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Casting your bread upon the waters

"The Investor of today does not profit from yesterday's growth" Warren Buffett

A. Investment Update – Reflections from Ecclesiastes

Our favourite wisdom book in the Bible is the book of Ecclesiastes. In this book Solomon, king of Israel, (period of reign 970 BC – 930 BC), and son of David deals with the meaning and purpose of life. Throughout the book Solomon repeats the expression "vanities of vanities all is vanity!" In fact, Solomon uses the word vanity 38 times. The word used in the original Hebrew means "emptiness, futility, vapour, that which vanishes quickly and leaves no trace behind." From the vantage point of mankind, or as Solomon states, living life under the sun without reference to a personal Creator, life really does appear futile. Without God, why would anything this world offers, provide any meaning or satisfaction, given its transitory nature. Using the parlance of today's biologists, if "matter plus energy" is ultimate, what is right and wrong, what is truth, how can one find purpose and meaning in life? These are heavy-duty topics to be sure, yet topics we must take seriously.

Fortunately as Solomon makes clear, we are not ultimately only matter plus energy! Rather, we are those who have been made by a personal-infinite Creator who has placed us in a meaningful and purposeful world, rich in resources. God has made each of us to enjoy our labour, to pursue knowledge, and use the resources we have for the improvement of all those around us, as we steward the creation and give glory to our Creator.

In the first six verses of chapter 11 Solomon provides his readers with a basic framework to follow as we approach each day. In these six verses Solomon admonishes us to take the initiative, to not hold back, to move forward wisely and confidently in the knowledge that we live in a personal world in which God has a plan for all of us. The verse we will zero in on is the first verse, which simply reads: **"Cast your bread upon the waters, for you will find it after many days."**

There are four points that we can glean from this verse. Each point is apropos to the world of investing. First, we are told to cast out! This expression speaks to the important issues of commitment and looking forward. The insinuation here for Solomon is to the ancient business of shipping and international trade. Commercial voyages in Solomon's day could leave for several years at a time and take on significant risks before any profits resulted. (Note that Solomon had to self-insure and did not have access to pools of insurance at Lloyd's of London!) We read about Solomon's fleet, which brought back tons of gold and silver along with fine timber and livestock (I Kings 10:22). We are told that his ships sailed once every three years, so he was acquainted with casting his wealth on the sea! Solomon is telling us that

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investing requires commitment, giving careful thought to our decisions and looking forward with great anticipation to the future returns!

Second, Solomon not only tells us to cast out but he tells us to cast our bread. In this context, bread refers to our goods, our livelihood and even our selves. Casting is active, personal and costs us something. It raises the whole idea of stewardship, and seeing bread as something we have, are responsible for, and looking forward in faith. It assumes a long-term view, being creative and accepting risk within the framework of a personal and meaningful world. In terms of investing, this requires us to put your money and hard earned capital to work in wise investments, that while there is risk involved that risk is mitigated by giving significant thought to the quality and attributes of the investment, as well as the price we pay for the investment.

Third, we must be patient! Casting and commitment are almost always tied to patience. Being patient is counter culture in our day. Most people think we deserve immediate response 24/7. But the best returns come to those who are patient, and can ferret out long-term investments that have the potential to compound in value for extended periods of time. This is also the most tax efficient manner to create long-term wealth given the higher and higher marginal tax brackets investors are having imposed on them! The bottom line is that we must find great companies run by skilled managers who are forward looking, disciplined, patient and can multiple the capital deployed in their business.

Fourth, after many days, you will find what you have cast out, and more! There is a high probability of a great return!

These four points apply directly to the process of investing. Given the challenging world we live in, it is crucial that we follow each of these steps with rigor. Solomon knew personally the risks involved in casting out his wealth. During his lifetime he became one of the wealthiest individuals in the history of the world, as he put his valuable advice into practice.

Successful investing requires the thoughtful commitment of capital, marinated with much patience. Our goal is to keep on casting your bread on the water, and over time continue to reap the benefits for you!

B. Investors Across the Globe Join the First Quarter Party

Stocks in the U.S. and within the major global markets ended March on a down note, but investors had much to celebrate during the first quarter. Many of the world's major stock indexes set fresh highs, as easy-money policies from major central banks continued to help lift stock prices to new highs, including in the U.S., the U.K, Germany and India. For U.S. stocks, the Dow Jones Industrial Average and S&P 500 hit new records in early March but stalled out later in the month, amid concerns about the impact of a stronger dollar on profits of big, U.S. based multinational firms and ongoing debt concerns in Japan, Europe and even China.

	March 31, 2015 Close	Quarterly Returns	1 Year Return
S&P/TSX Composite Index	14,902	1.8%	4.5%
S&P 500 (USD)	2,068	0.4%	11.32%
Dow Jones Industrial Average	17,776	-0.3%	8.9%
FTSE TMX Canada Universe Bond Index	1,000.94	4.11%	4.76%
CADUSD	$0.7941	-8.45%	-12.08%
Brent Crude Oil Spot	$53.99	-2.3%	-49.21%
NYMEX Gas – 12month	$2.89	-32.4%	-40.39%
Gold Spot (USD/Oz)	$1,187.60	0.1%	-7.48%
Silver Spot (USD/Oz)	$16.60	5.67%	-16.16%
Copper Spot (USD/lb.)	$2.75	-4.8%	-8.94%

Source: NBCN Inc., Google Finance, Kitco, Canaccord Genuity, EIA

During the first quarter of 2015 the S&P 500 rose 0.4%, its ninth quarter in a row of gains, while the Dow edged down 0.3%. The S&P finished the quarter 2.3% below its record, set March 2, while the Dow was down 2.8% from its peak.

Investors continue to attribute the rise in stock prices to the exceptionally low interest rates around the world, and the ongoing money printing by the world's major central banks. Following the launch of a huge economic-stimulus effort by the European Central Bank in March, German 10-year government bond yields fell to only 0.18%, and French 10-year notes ended the quarter yielding a paltry 0.48%. In the U.S., 10-year Treasury notes pay 1.93%, down from 2.17% at the end of 2014. As this report is being written, (mid-April), yields have continued to drift lower. For example, all German bonds up to 8 years are trading at negative yields!

Consider the following data points concerning the level of interest rates. In the first 67 trading days of this year there have been 26 interest rate cuts, by global central banks and 569 interest rate cuts since September 2008, when Lehman Brothers declared bankruptcy, at the peak of the financial crisis! This one-way move in interest rates is unsustainable! It speaks to the massive level of global debt that is no longer serviceable, at normalized interest rates, and continues to expand each day! At the end of March 2015 approximately $5.3 trillion of government bonds, primarily in Europe traded at negative yields! Let that fact sink in for a moment! In March alone

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we saw the largest monthly issuance of European corporate bonds (over 60 billion Euros) in history. The Swiss 10 year sovereign bond trades at a negative yield, again another historical first! Can you image buying a bond today that promises to give you back less money in 10 years? Even Mexico jumped into the fray with a 1.5 billion 100-year Euro bond issue at 4%! Throughout Europe more and more corporate deposit accounts do not earn any interest. Worse, many corporate accounts are increasingly being charged interest or fees to leave their money in the bank! This begs the question; is it time to buy a safe for your house and put your cash in it? Better idea would be to buy gold!

"If not stocks, what else are you going to do with your money?" This question epitomizes the attitude of many investors given the attack on savers and the zero to negative interest rates investors are subjected to in the world of fixed income investing. Stocks are increasingly seen as the only game in town! We find this more concerning than consoling, as investors continue to bid up the price of stocks. Regardless of the froth around us we are committed to our value investment principles. Over time value investing is the best way to protect and grow your capital in the midst of increasing speculation.

While interest rates continued to move lower the U.S. dollar rose 13% against the euro, as the ECB injected money into Europe's economy by purchasing government bonds (printing Euros), and as some investors looked ahead to interest-rate increases from the Federal Reserve later this year. We remain skeptical when it comes to the Federal Reserve raising interest rates later this year, given the weakening growth prospects for both the global and US economies.

In Canada we saw our dollar drop over 8% against the US dollar during the first quarter and by just over 12% over the past 12 months. At this point we expect our dollar to stabilize in the 78-84 cent range for the remainder of the year, but please don't hold us to this forecast! I like to remind our investors that, "forecasting is like trying to drive a car blindfolded and following directions given by a person who is looking out of the back window." **Our goal is to be approximately right rather than precisely wrong!**

One interesting point is that the increase in the US dollar, during the first quarter, was the sixth largest quarterly increase since 1971, relative to the major global currencies! A stronger US dollar, tends to hurt the profits of the big multinationals that dominate the Dow and the S&P 500 so we are expecting the earnings of a number of our US based companies to be weaker during 2015. We hope that this will give us better opportunities to add to some of our favourite multinational companies if the prices of these businesses weaken as the year progresses.

One of the biggest stories of the last year, which continued during the first quarter of 2015, was the plunging oil price. The Brent Crude Oil futures fell 2.3%, to $53.99 during the quarter but finished up from a more-than-six-year low of under $50.00 which it hit in mid-March. Over the past 12 months crude oil futures are down almost

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50%! We have been very fortunate to have a relatively small weighting in this sector, with approximately 5% of our existing equity positions in the oil and gas sector. As we have mentioned in other updates, all of our positions are in very well financed businesses that are characterized by their low cost of production and diversified revenue models. They are businesses that can thrive in this environment of lower energy prices. We expect more merger and acquisition activity to take place in this sector. Our equity positions should be net beneficiaries of any resource conversions.

For our investors, one lingering note of caution comes from valuations for U.S. stocks (including many of our Canadian stocks). The S&P 500 is trading at almost 17 times the next 12 months' forecast earnings, above the 10-year average of 14.1, according to FactSet. This despite the fact that it looks like the year over year growth in US earnings will be negative in 2015, the first time we have experienced this since 2009! We continue to be very cautious and refuse to chase stocks when they become too expensive. We must be patient and work harder at finding securities that are properly priced and overlooked in the market. In Solomon like words, we need to be more and more proficient at "casting your bread" in the midst of these crazy seas called markets!

C. Technology & Banking

One of the most forward-looking ways to allocate capital is to invest in long-term growth industries, with prescient management teams. The quote by Warren Buffett at the beginning of this newsletter reminds us that the investor today does not profit from yesterday's growth. We need to invest today in future growth in order to be rewarded handsomely tomorrow! One industry we have invested in for some time is the financial services industry and more specifically banks. Our first significant investment in a bank dates back to 1997 with a large purchase in TD Bank Group (TD). In fact at one point the AIC Mutual Funds, of which I (Jonathan Wellum) was a portfolio manager, was the largest owner of TD. This was around the time that TD purchased Canada Trust in 2000. We decided to go back and calculate the returns on TD stock from January 31, 1997 until January 31, 2015. Over this period of time the stock, plus reinvested dividends, is up approximately 862% versus the TSX total return index of 257%. As investors know from experience owning a well-managed bank can be very profitable. On the other hand, owning a poorly managed bank can be disastrous!

While banking has been a stable long-term growth business, given population growth and the expansion of credit products, there are numerous changes taking place in the financial services sector that favour smaller, innovative and technologically sophisticated banks. Recently we came across what we believe is a bank that fits these characteristics very well. The bank is called Customers Bancorp Inc. We believe that the investor today will benefit significantly from the growth opportunities this company is finding. During the first quarter we added this bank to most of our client accounts. We have provided our investors with a brief outline of the businesses below.

Customers Bancorp Inc.

Customers Bancorp, through its wholly owned subsidiary Customers Bank, provides financial products and services to small businesses, not-for-profits, and consumers through its branches and offices in Pennsylvania, New York, New Jersey and Massachusetts. Customers Bank also provides liquidity to the mortgage market nationwide through the operation of its loans to mortgage banking companies. At December 31, 2014, Customers Bancorp had total assets of $6.8 billion, including net loans of $5.7 billion, total deposits of $4.5 billion, and shareholders' equity of $0.4 billion.

Customers Bancorp's strategic plan is to become a leading regional bank through organic growth and value-added acquisitions. There are five main points that help to underscore the low risk strategy of this bank that have caught our attention. First, most of their growth from June 2009, when the current management bought a small distressed bank in Pennsylvania with only $270 million in assets has been organic. The bank has focused on hiring experienced bankers from larger competitors, who bring established and valuable banking relationships to Customers Bancorp rather than buying complete banks in order to obtain new clients. The strategy of hiring top talent is a much safer way to grow the business! Second, credit quality has been stellar, with no charge offs (write-downs) to date on loans that Customers Bancorp as originated. Third, the bank is "branch-lite" with only 14 branches, relying more on relationships and technology than branches to connect with customers. This we believe is critical in the days ahead, where customers will use physical branches less and less. "High Tech" and "High Touch" is the way to go! Even today Customers Bancorp has a more profitable model when compared to a traditional bank. Their significant cost advantage has provided them with the flexibility to cut numerous irritating fees that are so pandemic in the current banking model. Fourth, Customers Bancorp is becoming the leader in on-line banking and recently launched a powerful Internet Bank called BankMobile (no fee banking). We are impressed by the potential of BankMobile and believe their first-mover advantage could provide them with some amazing upside, which is not priced into the current stock price. Fifth, the current valuation of the bank is very reasonable and it still trades at a lower price to earning multiple and price to book multiple than most of its peers, despite Customers higher growth profile.

It is important to note that the management team of Customers Bancorp consists of experienced banking executives led by its Chairman and Chief Executive Officer, Jay Sidhu, who joined Customers Bank in June 2009. Mr. Sidhu brings 40 years of banking experience, including 20 years as the Chief Executive Officer and Chairman of Sovereign Bancorp. On a historical note we invested in Sovereign Bancorp back in 1992 when Jonathan Wellum was a portfolio manager at AIC Mutual Funds. AIC unitholders benefitted immensely from the stewardship of Mr. Sidhu for well over a decade. In addition to Mr. Sidhu, many of the members of the current management team have experience working together at Sovereign with Mr. Sidhu.

Below I have included five quotes from a recent interview with Customers CEO Jay Sidhu. These quotes help provide you with some perspective on how he views banking and the opportunities facing Customers Bancorp.

"We have on the fourteenth of January introduced our digital consumer bank, which is the first full service digital consumer bank that operates completely out of the palm of your hand. And we expect in the second half of this year or early part of next year to also introduce a digital bank for small businesses, which will also be a nation wide bank to gather core deposits as well as have deeper relationships with small and medium size businesses even inside our current market area as well as extension of our existing market area"

"What does BankMobile do? It in essence is a strategy of no-fee banking and we pay 25 basis points higher interest rate than the top four banks in the country. We offer lines of credit rather than overdraft fees and there are no fees at all. We offer 55,000 ATMs to all our customers. We offer a personal banker to every single customer. You can open up accounts within five minutes from the palm of your hand"

"We have a million customers today, students, who have never been to a bank branch"

"There are 70 million under-banked consumers in America. It is about time somebody builds a bank for millennials and middle income consumers."

We are very optimistic when it comes to the long-term capital growth potential for Customers Bancorp. This is a bank that is "disrupting" the current status quo and providing opportunities for its shareholders.

D. Summary

Given the challenges ahead we will remain conservatively invested in strong companies, operating in strong long-term growth industries. We are prepared to take advantage of market swings and welcome volatility! We continue to compile a list of exceptional companies we would love to own, but most at lower prices. We are pleased to add new companies, from time to time, that are attractively priced and at the same time, have significant capital growth potential. We believe Customers Bancorp is one such example. We have also begun adding to another new business that we will discuss at the end of June.

As we have stated in other communications, the best offence is a good defense, and we have some great companies to provide us cover in a world that is increasingly under the influence of "monetary insanity". We also own a handful of companies that are growing very quickly and finding wonderful opportunities to deploy their capital. We continue to carry significant cash positions that can quickly be put to work! We appreciate your support and are committed to providing the highest levels of return consistent with a disciplined approach to risk management! We believe in the words of King Solomon, "Cast your bread upon the waters, for you will find it after many days."

ROCKLINC INVESTMENT PARTNERS INC.

Contact Information

ROCKLINC INVESTMENT PARTNERS INC.

4200 South Service Road, Suite 102

Burlington, Ontario

L7L 4X5

Tel: 905-631-LINC (5462)

Fax: 905-333-9116

Jonathan Wellum	jwellum@rocklinc.com	(ext. 2)
Paul Farrugia	pfarrugia@rocklinc.com	(ext. 3)
Doretta Amaral	damaral@rocklinc.com	(ext. 1)

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