Q1 2016 QUARTERLY COMMENTARY

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"...It seems to me that…opportunities for investment…have virtually disappeared, after rather steadily drying up over the past twenty years…and a swelling interest in investment performance has created an increasingly short-term oriented and (in my opinion) more speculative market."

"I just don't see anything available that gives any reasonable hope of delivering...a good year and I have no desire to grope around, hoping to "get lucky" with other people's money. I am not attuned to this market environment, and I don't want to spoil a decent record by trying to play a game I don't understand just so I can go out a hero."

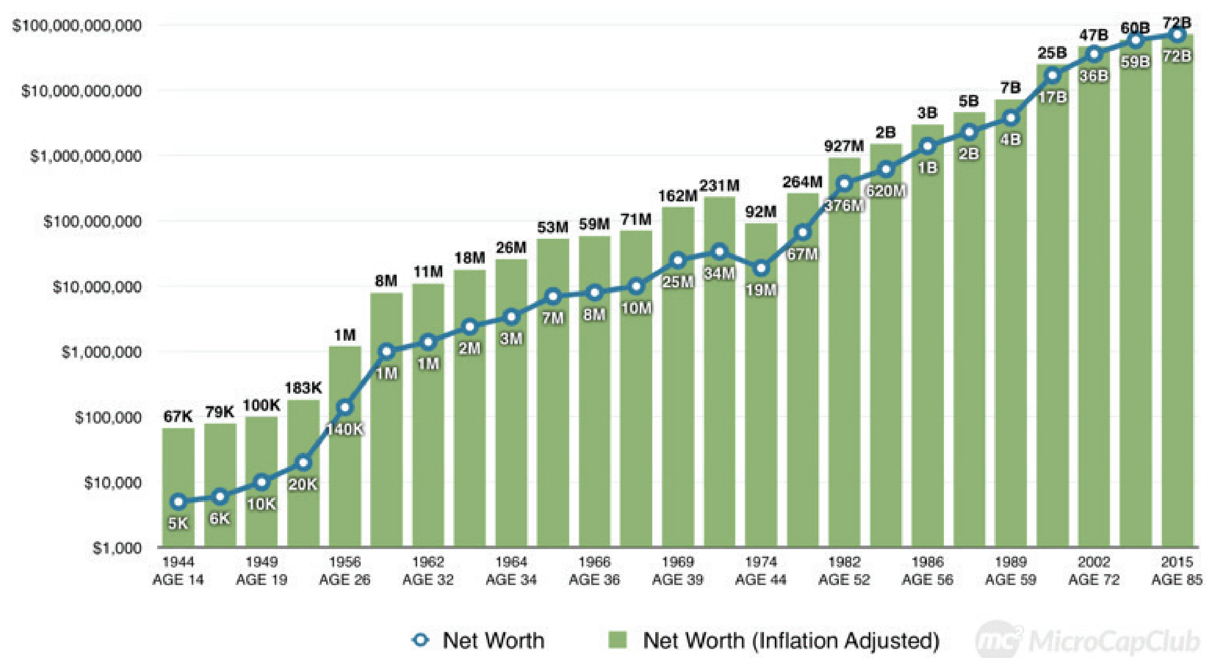
Warren Buffett wrote those words in his 1969 Buffett Partnership letter and they resonate loudly with us, especially today. It is our belief that no investor should feel the remotest obligation to play a game that they do not understand. However, the reality is, most institutional money managers are forced to try to keep pace with an arbitrary benchmark, and therefore must play the game whether they want to or not.

Similar to Buffett in 1969, in 2015 we decided that we no longer wanted to play a game that we did not feel right about. Our discipline of practicing patience and not doing something just for the sake of doing something was no longer suited for the game being played by many institutional money managers. This is one of the reasons why we chose to start Goodman & Company Investment Counsel. We believe an opportunity exists to better meet the needs of high net worth individuals and decided to re-enter the wealth management business to redefine the way Canadians view a wealth management company.

Clients do not need another asset gathering, crowd following, index hugging fund with fancy marketing and a false sense of risk management. In our opinion, the mutual fund industry has by-and-large seen its focus shift from managing money to aggressive asset gathering and marketing efforts. This change has placed a premium on short-term performance relative to a benchmark or group of competitors, forcing investment managers to make decisions that, in our opinion, result in irrational allocation of capital. We believe that those who can take a medium to long-term view and disregard index composition are at a significant advantage to capitalize on two key inefficiencies we see in today's markets: short-termism, and the tendency of many professional investors to manage career risk by hugging indices as opposed to portfolio risk.

Buffett wisely ignored the pressures he was seeing in 1969 and continued to invest according to his discipline. We all know how that turned out, but it did not happen overnight (see the graph on the following page). It took decades of compounding and patience. Patience is one of the key principles of our discipline. We seek to take advantage of temporary dislocations in the stock market, focusing instead on the long-term intrinsic value of the business and its underlying assets. We believe that our ability to be patient and focus on the long-term gives us a sustainable competitive advantage over our peers, many of whom do not have that luxury.

Warren Buffett's Net Worth By Age



Source: http://microcapclub.com/2015/08/warren-buffetts-net-worth-by-age/

Q1/2016

Just looking at the S&P 500 at the end of March, one might think that it was a very boring quarter. Much like a rollercoaster, where one begins and ends at the same place, what happened in between was quite wild. From the start of the year, to mid-February the S&P 500 fell almost 11%, before climbing to finish the quarter just barely above where it started.

This volatility has been a worry for many investors. The rollercoaster ride is making people very anxious and the big marketing machines behind many mutual fund companies are happily obliging, claiming that many of their products are "low vol". While these products are seemingly delivering on their promise to deliver lower volatility, many are using options to do so and in some cases this is coming at a cost of capping the significant upside of the long term benefits of compounding.

Our focus is on the underlying strength and future growth potential of our holdings, not short-term stock market fluctuations. We strictly adhere to Benjamin Graham's essence of portfolio management, which is the management of risk, not the management of returns, yet we recognize investors need both a return of capital and a return on their capital. We do not manage volatility, instead focusing our efforts on managing the risk of a permanent loss.

In the short term, very often stock prices do not reflect a company's economic worth – especially in times of heightened volatility. Our simple objective is to take advantage of these opportunities, where we believe risk is low, to build and preserve our clients' wealth and standard of living regardless of economic and market conditions.

Q1/2016 marks the launch of our first two pooled strategies at Goodman & Co.: the Core Equity Strategy and the Partners Strategy. The quarter's volatility brought the opportunity to add a new name to our holdings, a leading, vertically integrated manufacturer of products used in the residential and non-residential construction industries.

Since the US housing market crash, management of this company has restructured the business, divesting unprofitable segments and cutting costs. They have also participated in consolidating the industry as competitors struggled, further improving their dominant market position and ability to take pricing even as industry capacity utilization remains well off peak levels.

Given the powerful combination of reduced costs to manufacture and an improved ability to take price, we believe current consensus expectations significantly understate the effect returning volumes will have on the company's bottom line. We see 50-100% upside in the stock from our initial purchase price. We also see limited downside. Although well off the bottom, US housing starts are approximately one half of the level seen at the peak in 2005, and approximately 40% below the level widely estimated needed to meet the demands of population growth and replacement stock. And the company has a much stronger balance sheet to take advantage of the opportunity ahead of this cycle.

Thank you for your continued trust and support.

Sincerely,

The Goodman & Company Team