GreensKeeper
ASSET MANAGEMENT INC.

2019 Annual Report

GreensKeeper
ASSET MANAGEMENT INC.

GreensKeeper Investor Letter
Fourth Quarter 2019

January 23, 2020

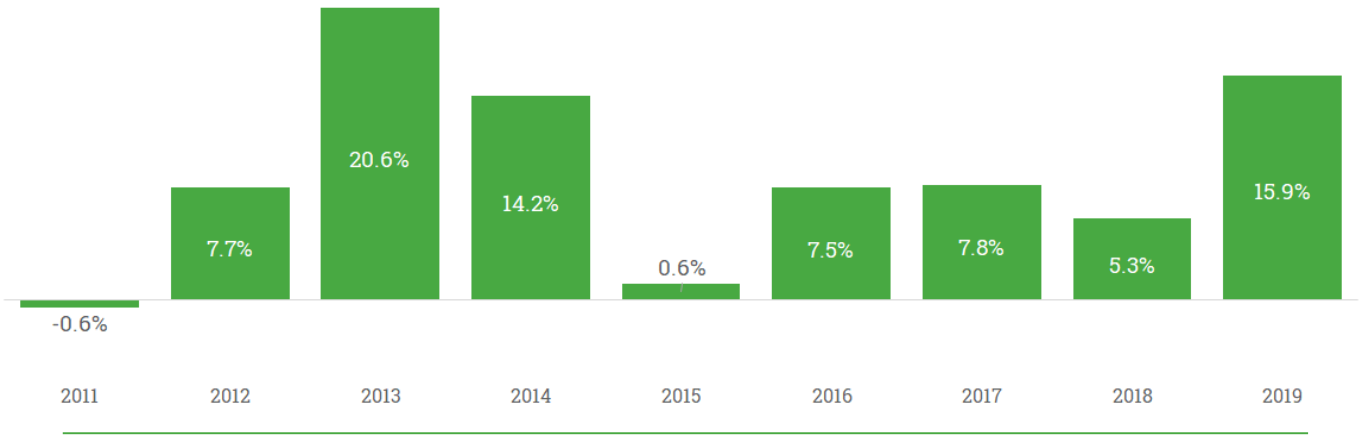
Fellow Investment Partners,

The Value Fund returned +15.9% in 2019 net of fees and expenses and has returned +9.5% net since inception on November 1, 2011. This past year was our eighth consecutive year of positive returns.

The panicked selloff of Q4 2018 now seems like a distant memory as investor mood quickly swung to euphoria last year driving equity markets higher across the globe. Given our conservative bent and willingness to hold cash when stocks are expensive, we trailed our benchmarks in 2019. The S&P/TSX Total Return Index finished up +22.9% and the S&P500 Total Return Index, measured in Canadian dollars (the Value Fund's reporting currency) was up +25.1% for the year.

We tend to outperform in ugly markets as we did in 2018. High quality companies that are undervalued tend to hold up better under stress. Risk management and preserving capital is a cornerstone of our investment framework at GreensKeeper. As American race car driver Rick Mears so aptly put it, "to finish first, you must first finish". Our goal is to prudently compound your capital (and ours) and avoid costly pile ups that set so many investors back. So far, so good.

Given our significant U.S. stock holdings, the 5% appreciation of the Canadian dollar in 2019 lowered our returns by approximately the same amount. The loonie was the best performing major currency in the world last year versus the U.S. dollar. We view these swings as entirely unpredictable and largely noise. Exchange rate impacts on portfolio returns tend to be a wash over the long term. A more detailed explanation of our view on currency hedging (and our bias for not doing so) can be found here.



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Market Outlook

So what will equity markets do in 2020? I was asked that exact question by a group of professional money managers in Toronto recently. My response left them wanting. I don't have any idea and firmly believe that neither does anyone else. Those that profess to know like the daily pundits on CNBC or BNN Bloomberg TV may be entertaining to listen to, but don't mistake their commentary for wisdom. Making investment decisions based on market projections has proven time and time again to be a fool's errand.

It shouldn't surprise you that our investment heroes (Munger, Buffett, Graham) share our view. As bottom-up value investors we simply look for great businesses that are selling cheap regardless of market conditions. When we find one that meets our criteria, we pull the trigger. In fact, selloffs tend to be fertile hunting ground for us. When investors panic, opportunity presents itself as it did for the Value Fund portfolio in Q4 2018.

Portfolio Review

Our two biggest contributors to the portfolio in 2019 were our investments in **Apple** +58.8% (AAPL) and **Facebook** +56.6% (FB), both of which were purchased during the Q4 2018 selloff. Those two stocks contributed about 4.8% to our 2019 returns. Just a few meaningful and timely decisions can make a big difference to portfolio returns.

When we were buying Apple, investors worried that the company had reached peak iPhone volumes and sales to China were also declining rapidly due to the US/China trade war. Fast forward to today and what has changed? Consensus 2020 earnings for the company is currently $13.12 per share. This is *lower* than the $13.43 consensus at the time of our purchase. In other words, Apple's business isn't materially different today. What has changed, to a remarkable degree, is investor sentiment about the stock.

With an average purchase price of $155.30, we bought the stock for 11x earnings plus cash. In other words, absent a material change in Apple's business, this was not a risky investment. At the current share price of $317.70, investors are now prepared to pay 22x earnings for the same company only one year later. We fully exited our position in Apple late in the year as we believe the stock is more than fully-valued at current prices.

Apple is a strange case study. We made a handsome return on one of the most well-followed companies on the planet in about 10 months. Since selling the stock it has continued its upward rise unabated. So perhaps we sold too early as value investors trying to manage risk often do. Or perhaps investors are getting a little carried away again, just in the opposite direction. As a consolation, we still have plenty of exposure to the company through our shareholdings in **Berkshire Hathaway** (BRK.A/BRK.B). Assuming the Oracle hasn't sold any shares, Berkshire holds about $79 billion worth of Apple stock.

We wrote about our investment thesis for **Facebook** at length in last year's annual report. The company is still the favourite whipping boy of regulators and politicians. But in a US campaign year, where do your think that politicians are spending much of their campaign dollars? The number of users on the company's platforms (Facebook, Instagram, WhatsApp) continues to grow. Profits are massive and the cash keeps piling up. At our average cost of $141.29 per share we are currently up 57% on our investment but unlike Apple, we haven't sold a share.

We believe that Facebook has the potential to be a compounder – a company that increases its intrinsic value for many years to come. The Instagram app is only starting to be monetized and from what we can tell, WhatsApp doesn't generate any meaningful revenue despite billions of active users.

Our bet is that over time the company will find a way to monetize these users and that earnings will continue to increase at a handsome pace.

Our only beef with **Facebook** is management's questionable capital allocation decisions. We don't mind them investing in people, servers and data centers to service their customers and grow the business. But with $52 billion of cash on the balance sheet and no debt, we just wish they would repurchase their stock more aggressively, especially when it's cheap.

Our next largest contributors for the year were our credit card network investments: **Visa** +42.4% (V) and **American Express** +30.6% (AXP). These high-quality compounders continue to grow earnings and should thrive for many, many years to come. Accordingly, absent a material disruption to their business or an obviously superior investment alternative, we view these positions as core holdings.

Rounding out the top 5 for 2019 was our investment in **S&P Global** +60.7% (SPGI). The company's main business is its credit rating agency – Standard & Poor's. Oligopolies tend to be great businesses and S&P and Moody's are the dominant firms providing credit rating services to issuers worldwide. Pricing power combined with a capital-light business makes them free-cash-flow machines with very high returns on capital. The Federal Reserve's recent decision to lower interest rates also encourages debt issuance which provides a helpful tailwind for the company. We believe that the formation of debt capital markets in new geographies (e.g. Asia) should provide future growth opportunities for S&P Global for decades to come.

While it is still early days for our stock positions in the US health insurers – **UnitedHealth Group** (UNH) and **Anthem** (ANTM), so far so good. The stocks are up 18.6% and 28.6% respectively since our purchases in Q4. It seems that the market is coming around to share our view that Medicare for All is unlikely to happen.

Given the overall bullish markets, we only had two stocks that were in the red for the year. **Tapestry** -19.7% (TPR) – formerly known as Coach – lowered our returns by (0.3%) in 2019. We fully exited the stock in Q3. Tapestry was a disappointing investment for us. The reason? We simply got this one wrong. It looked cheap when we bought it, but the company was overly promotional and did some lasting damage to the brand. Add in growing competition from Michael Kors and the rise of fake merchandise via ecommerce and we ended up with a poor result. Brands and retail in general are both changing rapidly due to technology making it easier for new competitors to reach consumers directly. Lesson learned.

We also fully exited our investment in **Sanofi** -8.1% (SNY) during the year. Sanofi was a small legacy investment for the Value Fund. We were originally attracted to the company given its exposure to the diabetes market – a large and growing segment. Diabetes care is largely an oligopoly comprised of **Novo Nordisk** (NVO), **Eli Lilly** (LLY) and **Sanofi**. While we sold our position in Sanofi at a profit, it was a mediocre investment. We still like the diabetes sector and have plenty of exposure via our stake in market-leader Novo Nordisk (4.7% weighting).

During the year we also profitably exited our positions in **Coca-Cola European Partners** (CCEP) and **McKesson** (MCK) as both stocks reached our target prices. We also fully exited our position in **AT&T** (T) but for different reasons. The stock remains cheap but has a balance sheet that gives us heartburn. Given our view that we are late in the economic cycle, we believe there are better (and safer) places to invest at the present time.

Overall 2019 was a solid year for the Value Fund. We finished the year with a net cash position of 17.3% and unrealized gains on our equity investments of approximately $8.2 million on a $34.8 million portfolio. Additional portfolio disclosures including performance statistics can be found on the pages immediately following this letter. Once KPMG completes its audit of the Value Fund's Financial Statements in March, we will provide clients with a more detailed snapshot of the entire portfolio at year end.

The Value Fund's top 10 holdings, representing over 63% of the portfolio at year end, were as follows:

GreensKeeper Value Fund
Top 10 Holdings *

Alphabet Inc.
American Express Company
Anthem, Inc.
Berkshire Hathaway Inc.
Booking Holdings Inc.
Facebook, Inc.
Novo Nordisk A/S
United Parcel Service, Inc.
Visa Inc.
Wells Fargo & Company

**As at December 31, 2019. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.*

2020 and Beyond

The past year was a year of record growth for the Value Fund and our Managed Account portfolios. To fuel our next leg of growth, we launched the Value Fund on the Fundserv platform in November. As a result, selected investment advisers can now offer Value Fund units to their clients directly through their brokerages.

Earlier this month, we also announced an exciting addition to the firm's leadership team. After successfully completing the requisite coursework and being duly licensed by the Ontario Securities Commission, my brother James joined the firm as Senior Vice President - Sales. James brings over 15 years of sales experience with high-net-worth individuals to GreensKeeper and I am looking forward to continuing the firm's growth with him by my side. James and I be in touch later this year regarding an investor meeting, but in the meantime please feel free to reach out to either of us with any questions.

Finally, I would like to take a moment to thank all our clients for the trust that you continue to place in us and for referring others to GreensKeeper. We will continue working hard to grow your capital alongside our own.

Michael P. McCloskey

President, Founder &
Chief Investment Officer

GreensKeeper
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GreensKeeper Value Fund

As at December 31, 2019

Fund Details

	Class A	Class D*	Class F*	Class G**
Fund Codes	GRN 101	GRN 103	GRN 105	GRN 107
NAV	$16.91	$10.00	$17.76	$13.53
MER (%)	1.8%	2.3%	1.3%	< 1.8%
Min. Initial Investment	$50,000	$25,000	$25,000	$1 million

Load Structure	No Load
Performance Fee	20% over 6.0% annual hurdle. High-water mark (perpetual).
Registered Plan Status	100% Eligible (RRSPs, TFSAs, RESPs, RDSPs, 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)

Fund Distributions - $/Unit (Class A)

2012	$0.2318	2016	$0.5416
2013	$0.2147	2017	$0.0000
2014	$0.6542	2018	$0.5752
2015	$0.2939	2019	$0.5626

Service Providers

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

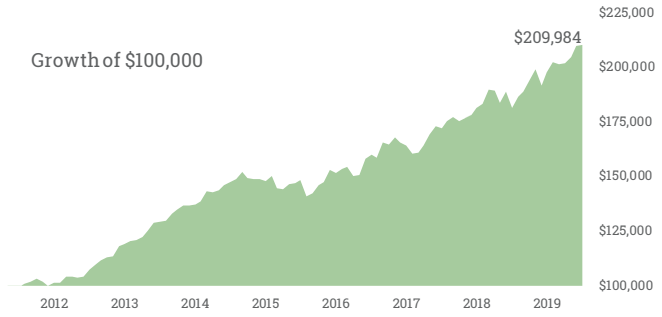
Investment Objective

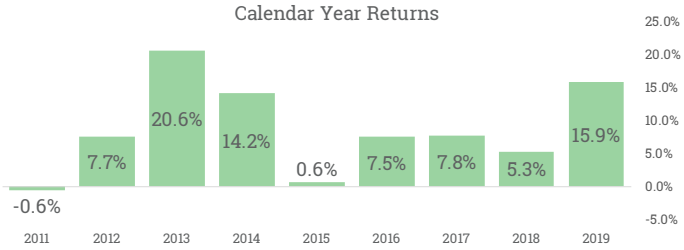
To deliver absolute returns to unitholders (net of all fees) in excess of both the S&P/TSX Index and the S&P500 Index (measured in Canadian dollars) over the long term. The Fund seeks to accomplish its set objective through investments in a concentrated portfolio, primarily in equities from any sector 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]	1 MO	YTD	Annualized 1 YR	3 YR	5 YR	Inception
Value Fund	0.1%	15.9%	15.9%	9.6%	7.3%	9.5%

Portfolio Allocations

Asset Mix *	
U.S. Equity	78.3%
Cash	17.3%
European Equity	4.4%
Canadian Equity	0.1%

Sector	
Technology	29.8%
Cash & Equivalents	17.3%
Healthcare & Pharma	14.9%
Financial Services	14.9%
Insurance	13.6%
Industrial	4.6%
Consumer & Retail	2.7%
Energy	2.3%

* Based on corporate domicile.

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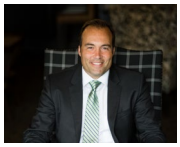
GreensKeeper Value Fund

Leadership Team



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Statistical Analysis [3]

	Value Fund	S&P/TSX	S&P500 ($CAD)
Fund Beta vs. Selected Index	n/a	0.41	0.50
Standard Deviation	6.3%	8.5%	10.0%
Sharpe Ratio	1.35	0.77	1.64
Best Month	4.7%	8.7%	6.9%
Worst Month	-5.1%	-6.3%	-6.6%
Percentage Positive Months	73.5%	66.3%	73.5%
Maximum Drawdown	-7.1%	-14.3%	-9.0%
CAGR Since Inception	9.5%	7.3%	18.5%

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 December 31, 2019 for Class A Units. [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 Class A monthly returns since inception. Risk-free rate calculated using 90-day CDN T-bill rate. * Class D Units are available to purchasers who acquire their Units through another eligible registered dealer. Class F Units are available to purchasers who participate in fee-based programs through eligible registered dealers. ** Class G Units are for purchasers 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.

This document 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 an offering memorandum and only in those jurisdictions where permitted by law. 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. Investments should be evaluated relative to an individual's investment objectives. The information contained in this document is not, and should not be construed as, legal, accounting, investment or tax advice. You should not act or rely on the information contained in this document without seeking the advice of an appropriate professional advisor. Please read the Fund offering memorandum before investing.

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.

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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

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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

"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

"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.

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Appendix

Audited Financial Statements

(Clients)

GreensKeeper
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