

2017 FIRST QUARTER COMMENTARY

Dear Fellow Clients and Unitholders,

For the year ending March 31, 2017, the Core Equity Strategy and the Partners Strategy delivered returns of 12.2% and 12.0%, respectively, net of fees.

One of the most important issues for investors relates directly to each individual’s asset allocation strategy. The key variable to consider is inflation and whether or not current asset prices accurately reflect anticipated changes to future inflation rate trends. While we are not “macro-investors”, we are advising clients to avoid the investing pitfall of approaching this exercise with a “rear-view mirror” strategy. While it has been years since investors have needed to be mindful of inflation; the new U.S. administration and, more recently, the Federal Reserve have made it clear that if their collective efforts prove successful, the concerns over deflation will end. All else being equal, inflation favours stocks over bonds while deflation favours bonds over stocks.

One of the key characteristics we require in an equity investment is the ability of a business to raise prices for its products and services over time. While many investors view gold as a superior inflation hedge, we do not. We believe businesses demonstrating pricing power across business cycles are far better and more productive investments. We call companies with pricing power “all weather” businesses – resilient in both periods of inflation and deflation. They can adjust pricing to protect and grow margins when general prices are fluctuating.

When Marc Andreessen of the highly influential, Silicon Valley based, venture capital firm Andreessen Horowitz was asked, “If you could have a billboard anywhere, what would it say?”, he responded, “Raise prices”.

He continued:

“The number one theme that companies have when they really struggle is that they are not charging enough for their product. It has become conventional wisdom in Silicon Valley that the way to succeed is to price your product as low as possible, under the theory that if it is low priced, everyone can buy it, and that’s how you get volume. And we just see over and over and over again people failing with that, because they get into a problem called ‘too hungry to eat.’ They don’t charge enough from their product to be able to afford the sales and marketing required to actually

get anybody to buy it. Is your product any good if people won’t pay more for it?”

Following are two examples of businesses we hold which exhibit enviable pricing power.

The Walt Disney Company - The Happiest Place on Earth

Searching for an amusement experience he could enjoy together with his daughters, Walt Disney created an entirely new industry in the 1950’s. Unlike its peers, Disneyland was a theme park, not a boardwalk style amusement area. It was one of the first amusement parks to even charge an entry fee. At the time, most were free to enter, with patrons purchasing tickets for each ride. It was, and remains, a one-of-a-kind experience people all over the world are willing to pay increasingly more for.

Since its opening in 1955, Disneyland has consistently raised prices ahead of inflation and the crowds keep coming (Exhibit 1). In 2015, the park set an attendance record of 18.2 million visitors, with one day ticket prices just shy of \$100. Prices have never been lowered since opening day despite suffering through nine recessions and an increasingly competitive entertainment marketplace. The same can be said for Magic Kingdom in Orlando (Exhibit 2), which saw a record 20.5 million visitors in 2015 and almost every other Disney theme park.

Exhibit 1: Disneyland Attendance and Tickets Prices

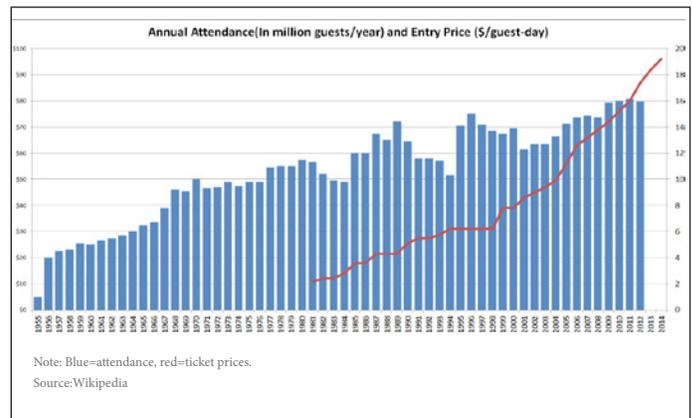
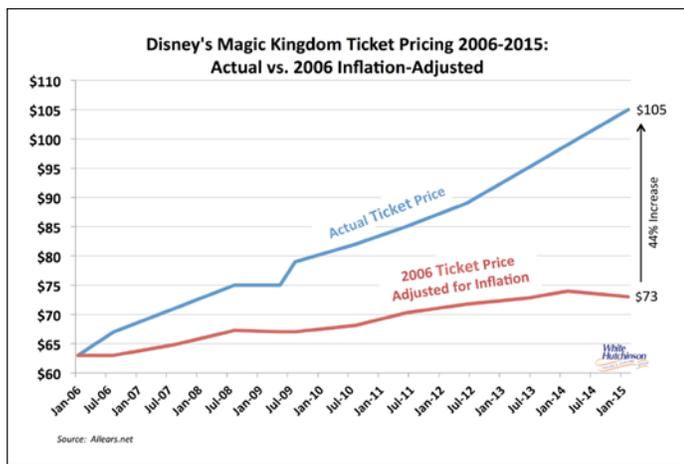


Exhibit 1: Magic Kindom Tickets Prices



the finished project but have a significant effect on the overall experience. Having gone through major home renovations ourselves, the paint cost relatively little but added significant character to each room, thereby adding value to the overall project.

- It is an infrequent purchase. We do not intend to paint our homes again for a number of years. Although we probably will not recall what we paid previously, if we pay \$50/gallon five years from now versus the \$40 paid yesterday, this constitutes a 25% increase in cost, likely well above inflation.
- Sherwin and their peers do not just sell paint. They provide a complete end-to-end service to businesses like Stephen's, offering value well beyond the product itself.

Sherwin Williams - Cover the Earth...In Profits

In his upcoming book, "The Power of Little Ideas: A Low Risk, High Reward Approach to Innovation", David Robertson recounts a story of hiring a man named Stephen to paint his house.

When Stephen submitted his quote, he specified his intention to use Sherwin-Williams paint, preferring it over competitors because of the service the company provides. Not only would Sherwin provide high quality paint, their paint stores were conveniently located and the sales representative would come to the job site to assist Stephen with estimates, develop a plan for each phase of the project and ensure all materials were accounted for and available in a timely fashion. In addition, they would allow Stephen to adjust the amount of paint as required, so if he bought too much primer, he could return it for a full credit against a later finishing coat, preventing waste and extra cost.

Stephen explained that another paint brand could be used, but since only 15% of the cost of a paint job was attributed to the actual paint, using a competing supplier would increase the cost of the entire project.

The story above highlights a number of traits which have allowed Sherwin-Williams, and the overall paint industry, to consistently increase prices over a decade (Exhibit 3) irrespective of volume growth (Exhibit 4).

- The cost of the input itself is a small fraction of the total project cost. A former colleague called these types of businesses "magic pixie dust businesses" – price increases on the particular input have little impact on the cost of

Exhibit 3: Pricing Has Been Maintained Despite Lowers Costs and...

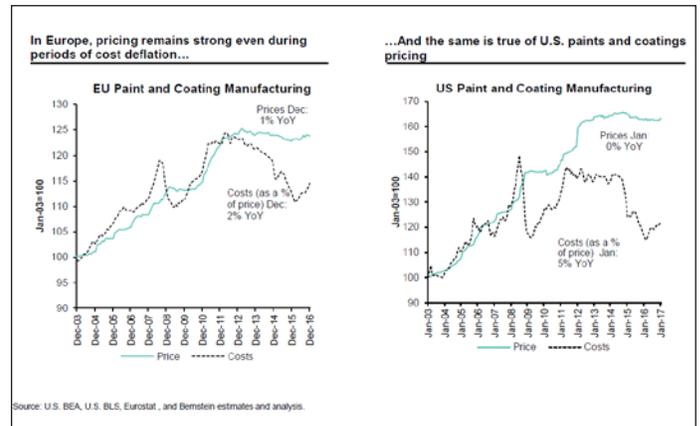
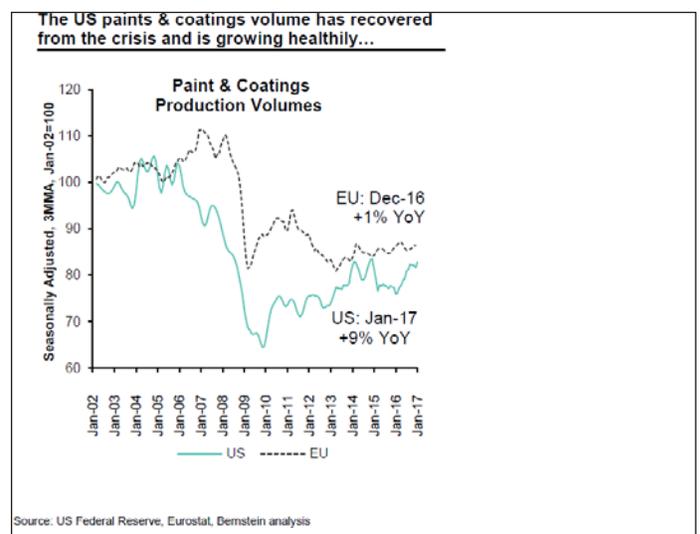


Exhibit 4: ...Volume Well Off Peaks



Finding and purchasing “all weather” businesses, at prices below our estimates of intrinsic value, allows us the achievement of our goal of protecting and growing your capital irrespective of the macro environment.

Thank you for your continued trust and support. Please feel free to reach out to us any time.

Sincerely,

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