tolstoy

(1) Lyft Leading Wave of Startups That Will Make Debuts With Giant Losses: *The Wall Street Journal* – March 25, 2019.

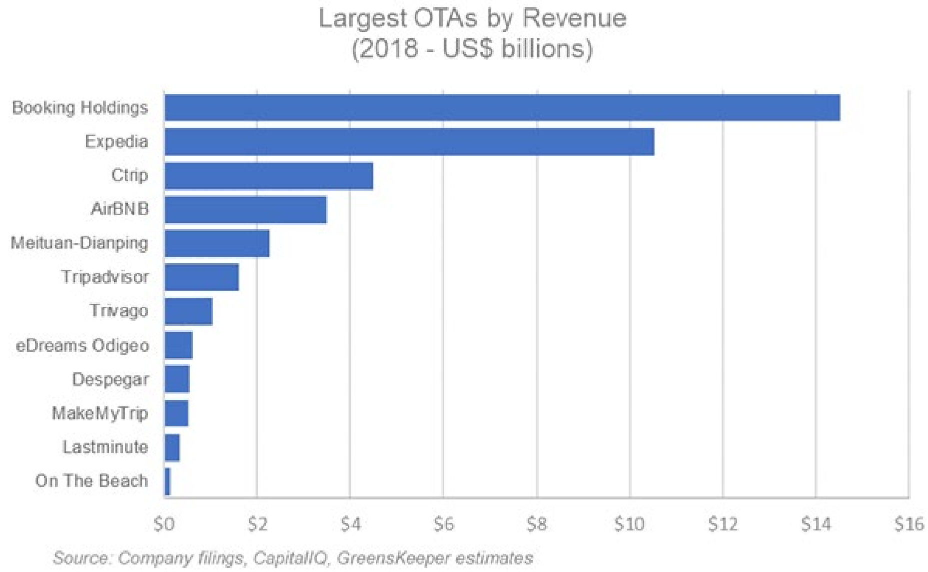
Booking Holdings

We made our initial investment in **Booking Holdings** (Nasdaq:BKNG) in late 2017 and recently added to our position. While we have previously disclosed that we owned the stock, we have not discussed its business in any detail. Here is a snapshot of our investment thesis.

Booking Holdings Inc. ("Booking Holdings" or the "Company") is the largest online travel agency (OTA) in the world by hotel rooms booked and revenue. The Company was formerly known as Priceline Group and renamed in 2018 to better reflect its dominant brand and its growing booking platforms in new market verticals.

The Company operates in more than 220 countries and territories through six primary brands: Booking.com, KAYAK, Priceline, Agoda, Rentalcars.com and OpenTable. Collectively, Booking Holdings operates in more than 40 languages across Europe, North America, South America, the Asia-Pacific region, the Middle East and Africa. The Company is headquartered in the United States, but generates 89% of its revenues internationally with Europe being its largest market.

We acquired our initial position in Booking Holdings in Q4 2017. In February 2019 the Company reported its 2018 year-end results that beat both their guidance and consensus. However, the Company's Q1 2019 guidance was lower than expected due to slowing bookings in Europe—by far its largest market—caused by a slowing economy and Brexit. With the stock selling off over 10% we updated our models and increased our position.



At the current stock price of $1,844, the stock is trading at a below-market multiple for an above-average company in terms of quality and future growth prospects. Organic growth combined with significant share repurchases should result in intrinsic value compounding at double-digit rates for years to come.

We will stop our discussion there as we prefer to keep our quarterly Scorecards to a reader-friendly length. For those interested in a deeper dive into the Company, please refer to our in-depth report on Booking Holdings.

2018 Annual Meeting

GreensKeeper's 8th Annual Meeting will be held on Monday, June 17 at 7:00 p.m. at our usual spot - the Mississaugua Golf & Country Club. Additional details can be found here.

If you are interested in learning more about investing, please join us! The meeting is open to clients, potential clients, friends and family. After a brief presentation, we open up the floor to Q&A so please bring some tough investment questions with you.

If you plan to attend, just RSVP to either myself or Michelle Tait to help us to plan the logistics.

Michael P. McCloskey

President, Founder &
Chief Investment Officer