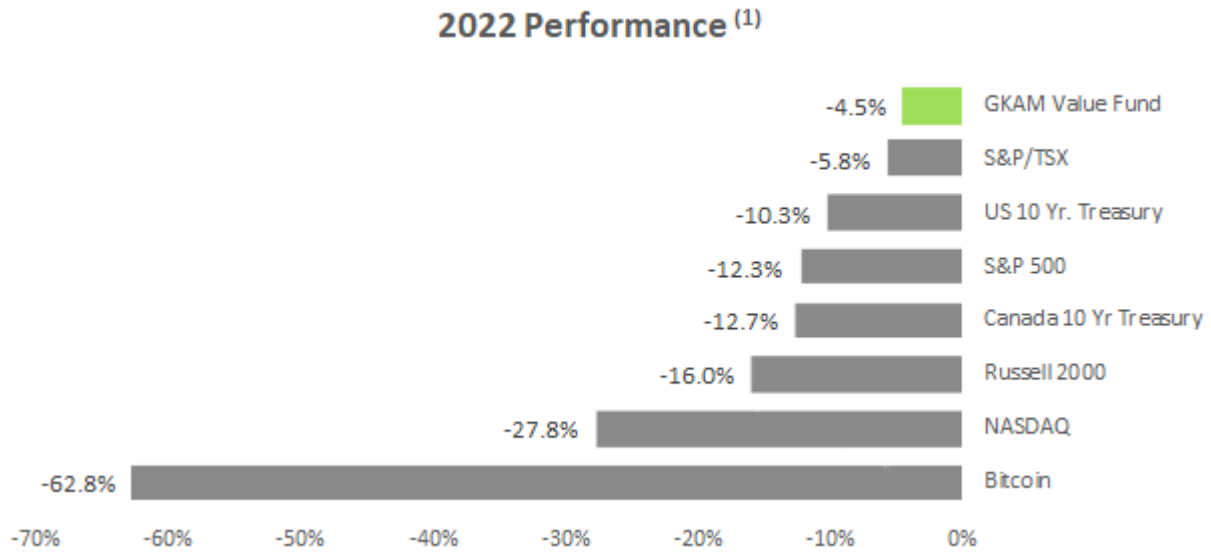
January 9, 2023

Reversals of Fortune

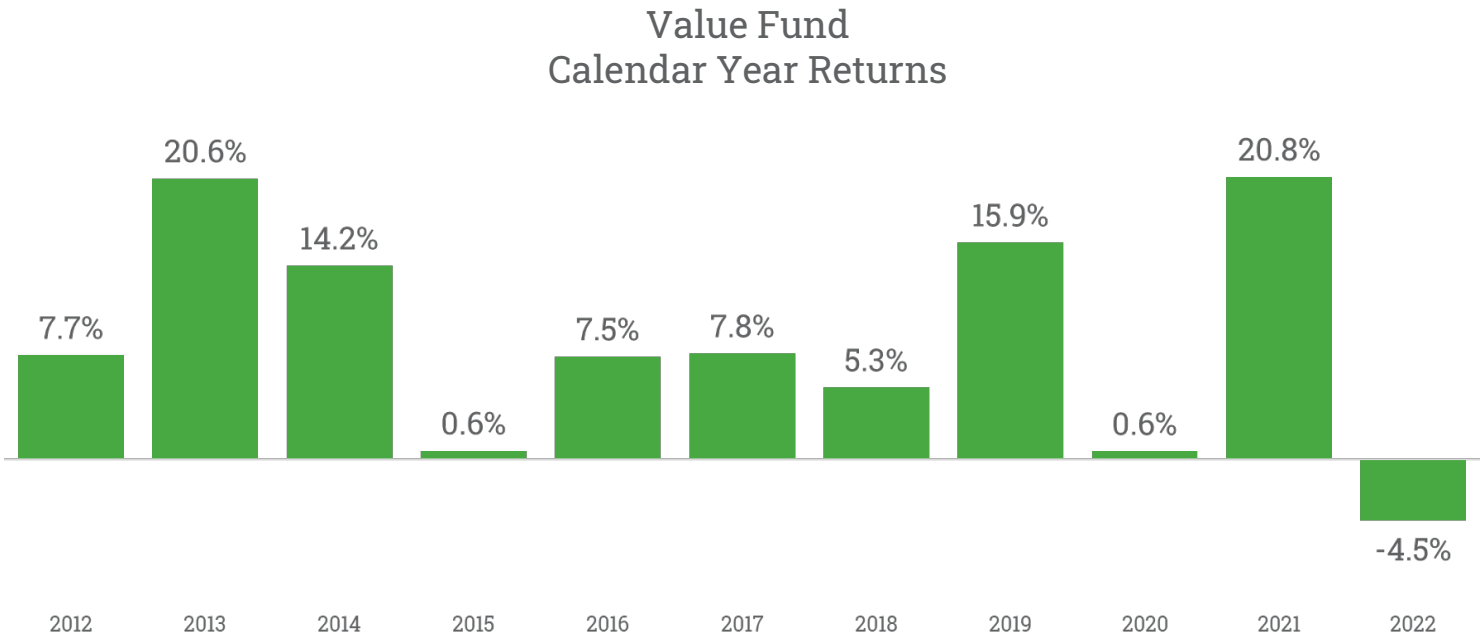
The Value Fund finished the year -4.5%. The US dollar strengthened against most major currencies including the Canadian dollar and boosted our returns by approximately 5% for the year.

We beat our benchmarks for the year: S&P500 -12.3%, Nasdaq -27.8% and S&P/TSX -5.8% with the US stock market experiencing its fifth-largest loss since the Great Depression.[1] Many portfolios comprised of more speculative investments saw drawdowns of greater than -50%. Even "safe" government 10-year bonds suffered from rising interest rates and delivered double-digit losses for the year. There was nowhere to hide.



Like Rip Van Winkle, inflation—long dormant in the West—awoke from its multi-decade slumber. Interest rates rose in response and after years of loose money which lured many to throw caution to the wind, investors relearned a painful lesson: risk is always lurking.

[1] Index returns are for the total return indexes which include dividends and are measured in Canadian dollars, the Value Fund's reporting currency.



We stuck to our knitting by avoiding crypto, speculative investments and resisted the fear of missing out (FOMO). As a result, our portfolios were well-positioned for this welcome return to normalcy. As we have often stated, profitability, cash flow and valuations eventually matter.

Given the overall market environment in 2022, the Value Fund delivered on its mission of growing our clients' wealth while *prudently managing risk*.

Portfolio Review

The biggest contributor to the portfolio in 2022 was our investment in **Merck** (MRK) which was up +45% for the year. We first invested in Merck at the beginning of the pandemic in March 2020 along with our investment in **Pfizer** (PFE). Our investment thesis was straightforward: both stocks were attractively priced at low-double-digit earnings multiples, they offered 3-4% dividend yields, had healthy balance sheets and we thought that one of these companies might just save the world from COVID-19.

Pfizer hit the jackpot with its COVID mRNA vaccine, and we exited that stock in 2021 after it traded above our estimate of its intrinsic value. Merck was not as successful with its COVID regimen, and the stock languished. But Merck's *business* continued to thrive due in large part to its blockbuster Keytruda cancer immunotherapy which is generating $20 billion a year in revenue and still growing at 20%. With the market pullback in 2022, investors suddenly started paying attention to Merck's prodigious free cash flow and the stock rerated. In addition to a bucketful of dividends from these two drug giants, we also received shares in two spinoffs—**Viatris** (VTRS) and **Organon** (OGN)—which we also monetized.

Merck and Pfizer are steady and "boring" businesses that fall in and out of favour from time to time. They aren't compounders meant to be held forever. They were opportunistic purchases that the market offers us occasionally and we are more than happy to take advantage by trading in and out of them.

Our second-largest contributor to our performance in 2022 was biotech **Vertex Pharmaceuticals** (VRTX) +32%. The company's life-changing cystic fibrosis (CF) therapies continue to gain regulatory approvals and payer reimbursement globally. When we first purchased the stock in Q3 2021, the market estimated that Vertex's CF sales would grow healthily and peak at $7.7 billion in 2025 (see table below). In 2022, Vertex's CF sales are already $8.9 billion and still growing. Just as impressive, the company earns 88% gross margins on that revenue.

Trikafta/Kaftrio Sales: BI Scenario ($ Millions)

	2021E	2022E	2023E	2024E	2025E
U.S.	$ 3,978	$ 4,134	$ 4,478	$ 4,622	$ 4,678
EU	$ 970	$ 1,498	$ 1,993	$ 2,385	$ 2,829
ROW	$ 50	$ 75	$ 125	$ 175	$ 200
Total WW revenue	**$4,997**	**$5,707**	**$6,596**	**$7,182**	**$7,706**

Source: Bloomberg Intelligence Research, Aug. 2021.

Vertex has $9.7 billion of cash, no debt, and a promising pipeline of new treatments in development. We had no view on the company's chances of success with its pipeline when we bought the stock. We just figured that Vertex's core CF franchise, and its growing cash pile alone was worth significantly more than the company's market cap. In other words, the core business was being undervalued and we got the pipeline for free. The market has since come to agree with our view of the stock.

Our next-largest contributor to the portfolio for the year was **Berkshire Hathaway** (BRK.A/B) +4%. There is no better place to be in a market storm than safely ensconced in the financial fortress Warren has built. As we have written about at length, our holding in Berkshire Hathaway is a core position. It should continue to grow at high-single-digits for decades and provides useful ballast to the portfolio.

Finally, our defense giants—**Lockheed Martin** (LMT) +37% and **General Dynamics** (GD) +19%—were large contributors to our performance in 2022. Both stocks were purchased shortly after the 2020 US presidential election. With Democrats taking over the White House and both chambers of Congress, markets worried that defense budgets would come under pressure. We had no idea that 14 months later Russia would invade the rest of Ukraine. But we did know that the world is a dangerous place and that these defense contractors make some of the world's essential and most sophisticated weaponry. We also knew that the stocks were cheap based on their historical trading multiples.

There is a common theme running through our winners from 2022. Each of these stocks was purchased when cheap and unloved. There was no profound prediction of the Ukrainian invasion, a cure for COVID, or any other heroic assumption underpinning our investment theses.

As Yogi Berra so eloquently put it, "It's tough to make predictions, especially about the future". Bearing this in mind, we try and keep things simple. Invest in quality businesses that should deliver decent returns based on conservative assumptions. Look for situations with upside optionality that comes for free and avoid stocks that require everything to go right to deliver a satisfactory result. Pay attention to cash flows and avoid companies that are highly leveraged. Value investing is simple, but not easy.

We weren't perfect in our stock picking last year and **Meta/Facebook** (META) -64% was by far our worst performer. Meta's core ad business is performing adequately, despite a tough advertising market and challenges created by TikTok and Apple's ATT privacy changes. But after evaluating management's reckless spending plans for 2023, we fully exited the stock in October. Once we lose faith in management, the stewards of our capital, we will invest it elsewhere.

Zuckerberg is *all in* on the metaverse and we believe that he is rich enough that he cares more about his legacy than his fellow shareholders. His metaverse bet may yet pan out. But we fear that it will not and destroy far too much shareholder value in the interim. Given his voting control of the company, the board is unlikely to rein him in.

We still love Meta's core business. We got that part of our analysis right and our purchase of the stock was justified. But our continued trust in management after their pivot to the metaverse was a mistake and we should have exited the stock sooner.

GreensKeeper Value Fund

Top 10 Holdings *	Sector
Alphabet Inc.	Technology
American Express	Financial Services
Berkshire Hathaway Inc.	Insurance
Elevance Health	Healthcare & Pharma
Fiserv Inc.	Technology
Intercontinental Exchange, Inc.	Financial Services
Merck & Co., Inc.	Healthcare & Pharma
S&P Global Inc.	Technology
Vertex Pharmaceuticals	Healthcare & Pharma
Visa Inc.	Technology

* As of Dec. 31, 2022. The Value Fund's holdings are subject to change and are not recommendations to buy or sell any security.

Overall, 2022 was a good year for the Value Fund. We beat the major markets and in a sea of red ink, we managed to walk away with our portfolios largely unscathed. The Value Fund finished the year with a 13% net cash position and unrealized gains on its equity investments of approximately $14 million on a $43 million portfolio.

Additional portfolio disclosures including performance statistics can be found on the pages immediately following this letter. Once MNP LLP completes their 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.

Portfolio Look Through

Back by popular demand, we reproduced the table first introduced in Scorecard #34 – Bedrock which analyses the Value Fund's holdings quantitively and compares them to the constituents of the S&P500 Index.

		GreensKeeper Value Fund					S&P500
		2018	2019	2020	2021	2022	2022
Quality	Return on Equity	39%	39%	23%	29%	24%	18%
	Gross Margin	49%	53%	58%	57%	58%	45%
	Operating Margin	24%	30%	29%	33%	26%	18%
	Cash Conversion	109%	93%	120%	113%	118%	88%
Safety	Interest Coverage	14x	15x	22x	22x	17x	10x
Valuation	Free Cash Flow Yield	7.1%	5.0%	5.3%	6.1%	5.9%	3.4%

Source: Greenskeeper Asset Management/Bloomberg/S&P Captial IQ/Fundsmith LLP. Return on Equity, Gross Margin, Operating Margin, Cash Conversion and Free Cash Flow Yield are the weighted mean of the underlying companies invested in by the Greenskeeper Value Fund and the mean for the S&P 500 Index. BRK metrics are calculated based on operating earnings. The S&P 500 Index figures exclude financial stocks except for ROE which includes all sectors. Interest coverage figures are median and exclude financial stocks. Ratios are based on last reported fiscal year accounts as at the respective dates and as defined by S&P Capital IQ. Cash Conversion compares Free Cash Flow with Net Income. FCF Yield for the S&P500 uses the period-end median.

This look-through analysis demonstrates that once again our Value Fund "company" is …

Above-average in quality:

- Returns on Equity are higher than the broader market. As a result, our "company" generates more cash for each dollar of equity capital required to operate and grow the business.
- Gross margins are higher than the market average. We own businesses with pricing power that can charge more for their goods and services than the typical business due to their moats (brand, network effects, switching costs, etc.). This will prove handy should inflation persist.

- Operating Margins are significantly higher than the market average. Our companies usually benefit from scale and efficiency.

- Cash conversion is another tell of earnings quality. Our companies typically generate free cash flow that exceeds their accounting net income (currently about $1.18 for each $1.00 of accounting income versus $0.88 for the broader market).

More Conservatively Financed:

- Whereas the broader market has operating earnings (EBIT) of about 10x their underlying interest expense, our companies cover their interest obligations by over 17x. They use debt sparingly and have the capacity to handle rising interest rates.

- Even more impressive is the fact that five of our portfolio companies (BRK.A/B, CHKP, CSCO, GOOG and VRTX) have no net debt.

Cheaper than the Market:

- As of year-end, the Value Fund holdings were delivering a free cash flow yield of 5.9% based on prevailing market prices. This compares with the broader market at 3.4%. At market prices, we are paying less for each dollar of free cash flow than the market overall.

- It is also worth pointing out that many of our portfolio holdings have appreciated materially in value since purchase and the yield at the time of purchase was even higher.

Superior business economics, lower financial leverage, and undervalued relative to the market. That's the bedrock that our portfolios are built upon. The resiliency of our portfolio companies served us well in 2022 and should again whenever the next market storm arrives.

Getting Wealthy vs. Staying Wealthy

> "There are a million ways to get wealthy… but there's only one way to stay wealthy: some combination of frugality and paranoia".
>
> Morgan Housel, *The Psychology of Money*

The quote above is insightful and Housel's accessible and entertaining book highly recommended. To accumulate wealth, you need to have the discipline to spend less than you earn and then skillfully invest the difference. Most people with money understand that winning formula. But the author's insight regarding paranoia is the one we find more interesting.

Far too many people who have accumulated wealth have then made poor decisions that caused it to disappear. Excessive leverage. Speculative investments. Vastly increased annual expenditures. Hubris. A combination of these factors is often at the root of major reversals of fortune. Elon Musk may well succeed at Twitter… or he may end up vaporizing $44 billion. Time will tell.

As the Oracle of Omaha remarked, “never risk what you have and need for what you don't have and don't need”. That sentence is worth rereading and thinking about.

Compounding wealth successfully requires a combination of prudent investments, reasonable diversification, and a strong dose of humility. The future is unpredictable and strange things happen from time to time (global pandemics and wars come to mind). We believe that the term “margin of safely” coined by Benjamin Graham has a broader meaning than just buying undervalued stocks. To us, it also means building in a buffer for life’s unpleasant surprises.

A company may save a few dollars by sole sourcing a key component, but not if its lone supplier fails. Planning to arrive five minutes before a job interview? A traffic jam can send your career on a totally different path. There is a reason that Charlie Munger had a lifelong habit of showing up to meetings at least 30 minutes early with a newspaper under his arm to keep him company. Wise people develop good habits that create slack. Happy 99th Birthday Charlie! Your wit and wisdom are true gifts to the world.

Photo credit: GreensKeeper (Daily Journal 2018 Annual Meeting)

More germane to investing, when interest rates are incredibly low and unlikely to remain so, using higher rates to discount cash flows when calculating a company's intrinsic value is called for. Something that we have been doing for years. It also means accepting singles and doubles when that is what the market is offering, not swinging for the fences. Growing and preserving wealth requires that you minimize big mistakes that set you back and interrupt compounding.

In almost any situation, building in extra cushion puts you in a position of strength and able to suffer adversity. It takes discipline. But if you had the discipline to accumulate wealth, why not continue that mindset once achieved? There is little downside to doing so. Your future self will thank you.

A Small Favour

Well into our second decade of operations, GreensKeeper continues to thrive. We have recently made several technology investments which will add to our client reporting capabilities. Our research team will expand in a few months with the full-time addition of Michael Van Loon and our traditional summer student program.

With these additional investments, we are positioned to take on additional clients. While most of our clients are based in Canada, we also have added a US custodian to service our growing client base south of the border.

Our goal as a firm has never been to hit a certain level of assets under management. Our goal remains to deliver attractive returns *to our clients* while prudently managing risk. GreensKeeper's growth is a natural byproduct of delivering on that mission.

Every one of our 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 that resonates with you or someone you know, we would be grateful if you spread the word about GreensKeeper and gave us a call.

Michael P. McCloskey

President, Founder &
Chief Investment Officer

GreensKeeper
ASSET MANAGEMENT INC.

GreensKeeper Value Fund

December 31, 2022

Fund Details

	Class A	Class D*	Class F*	Class G**
Fund Codes	GRN 101	GRN 103	GRN 105	GRN 107
NAV	$19.47	$10.00	$20.80	$16.62
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	2022 - $0.1440
2015 - $0.2939	2019 - $0.5626	

Service Providers

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

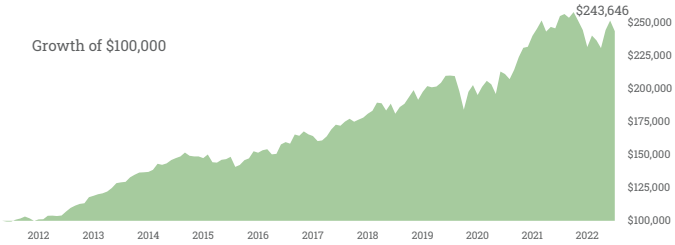
Investment Objective

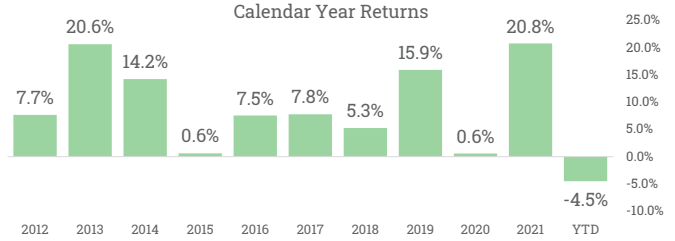
To deliver absolute returns to unitholders (net of all fees) in excess of both the S&P/TSX Index and the S&P500 Index (measured in Canadian dollars) over the long term. The Fund seeks to accomplish its set objective through investments in a concentrated portfolio, primarily in equities from any sector 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	-3.2%	-4.5%	-4.5%	5.1%	7.2%	8.6%	8.3%

Portfolio Allocations

Asset Mix *	
U.S. Equities	79.9%
Cash	13.1%
EMEA Equities	3.6%
Canadian Equities	3.5%

* Based on corporate domicile.

Sector	
Technology	26.5%
Healthcare & Pharma	19.1%
Financial Services	15.7%
Insurance	15.6%
Cash & Equivalents	13.1%
Industrial	6.8%
Communication & Media	3.2%

GreensKeeper
ASSET MANAGEMENT INC.

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	0.54	0.59
Standard Deviation	8.5%	11.8%	12.0%
Sharpe Ratio	0.88	0.60	1.19
Best Month	8.7%	10.8%	11.6%
Worst Month	-7.1%	-17.4%	-8.1%
Percentage Positive Months	67.9%	65.7%	69.4%
Maximum Drawdown	-12.3%	-22.3%	-18.5%
CAGR Since Inception	8.3%	7.4%	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 December 31, 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.

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

GreensKeeper
ASSET MANAGEMENT INC.

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.