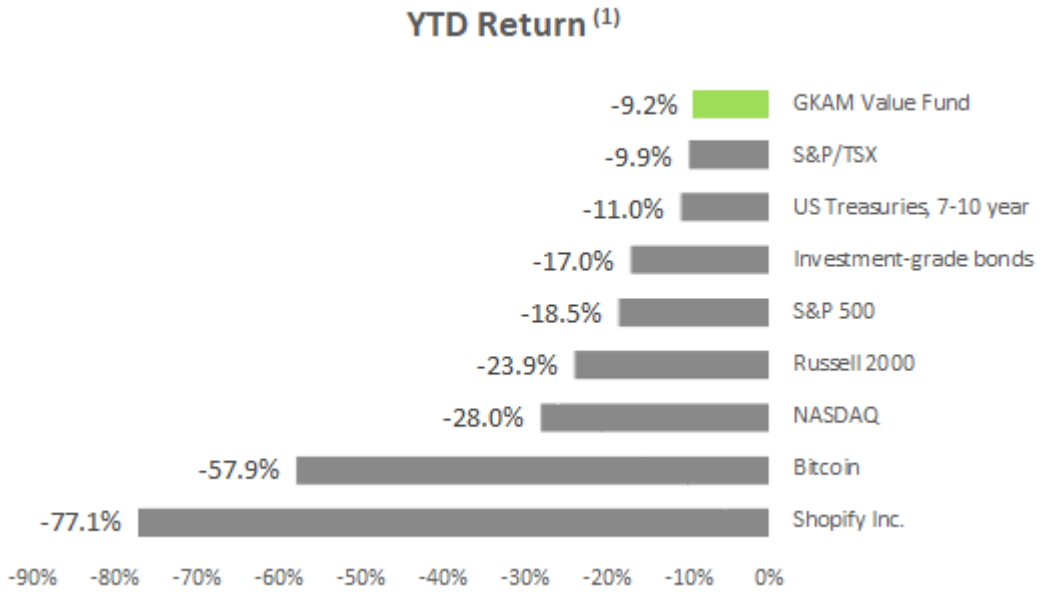
July 6, 2022

Funiculì, Funiculà

The Value Fund is down -9.2% year-to-date (YTD), more than half of that decline coming in the month of June. The bear market has officially arrived with the S&P500 off to its worst start in over 50 years. People holding more speculative assets like cryptocurrencies, have likely suffered a permanent impairment of their capital.

Even 'ultra-safe' treasuries took a beating and are down -11% YTD. When you invest in 10-year government bonds in exchange for a measly 2% pre-inflation return, you are asking for trouble. We have long warned about frothy markets and irrational asset classes like non-fungible tokens (NFTs). We have also called out companies like **Shopify** (SHOP) whose valuations were simply insane.

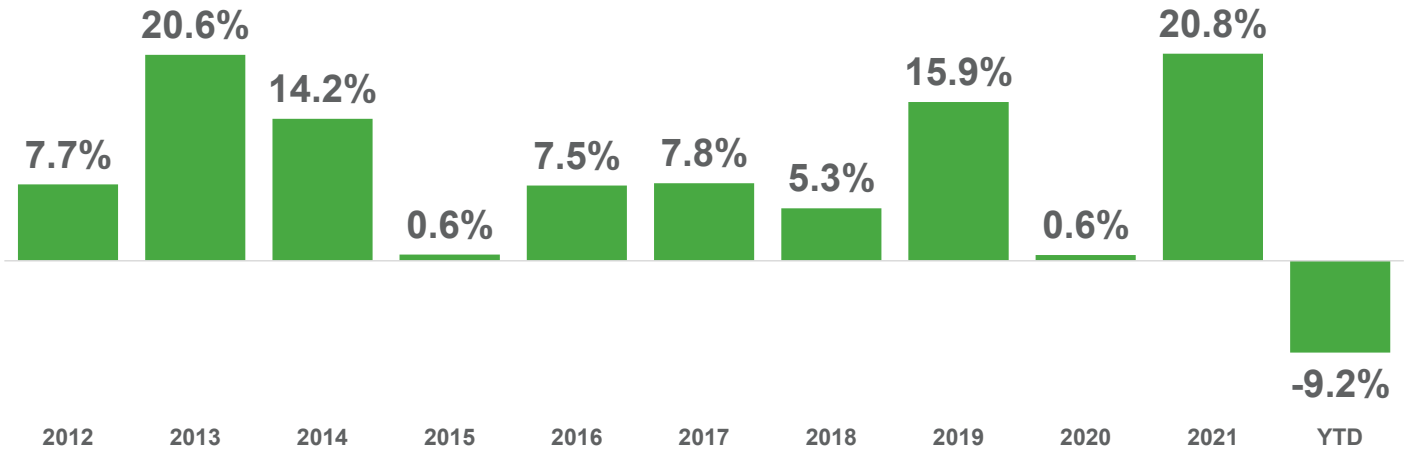
As the Oracle of Omaha so vividly put it, you only know who has been swimming naked when the tide goes out. The tide is ebbing.



(1) Index returns are for the total return indexes which include dividends and are measured in Canadian dollars, the Value Fund's reporting currency. Changes in bond values are based on iShares exchange-traded funds (Source: Factset, Wall Street Journal).

The selloff was overdue. The US Federal Reserve and other central banks kept interest rates too low for far too long. These huge injections of liquidity led to the inevitable result. Asset price inflation, real-world inflation, TINA (there is no alternative) and FOMO (fear of missing out). Investors were encouraged by easy money to take things too far and greed overtook prudence. These factors are now working in reverse.

Against this backdrop, we have been defensively positioned. We constructed our house of bricks long before the market storm arrived. As a result, it has withstood much of the broader market damage.



Now, before we get too carried away patting ourselves on the back, the Value Fund is still down for the year. We have much work to do between now and year end to keep our streak of 10+ consecutive years of positive returns alive. But the current market turmoil and growing fears of a recession are a welcome development for long-term value investors like GreensKeeper. Here's why:

- Many of the companies that we own are market leaders with healthy balance sheets. During times of stress, they typically take market share from weaker competitors who may not even make it. Most have pricing power and the ability to pass on increasing costs to their customers. A few of our holdings even benefit from inflation (e.g., **Visa** (V), **American Express** (AXP)).

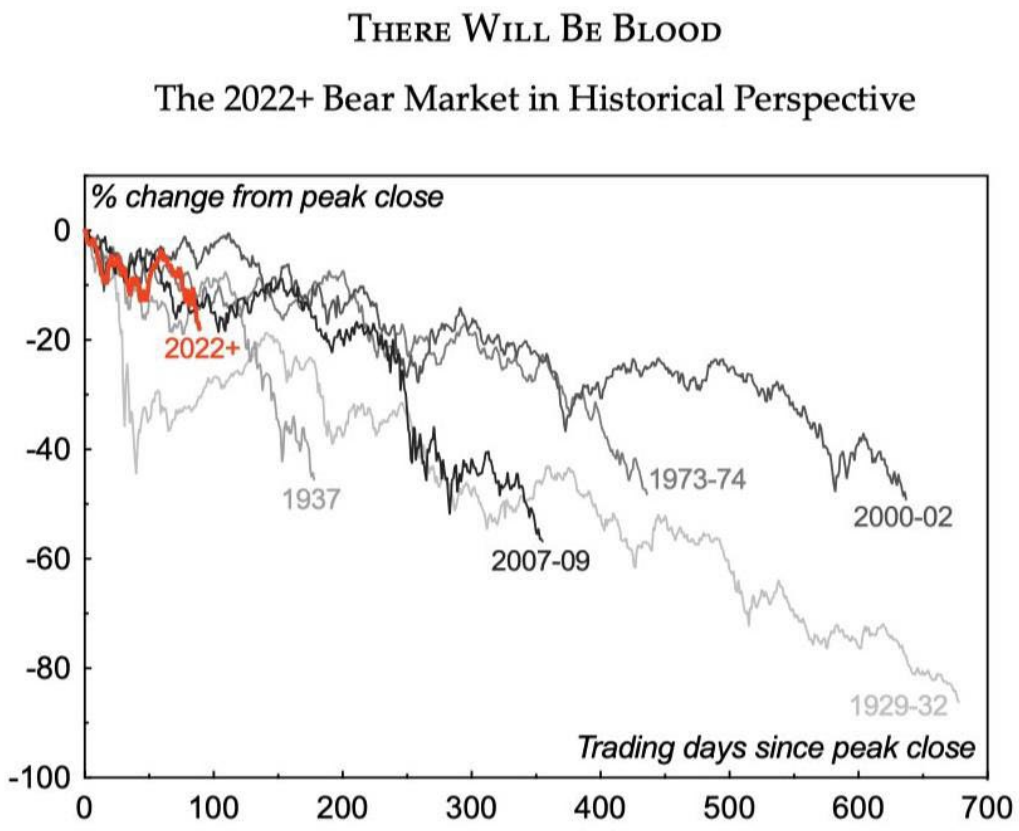
- Our portfolio companies are also cannibals — they use their prodigious cash generation to habitually repurchase their own shares in the open market. Lower prices means they get more bang for their buck.

- The same principle applies to GreensKeeper. In a declining market, we are able to acquire additional earnings for each incremental dollar invested. Accordingly, lower stock prices *reduce* the riskiness of our investments. Please read that sentence again. It is contrary to the way that most people think about and interact with the stock market.

- While the broader markets are down 20-30%, certain stocks that we track are off significantly more and starting to get interesting.

- As stocks and asset prices decline, levered investors receive margin calls and are forced to sell. Even unlevered investors become frightened at the prospect of further price declines and decide to sell and wait until things 'stabilize'. As Baron Rothschild said, the best time to buy is when there is blood in the streets.

Put simply, this growing *fear is our friend*. It puts market participants into a short-term mindset and creates mispricings that we can take advantage of. All that is required is discipline, the courage to act and never losing sight of the long-term. If you struggle with this concept, perhaps the following illustration will help. [2]



Fear sells which is why you will find charts like these reproduced in newspapers, TV and online every time a new bear market arrives. It looks scary, doesn't it? That's because it triggers the primitive flight response that is hard wired into our genes.

Could the bear market of 2022 go lower still? Sure. As we have written many times, we have no idea what markets will do over short periods of time and neither does anyone else. Timing the bottom is impossible. In our opinion, those that try to do so are playing the wrong game.

[2] Series show the percentage change in the S&P500 index from peak to trough for each decline, except for 2022+ which is to May 11. Sources: Yahoo Finance; Reddit - https://tinyurl.com/2p8hp3zf

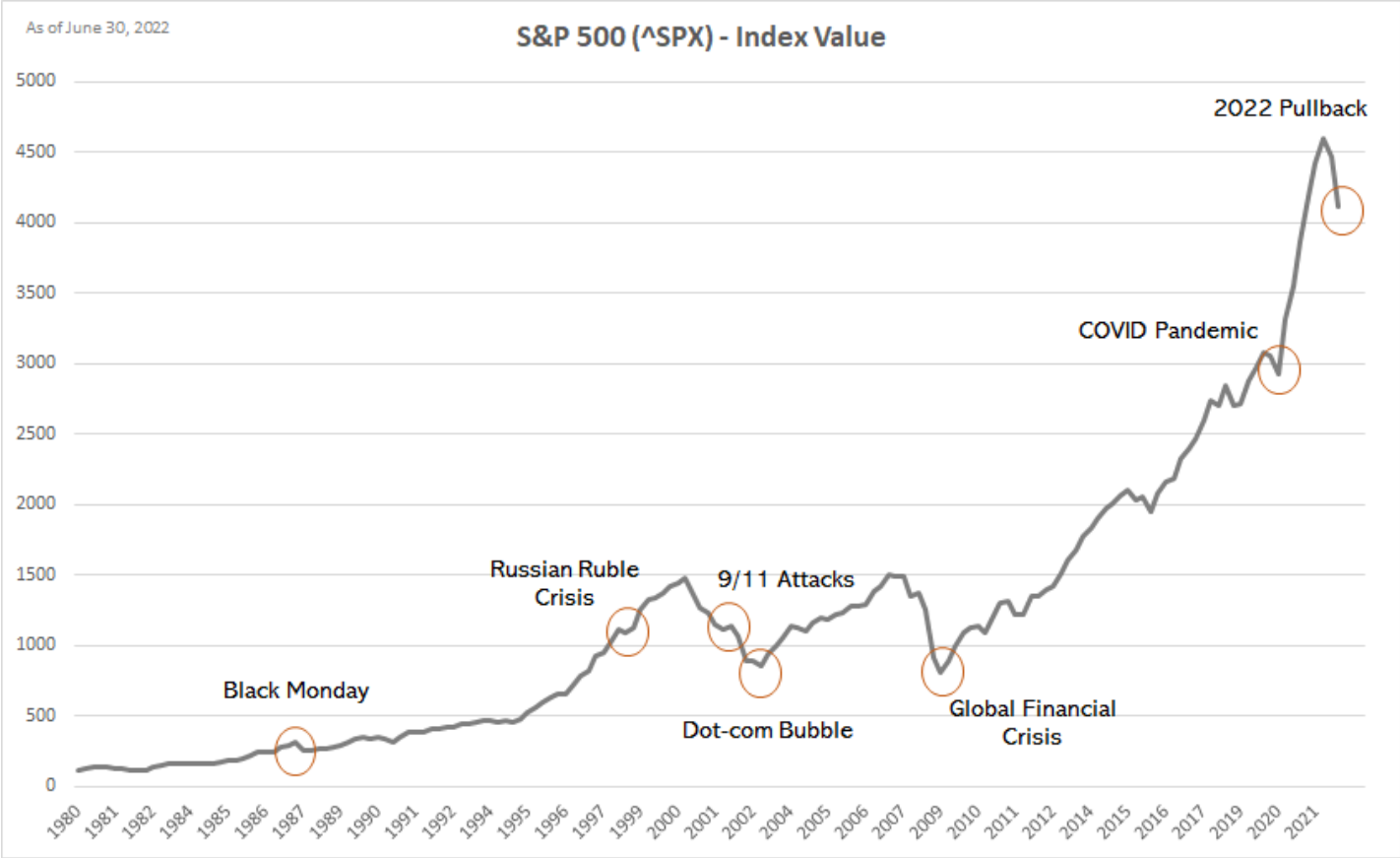
When pundits describe the stock market as a roller coaster, the stomach-churning plunges on the prior chart are what they are referring to. Unfortunately, this metaphor is not only deeply flawed, but also insidious as it conditions investors to learn the wrong lessons.

A roller coaster ride may be fear inducing, but it leaves you back exactly where you started. That isn't true for stock market investors with a long-term time horizon. With the proper longer-term perspective (see chart below) the stock market is better described as a cable car or funicular, not a roller coaster. Yes, one may experience an unpleasant jolt from time to time. But those seemingly massive declines on the prior chart look piddling—and much less scary—when put into their proper long-term context.

We believe that the proper lesson to take away from the current market selloff is the following. It will eventually end. If you can keep your cool and don't jump off (by staying invested), the stock market funicular will eventually carry you to much higher ground. Sometimes much quicker than you expect.

You rise, pulled by a cable, quick as a wink, Into the sky! Into the sky!
We'll rise up like a whirlwind all of a sudden

Funiculì, Funiculà



Source: GreensKeeper, Capital IQ.

Portfolio Update

GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express	Financial Services
Berkshire Hathaway Inc.	Insurance
Cboe Global Markets Inc	Financial Services
Elevance Health	Healthcare & Pharma
Merck & Co., Inc.	Healthcare & Pharma
Meta Platforms, Inc.	Technology
TVA Group Inc.	Communications & Media
Vertex Pharmaceuticals	Healthcare & Pharma
Visa Inc.	Technology

* As of June 30, 2022. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

This is the perfect time to repeat what we wrote a year ago in Scorecard #34:

> "Trying to predict and successfully time when the next storm will arrive is not a substitute for sturdy construction. Financial storms tend to arrive with little warning. The key to resilience is to know that they will inevitably come and to prepare in advance."

Our portfolio was properly positioned for the current market downturn. As a result, there were no major changes to the portfolio during the first half of the year and our top-ten holdings were virtually unchanged.

Vertex Pharmaceuticals (VRTX) joined the top ten due to its +28.3% YTD performance. Two of our portfolio companies changed their names: Facebook is now known as **Meta Platforms** (META) and **Anthem** recently renamed itself **Elevance Health** (ELV).

We added to our positions in **Fiserv** (FISV), **Meta Platforms** (META) and trimmed our holdings of **American Express** (AXP). Otherwise, there is nothing new to report. Our current thinking on VRTX and META can be found in Scorecard #37 and a full writeup of our investment thesis for FISV can be found here.

The Value Fund finished Q2 with a 13% net cash position and we are actively searching for attractive places to put it to work.

Final Thoughts

Profitability, cash flow and valuation are once again in vogue. In other words, sanity is returning to the markets. Our research team is furiously looking at hundreds of companies, updating our models and searching for value.

Valuations have come down and attractive opportunities are starting to present themselves. With cash constantly streaming into the Value Fund from new and existing clients, we are selectively putting our money to work. This is a great time to be a value investor.

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Each of our full-time employees has their *entire* investment portfolio invested at GreensKeeper. In my case, it represents over 70% of my household's net worth. We invest in the same stocks as our clients and our approach is one of partnership.

If our partnership approach resonates with you, or someone you know could use some help with their investments, please give me a call.

Michael P. McCloskey

President, Founder &
Chief Investment Officer

GreensKeeper
ASSET MANAGEMENT INC.

GreensKeeper Value Fund

June 30, 2022

Fund Details

	Class A	Class D*	Class F*	Class G**
Fund Codes	GRN 101	GRN 103	GRN 105	GRN 107
NAV	$19.68	$10.00	$20.94	$16.63
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	2020 - $0.0000
2013 - $0.2147	2017 - $0.0000	2021 - $0.0000
2014 - $0.6542	2018 - $0.5752	
2015 - $0.2939	2019 - $0.5626	

Service Providers

Investment Manager	GreensKeeper ASSET MANAGEMENT
Administrator and Registrar	SGGG FUND SERVICES INC.
Auditor	KPMG LLP
Custodian	NATIONAL BANK INDEPENDENT NETWORK
Legal Counsel	BLG Borden Ladner Gervais

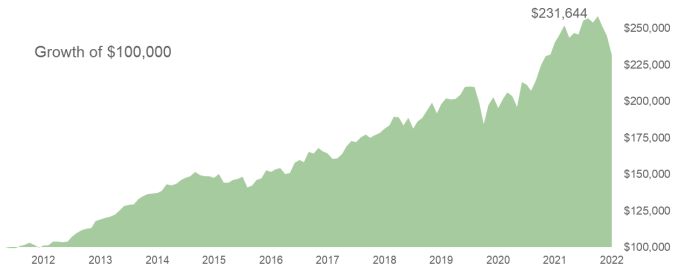
Investment Objective

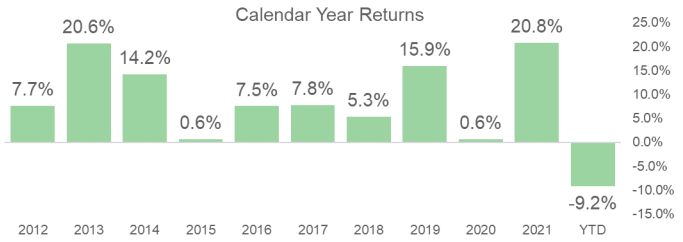
To deliver absolute returns to unitholders (net of all fees) in excess of both the S&P/TSX Index and the S&P500 Index (measured in Canadian dollars) over the long term. The Fund seeks to accomplish its set objective through investments in a concentrated portfolio, primarily in equities from any sector 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)





			Annualized				
Compound Returns[1][2]	1 MO	YTD	1 YR	3 YR	5 YR	10 YR	Inception
Value Fund	-5.2%	-9.2%	-3.5%	5.4%	7.1%	8.6%	8.2%

Portfolio Allocations

Asset Mix *	
U.S. Equities	77.8%
Cash	12.9%
Canadian Equities	5.8%
EMEA Equities	3.5%

* Based on corporate domicile.

Sector	
Technology	31.7%
Healthcare & Pharma	17.4%
Insurance	13.7%
Cash & Equivalents	12.9%
Financial Services	12.8%
Industrial	6.0%
Communication & Media	5.5%

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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	0.52	0.59
Standard Deviation	8.3%	11.6%	11.6%
Sharpe Ratio	0.90	0.61	1.24
Best Month	8.7%	10.8%	11.6%
Worst Month	-7.1%	-17.4%	-8.1%
Percentage Positive Months	68.8%	66.4%	70.3%
Maximum Drawdown	-12.3%	-22.3%	-18.5%
CAGR Since Inception	8.2%	7.3%	15.9%

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 June 30, 2022, 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.

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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

"I originally invested with GreensKeeper because I trusted Michael, felt that his strategy was right for me and his fee structure was very appropriate. The results to date have more than validated this decision."

Gary Webb
client since 2015

"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.