



ROCKLINC

Worth. Investing.

Opportunities & What You Will Not Learn at University

McMaster University M.Fin.

September 6, 2018

Disclaimer

- This presentation has been prepared by RockLinc Investment Partners Inc.
- The information contained in this presentation is not investment or financial advice and is not intended to be used as the basis for making an investment decision. This presentation has been prepared without taking into account the investment objectives, financial situation or particular needs of any particular person. Past performance is no guarantee of future performance.
- No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions contained in this presentation. A number of statements in this presentation have been based on internal estimates by RockLinc Investment Partners Inc. and have not been independently verified. To the maximum extent permitted by law, none of RockLinc Investment Partners Inc. and their respective directors, employees or agents, nor any other person accepts any liability, including, without limitation, and liability arising out of fault or negligence, for any loss arising from the use of the accuracy, completeness or correctness, likelihood of achievement or reasonableness of any forecasts, prospects or returns contained in this presentation. Such forecasts, prospects or returns are by their nature subject to significant uncertainties and contingencies. Actual future events may vary from these forecasts and you are cautioned not to place undue reliance on any forward looking statement.
- The statements in this presentation are made only as at the date of this presentation unless otherwise stated and remain subject to change without notice. None of RockLinc Investment Partners Inc. and their respective directors, employees or agents nor any other person accepts any obligation to correct or update information in this presentation



Master of Finance (M.Fin.)

- The Master of Finance program will: equip you to solve problems in securities valuation, trading strategy, risk assessment and investment management. Develop and enhance your understanding of the principles and practice of modern finance. Prepare you to deal with complex concepts and the body of knowledge required of modern finance professionals.

Presentation Outline

A. Background Information

B. Professional Experience

C. ROCKLINC Investment Partners

- Opportunities - Investment Industry
- Opportunities - Macro Environment
- Opportunities - Investment Strategy
- Opportunities - Personal/Ethical Attributes

D. What you will not learn at University

E. Rocklinc Performance Summary



A. Background Information

- Jonathan Wellum, BCom. BSc, MBA, MA, CFA
 - **Leadership:**
 - President & CEO of ROCKLINC Investment Partners
 - Member of the McMaster University Investment Pool Committee
 - Past CEO and CIO of Portland Investment Counsel (AIC Funds)
 - **Performance:**
 - Recipient of Canada's Top 40 under 40 - 1999
 - Fund Manager of the Year in 1997 - Canadian Mutual Fund Awards Gala
 - Fund Manager of the Year in 1995 - Investment Executive Magazine

Background Information

- Ten years studying at University across numerous disciplines - integrated learning
- **BCom., MBA** - McMaster (Finance & Accounting)
- **BSc.** - University of Waterloo (Biology)
- **MA** - Trinity Evangelical Divinity School (Theology/Philosophy - Chicago IL)
- **CFA**

B. Professional Experience

1. Accounting, Insurance & Finance
2. AIC Story (1990-2009)
 - \$10 million to \$15 billion in AUM (was the largest private mutual fund business in Canada by 1998)
 - Retail Fund business sold to Manulife in 2009
 - Founded ROCKLINC Investment Partners in 2010



Lessons learned from AIC Experience

1. Invest like a businessperson!
2. Don't follow the consensus!
3. Patience & Discipline - wait for fat pitch!
4. Be an entrepreneur!
5. Most important decisions are made when you are young!

Opportunities - Investment Industry

Favorite John Maynard Keynes Quote:

“Worldly wisdom teaches us that it is better for reputation to fail conventionally than to succeed unconventionally.”

C. ROCKLINC Investment Partners

- Private investment firm - founded January 2010
- Focus - creating portfolios of **quality** assets customized to our **client's needs**
- Investing based upon:
 - Independent thinking
 - Deep understanding of investments
 - Looking forward rooted in an understanding of the past & present

Opportunities - Investment Industry

1. Service - personal relationships, large financial institutions do not highly value their employees. This leads to a lack of care & concern for clients! Management of large institutions not in touch with their clients. (BNS - CEO sees bank as a “technology company”.)

Opportunity - Develop deep and long-term relationships built on trust, in an increasingly impersonal environment. Human value/dignity.

Opportunities - Investment Industry

2. Customization - building personal relationships with clients allows for alignment of ethical and moral values that large financial institutions do not understand or share.

Opportunity - Develop deep and long-term relationships that lead to customization based on client values and wishes, not just financial returns.

Opportunities- Investment Industry

3. Active vs. Passive Investing

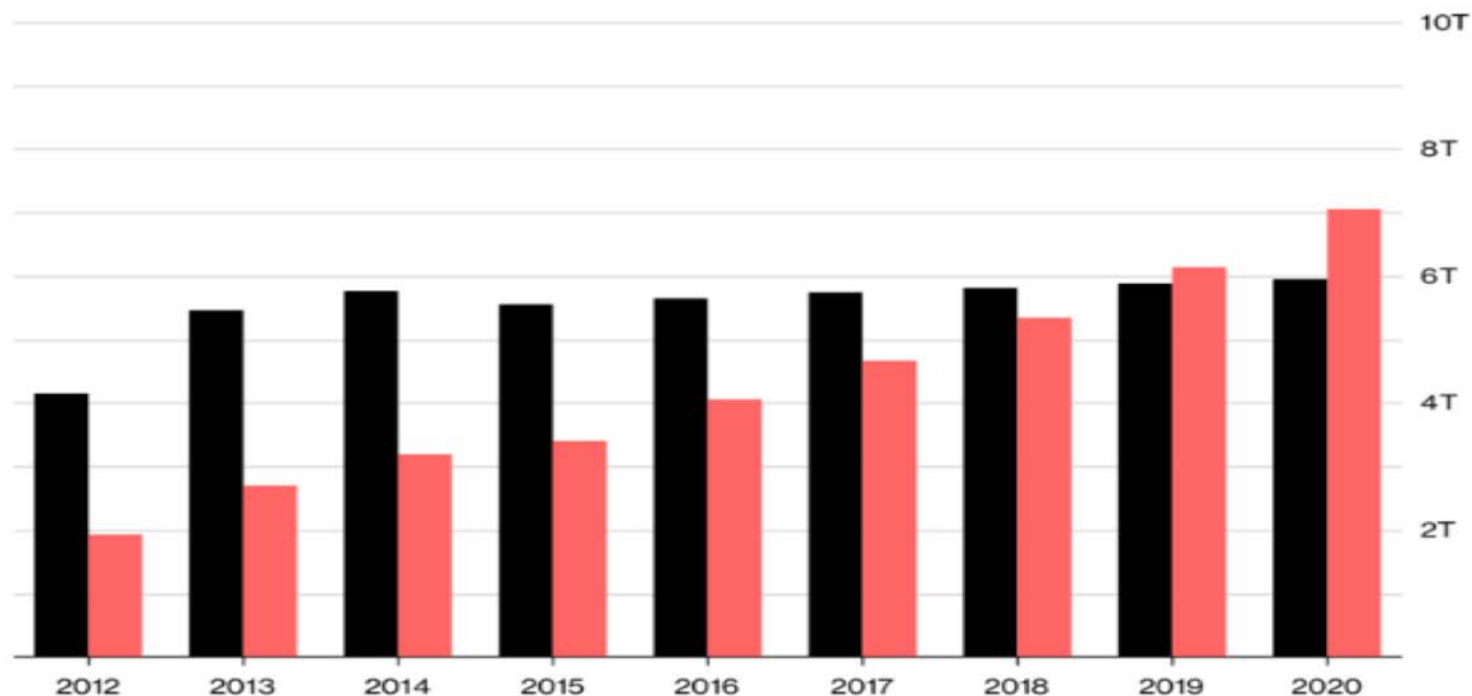
Passive - little differentiation, low pricing power, reduced to being a mathematician. Growing quickly, “mindless” investing leading to less efficiency and more mispricing of securities, lower GDP (ie. companies not in index).

Opportunity - Active Investing! Don't follow crowd into ETF's and passive indexes.

Day of Reckoning: Stock Pickers

Passive equity funds are on pace to overtake active funds in 2019

■ Active ■ Passive



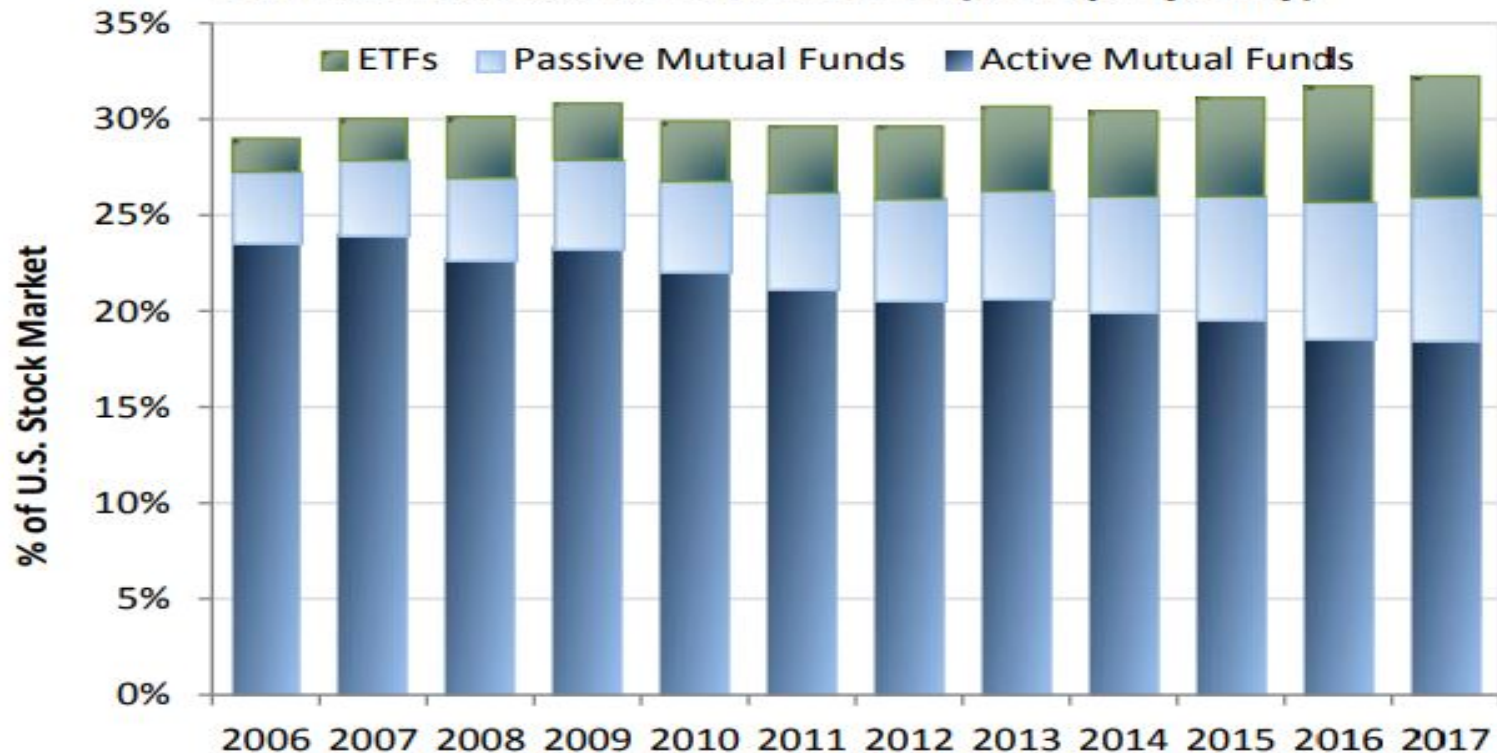
Note: Includes U.S. domiciled equity ETFs and mutual funds. Estimated growth based on the average annual three year growth rate.

Source: Bloomberg

Bloomberg



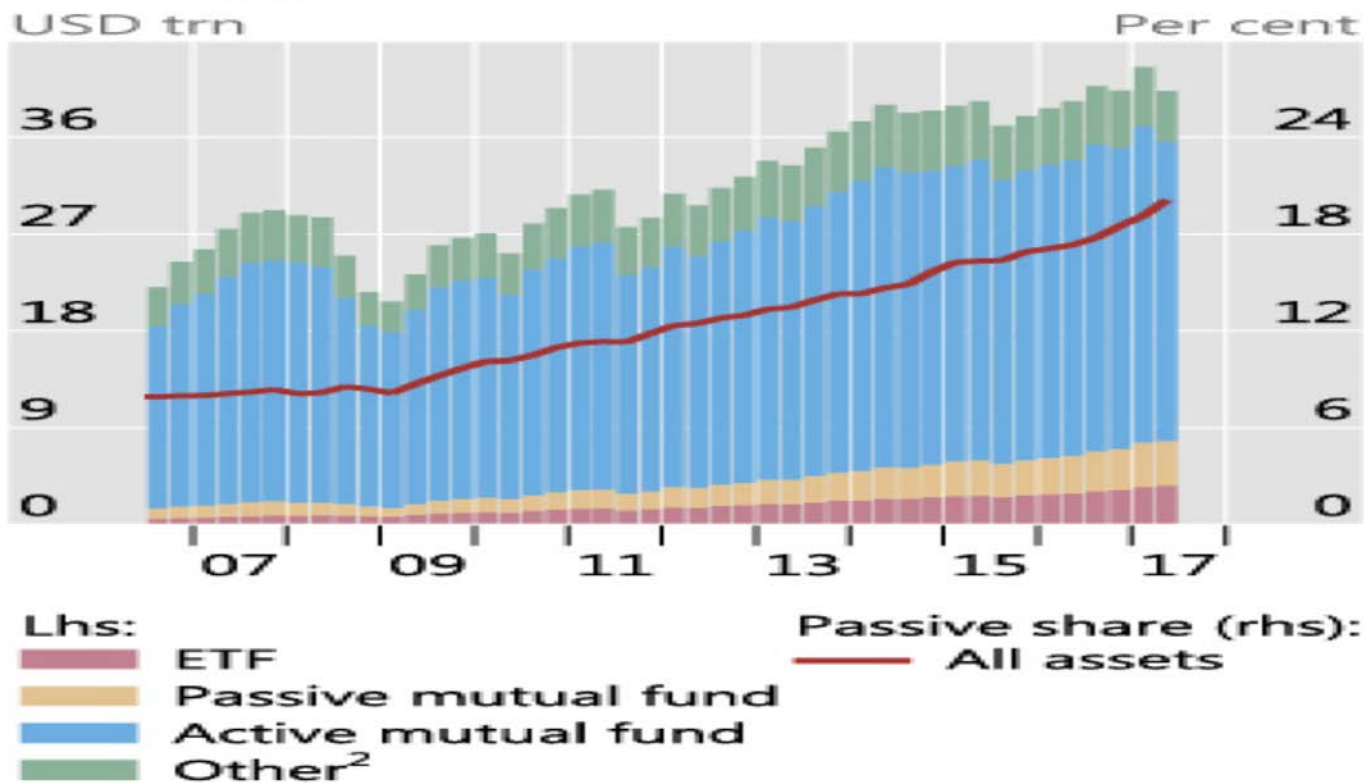
Assets in Mutual Funds and ETFs (US Equity Only)



Source: Credit Suisse: Trading Strategy, ICI



Global assets under management by fund type



Source: Bank of International Settlements



Opportunities- Investment Industry

3. Active vs. Passive Investing (continued)

Active - build a worldview, have disciplined philosophy & principles, focus on economic fundamentals of industry and business, do not over diversify, high conviction investing!

Opportunity - invest against passive investors (low information investing), high active share!

Opportunities- Investment Industry

3. Active vs. Passive Investing (continued)

Opportunity (continued)

As an active investor be open to investigating and researching all sectors, all market capitalizations, public and private companies. Only invest in best ideas at attractive prices based on economic fundamentals. Avoid bubbles! *Know your circle of competence! If you do not know where your circle lies, you do not have one!*

Opportunities- Investment Industry

3. Active vs. Passive Investing (continued)

Opportunity (continued)

- Time arbitrage - go long-term, when most are short-term
- Passive investing is a “can’t lose” strategy, but it is also a “can’t win” strategy!
- Is it a good idea to invest with no regard for company fundamentals, security prices or portfolio weightings? NO!
- But passive investors NEED ACTIVE investors to price assets properly - note the inconsistency!

Opportunities- Investment Industry

3. Active vs. Passive Investing (continued)

Opportunity (continued)

- The irony is active investors - so derided by the passive investing crowd are the ones who set the prices that index investors pay for stocks and bonds! If active investors are lacking in judgement why are passive investors following their valuations?
- What happens when the majority of equity investment comes to be managed passively? Does passive investing lead to a distortion of asset prices?

Opportunities- Investment Industry

4. ETF's vs. Active Investing

Opportunity

- Liquidity - ETF's cannot be more liquid than the underlying assets! Can lead to “gating” of ETF's/Funds
- ETF's - Can lead to distortion of prices if particular companies are over-weighted in ETF's

Opportunities- Investment Industry

5. Quantitative Investing vs. Active Investing

Opportunity

- Size constraints.
- Relationships assumed in formulas can breakdown during financial crisis or market stress.
- Success leads to copying and loss of opportunity.
- Since investing is dynamic, rules in quantitative investing need to be dynamic to be successful.

Opportunities- Investment Industry

6. Artificial Intelligence vs. Active Investing Opportunity

- Machine learning is in its infancy. It may be possible the AI and machine learning will become participants in the markets!
- Jury is still out!

When Passive Investing Fails!

- If you invested in S&P 500 - September 1929 would not have made money until 1954 (25 years later).
- NASDAQ Index March 2000 took 15 years to return to highs.
- Japan TOPIX - not close 29 years later after reaching peak in December 1989.

Opportunities - Macro Environment

1. Debt, Debt & More Debt
2. Unfunded Government Promises
3. Demographics - Future without Children?
4. Monetary Policy - Bailing out Debtors

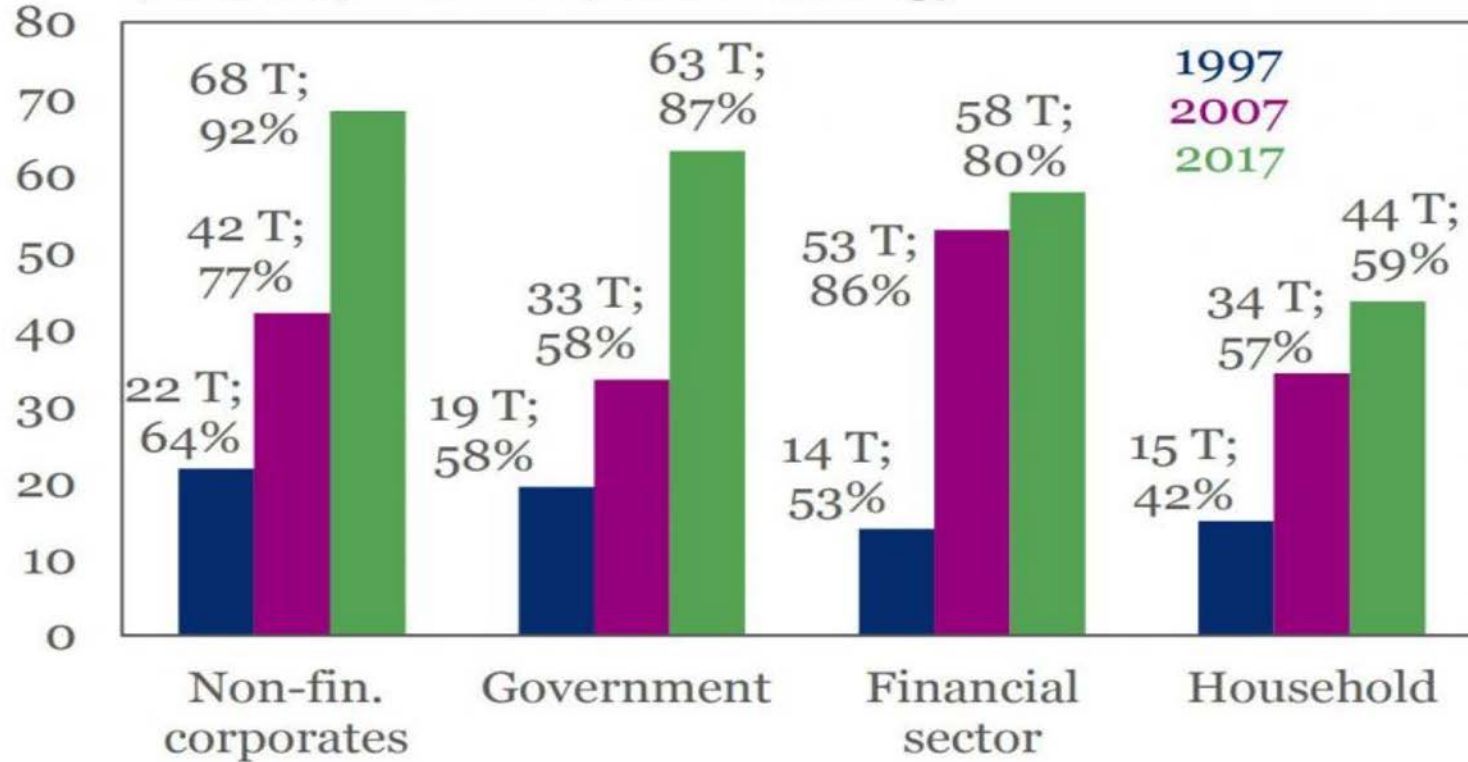
1. Debt, Debt & More Debt

- Since 1971 (US left gold standard), global debt levels have escalated.
- Personal debt as a % of income has tripled in most of the developing world.
- Sovereign debt has tripled as a % of GDP.
- Corporate debt has increased lockstep

Chart 1: Global Sectoral Indebtedness

\$ trillion; % of GDP; end of each Q3

233T
162T
70T

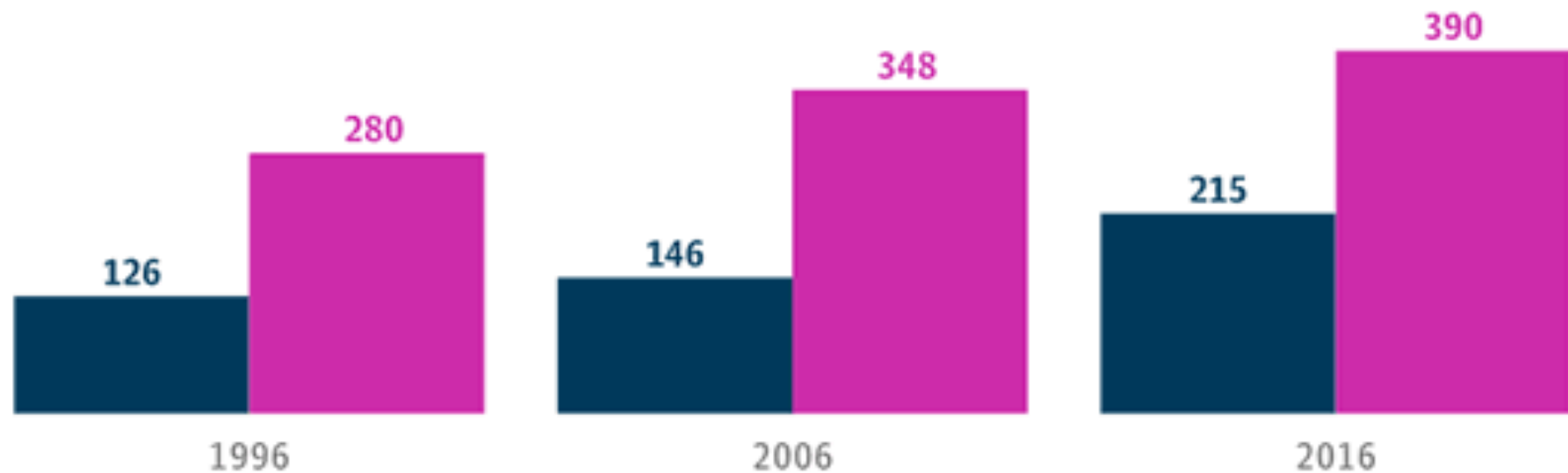


Source: IIF, BIS, IMF, Haver



Global debt has ballooned *% of GDP*

◆ Emerging markets ◆ Mature markets



SOURCE: IIF, BIS, HAVER



Impact of Interest Rate Increases in a Highly Leveraged Economy

Developed Economies 390% Debt to GDP - What does this mean?

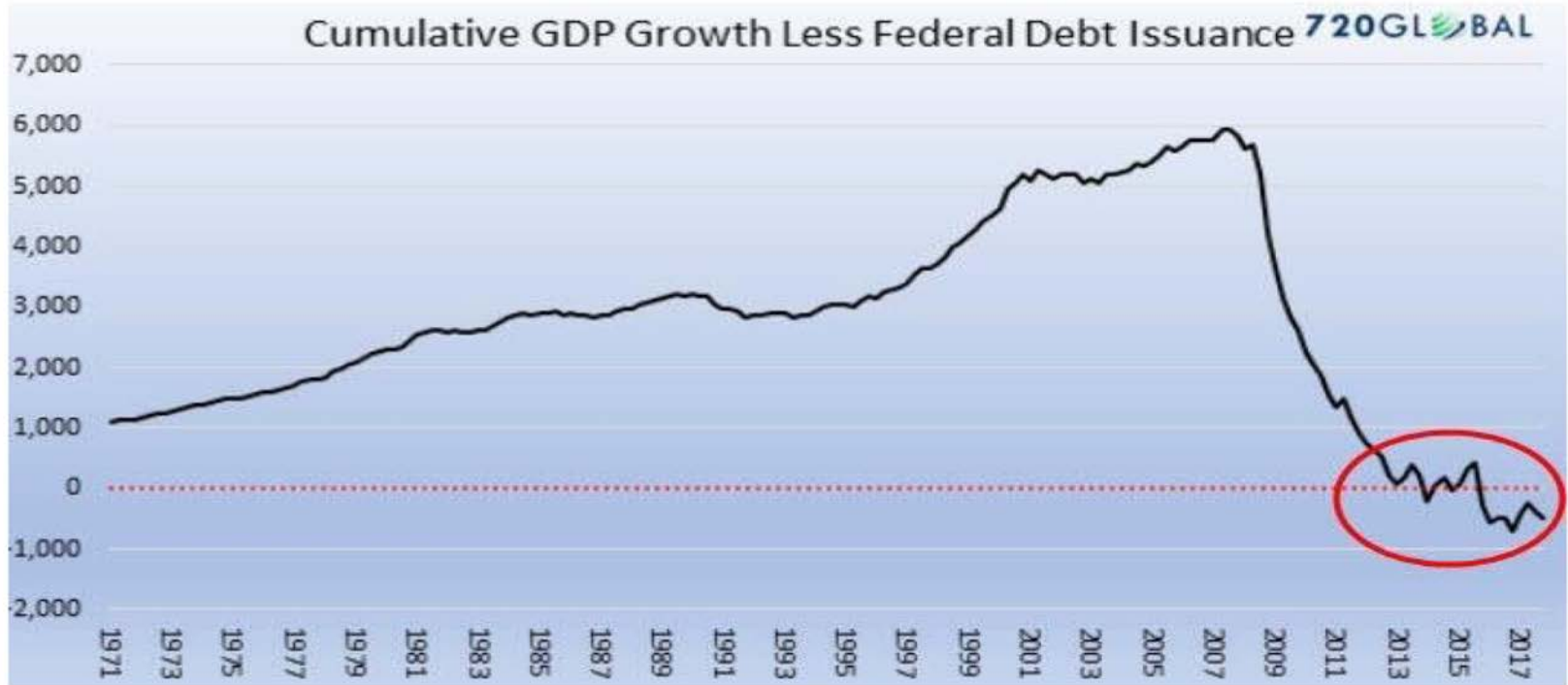
- Every 1% increase in interest rates equals 3.9% of GDP
- If rates increase by 2.5% that translates into 9.75% of GDP!
- Can interest rates “normalize” without causing a serious economic slowdown?

Debt Growth - Unsustainable

Debt/GDP - USA (1971-2017)

- 1971 - GDP \$1.1 trillion & Debt - \$398 billion
= 36% Debt/GDP
- 2017 - GDP \$19 trillion & Debt - \$21 trillion
= 110% Debt/GDP

US Economy (1971-2017)



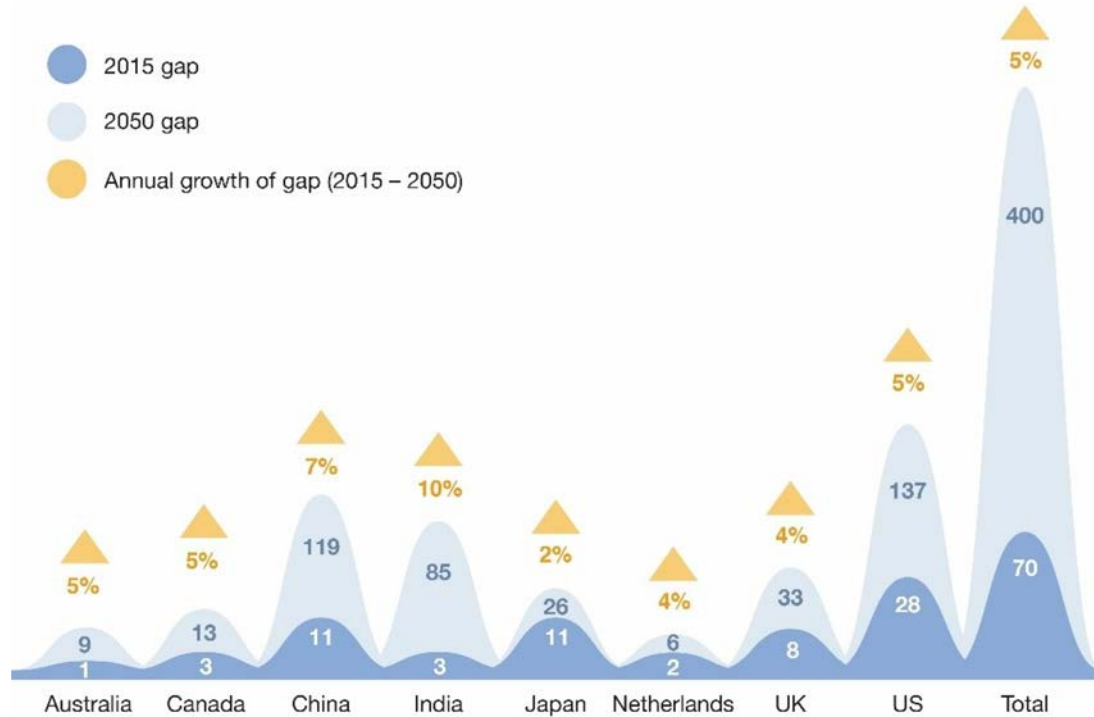
2. Unfunded Government Promises

Governments have made enormous promises without setting aside required capital.

- Promises facilitated by the use of fiat currency
- Promises are typically “off balance sheet”
- Examples include:
 - Pensions & Various Social Welfare Programs
 - Universal Healthcare

Global Pension Timebomb - Funding Gap

Source: World Economic Forum



“Decadent Democracies”

“A democracy cannot exist as a permanent form of government. It can only exist until the voters discover that they can vote themselves largesse from the public treasury...” (Alexander Tyler - 1780)

“Only a virtuous people are capable of freedom. As nations become more corrupt and vicious, they have more need of masters.” (Benjamin Franklin)

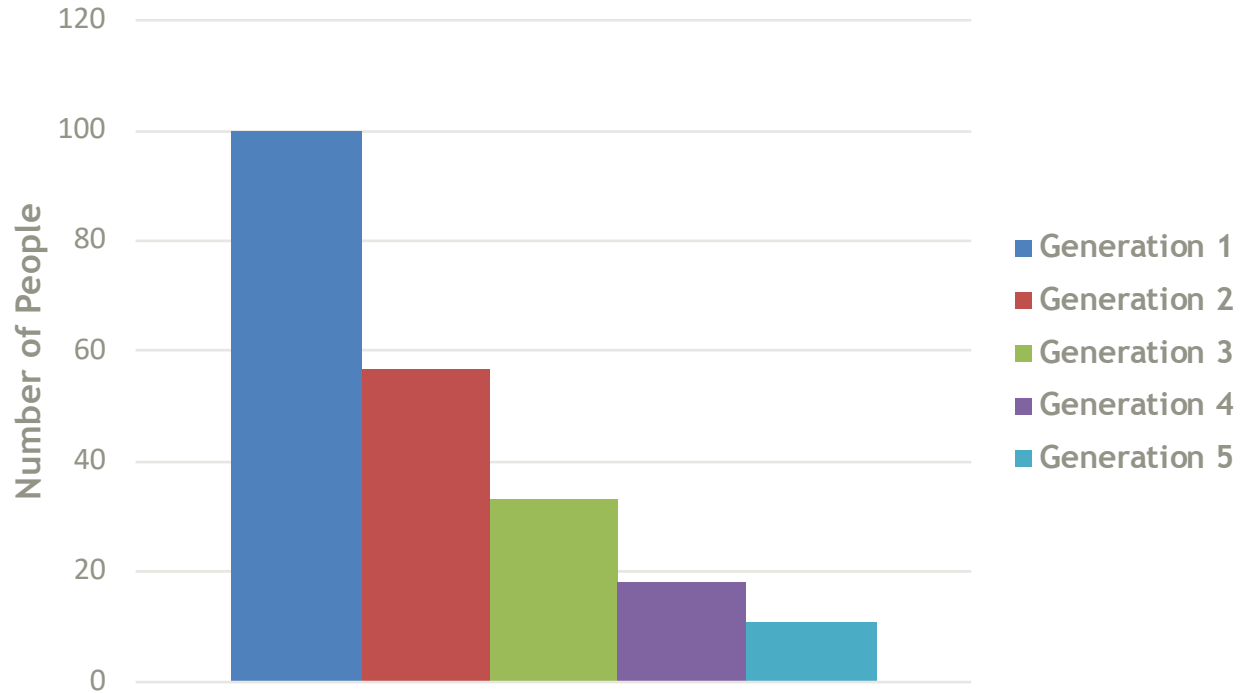
3. Demographics

Future without Children?

Low fertility rates, abortion (including gender selection abortions), devaluation of marriage, high levels of consumer debt (cost of education and increasing real estate costs) are contributing to a “brewing storm” and even societal collapse in many countries.

1.2 children per woman. This is devastating for “indebted economies built on perpetual growth models” (100 to 57 to 33 to 18 to 11 in 4 generations)

Demographics*



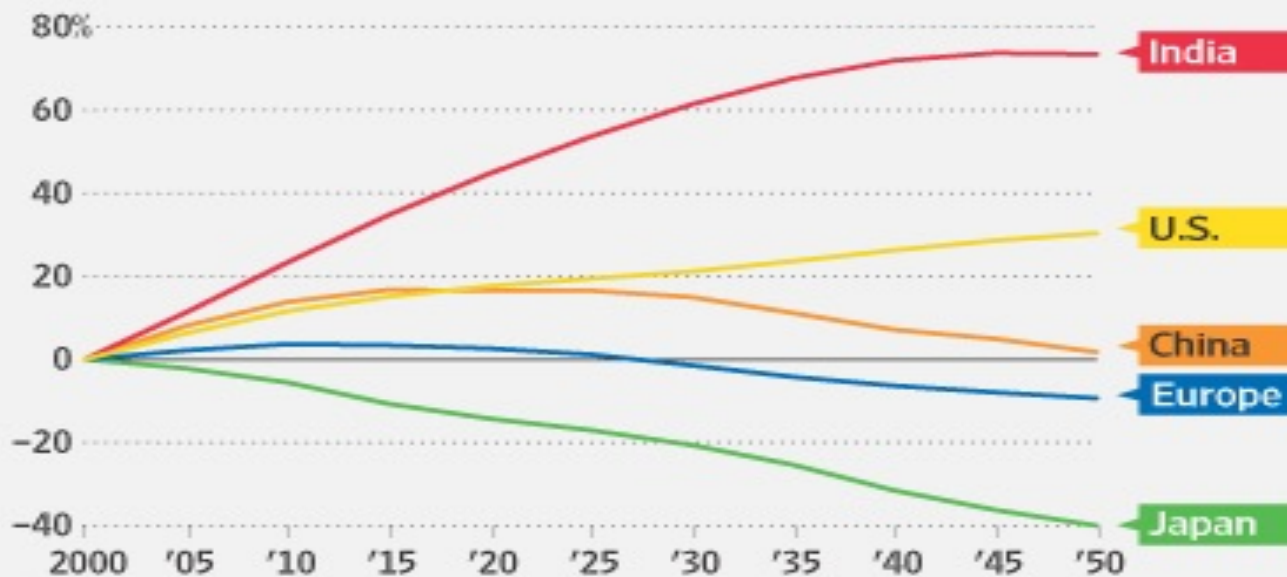
*Based on 1.2 children per woman



Demographics

Rise and Fall

Cumulative change in the size of the working-age population, defined as those 15–64 years old



Note: Data for Europe exclude Russia

Source: United Nations Population Division

4. Monetary Policy

Bailing out Debtors

The two most important measures and weights in an economy are:

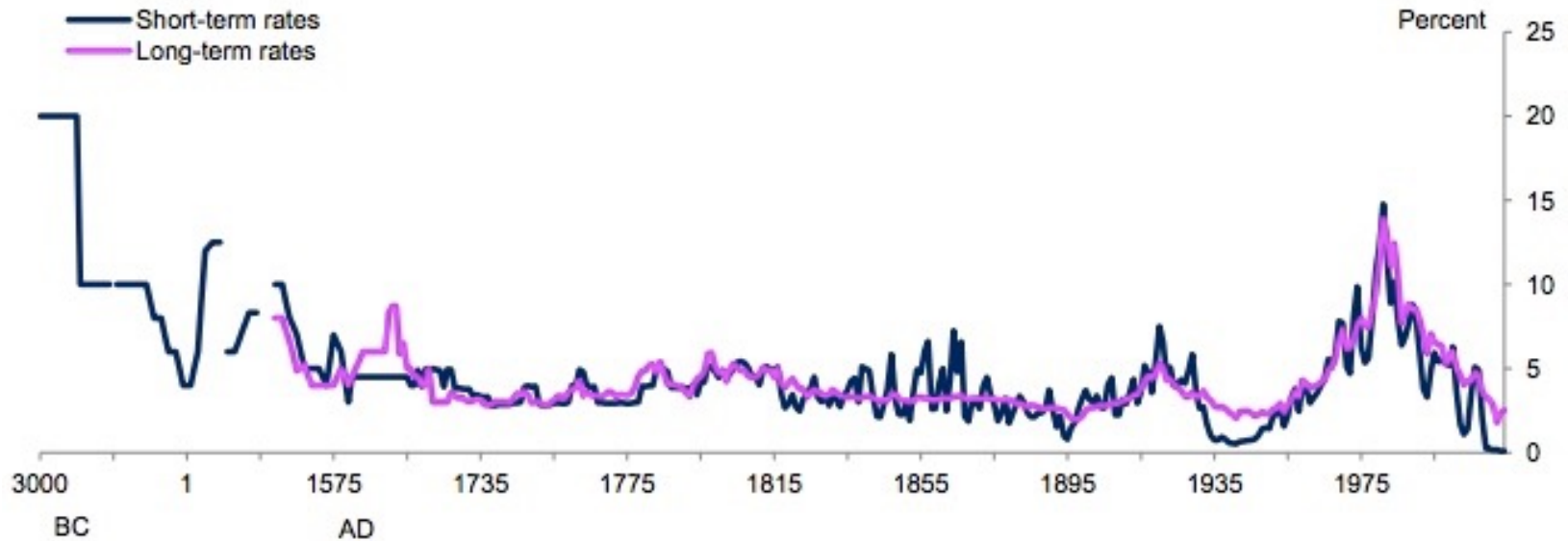
1. Price of money (interest rates)
2. Value of money (purchasing power)

Both have been weakened by a debt based system that is unsustainable.

Interest Rates - Coming off Historic Lows

Interest rate suppression to keep indebted economies afloat

Chart 5: Short and long-term interest rates

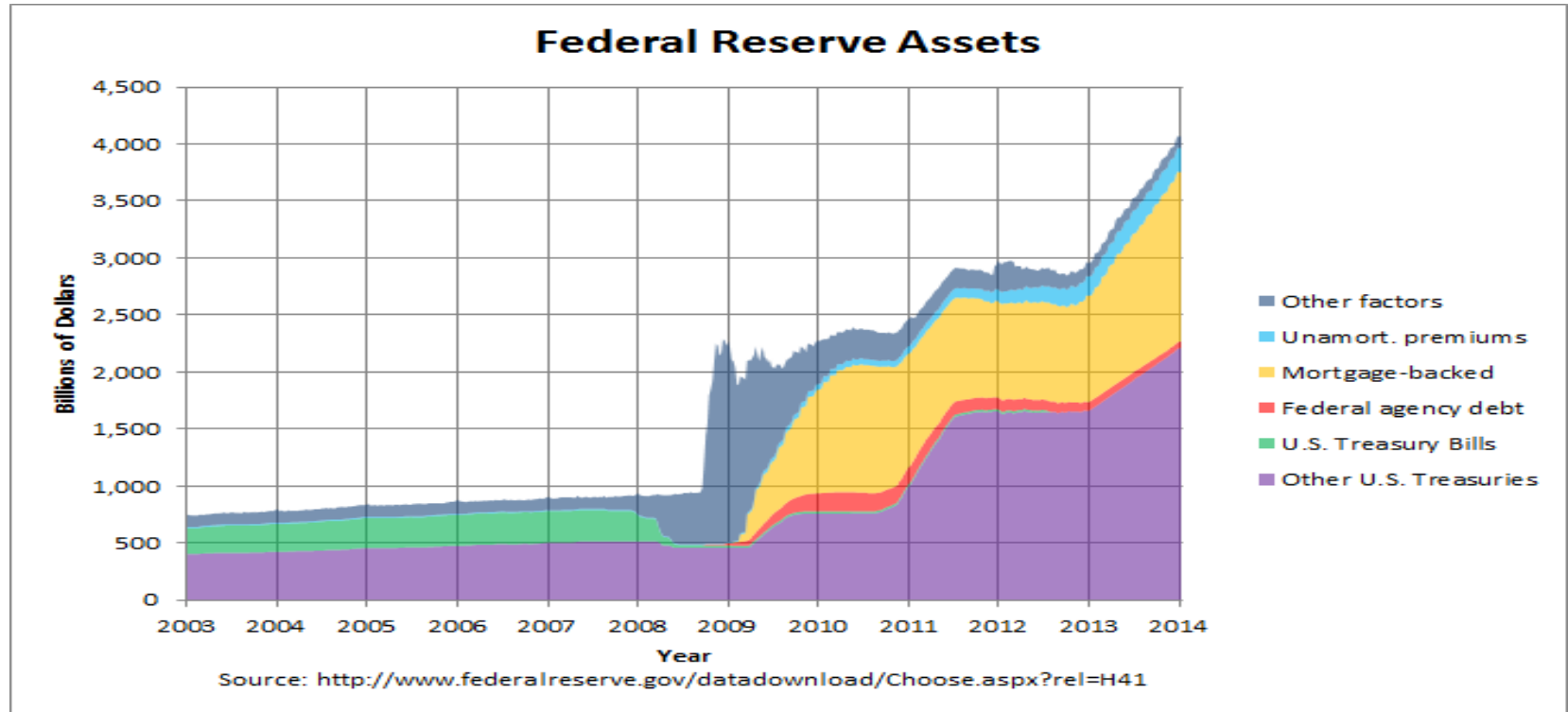


Low Interest Rate Policy & QE are Hurting Economy!

1. Low interest rates punish savers and reward debtors. The longer this manipulation goes on the greater the misallocation of capital. Reverses time value of money undermined concept of wealth creation and value of work.
2. The combination of low interest rates and increasing money supply (QE) leads to asset price inflation, and excessive leverage. (Real Estate a massive beneficiary)
3. Incentives for fiscal discipline on the part of governments decreases as central banks monetize deficits and debts. Feeds bloated Governments decreases personal liberties.

Monetary Policy - Printing Money

Federal Reserve added \$3.7T - World Central Banks added \$20T+

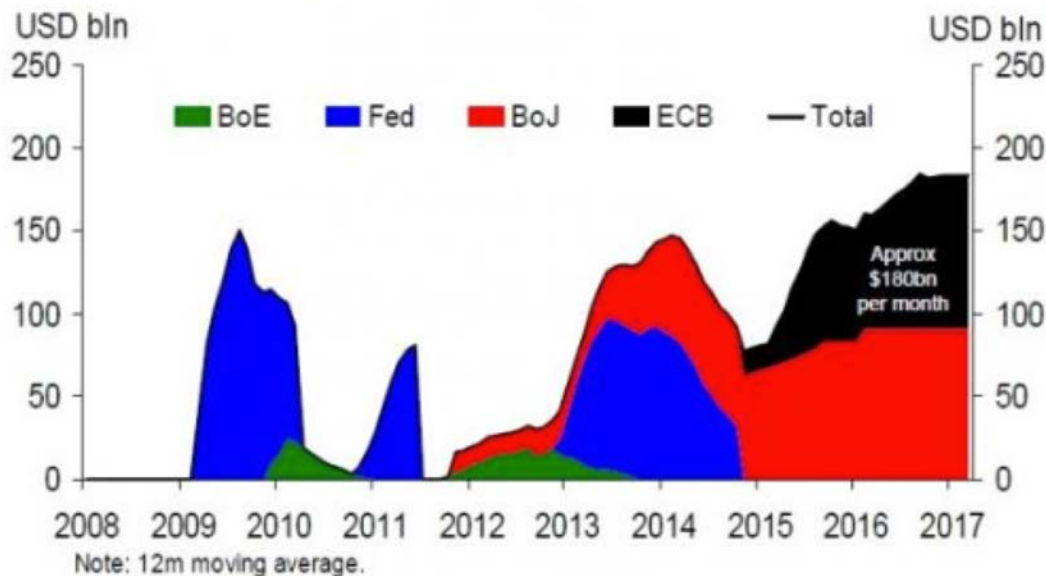


Global Money Printing

Still plenty of liquidity being added to markets:
ECB and BoJ buying a combined approx. \$180bn every month



Monthly Fed, ECB, and BoJ asset purchases



Opportunities - Investment Strategy

Protect & Grow Wealth

1. Diversify - Asset Class, Sectors
2. Quality - Balance Sheet / Counterparties
3. Minimize Paper Assets - Products of Financialization
4. Invest in Tangible, Scarce & Productive Businesses
5. Monetary Substitutes - Gold and Silver

Opportunities - Investment Strategy

1. Infrastructure

- Global assets - long-term cash flows
- Renewable energy
- Wireless towers - growing data traffic
- Transport by water, air and land

2. Financial

- Private equity - unique investment opportunities
- Alternative lending
- Wealth Management & Asset Protection
- Retail banking

3. Technology

- Data and Cloud
- Online search
- Consumer devices and Applications
- Specialized Software Services

4. Manufacturing

- Automation - planes, trains and automobiles
- Connectivity, Sensors & The Internet of Things
- Smart Factories & Productivity

Opportunities - Investment Strategy

5. Precious Metals

- Royalty/Streaming on Precious Metals
 - High Return Cash Flow Businesses
 - Hedging against monetary folly & Inflation
-

6. Healthcare

- Aging of global population increasing healthcare costs opening up opportunities for businesses to manage and contain costs
 - Developing new drugs, clinical treatments & innovative technologies, length & quality of life increasing
-

7. Agriculture

- Global population growing, despite aging
 - Declining arable land requires improved crop yields
 - Expanding global middleclass demanding for meat and dairy products
-

8. Water

- World's most precious and mispriced resource
- Increasing shortage of potable water globally
- Water infrastructure woefully inadequate

Opportunities - Ethical/Personal Attributes

Personal Characteristics of Active Investors - Emotional Temperament (be countercultural & begin cultivating these characteristics now).

- i. **Honesty** - ethical approach to numbers & clients
- ii. **Curiosity** - love of perpetual learning about everything
- iii. **Creativity** - think outside traditional box
- iv. **Diligence/Perseverance** - dig deep, understand investments

Opportunities - Ethical/Personal Attributes

Personal Characteristics of Active Investors - Emotional Temperament

- v. **Courage/Conviction** - make money by sticking to convictions rooted in truth and diligent analysis
- vi. **Humility** - acknowledge limitations and mistakes quickly, take responsibility
- vii. **Integrity** - live a consistent life, you cannot compartmentalize your virtues, you must own them and live them everyday

D. What you will not learn at University

1. Build a worldview!

- In our modern forms of specialized education there is a tendency to lose the whole in the parts. We are not producing truly educated people today!
- The universe cannot be reduced to matter plus energy - this is irrationalism. Begin with a personal, moral and rational universe (which we all must assume) - must have foundational presuppositions!

What you will not learn at University

2. Read and understand History!

- Humans repeat same mistakes, living a past-less present is risky! It is seldom different this time (ie. debt crisis, printing money, manipulating interest rates).
- Get outside of the academic echo chamber! Don't hang out with people that always agree with you (ie. Google)! Listen to as many different opinions as possible.
- Think for yourself!

What you will not learn at University

3. Have a strong personal FAITH rooted in Truth!

Three most important questions;

- Who am I? (Metaphysics)
- How can I know what is true? (Epistemology)
- How am I to live? (Ethics)

CAN YOU ANSWER THESE QUESTIONS?

What you will not learn at University

4. Invest your best time and resources into your family.

- Most important institution in society is the family. Greatest amount of joy and fulfillment will come from a small number of people that love you unconditionally.
- Moral character is best formed in the home and your primary legacy will be seen in those you loved and come after you. The State cannot replace the family.

What you will not learn at University

5. Character vs. Celebrity -We need leaders with character and discipline not celebrities living in a narcissistic culture where they would rather be envied than admired. Celebrity is someone who is known for being known, rather than being known for doing the right thing even when it is costly!

- **The good life is the ethical and moral life! Be countercultural!**

What you will not learn at University

6. Providence

King Solomon said “Cast your bread upon the waters, for after many days you will find it again.” Casting connotes approximation and not preciseness. We do not know the future so we cast out in faith. Solomon gives a **command** and a **promise**. Give of yourself and after many days the promise is - you will find it again. “Whoever watches the wind will not plant; whoever looks at the clouds will not reap.”

- Pessimism and being an entrepreneur do not go together! We do not live in a chance world, but one ordered by the personal-infinite Creator.

Purpose of University

1. Establish Convictions
2. Develop Wisdom - framework in which to apply knowledge
3. Become a Leader
 - Learn self control/delayed gratification
 - Avoid distractions, push through obstacles
 - Keep eyes on goal/mission - singlemindedness

E. Rocklinc Performance Summary

As at July 31, 2018(after fees)

Balanced Return - Rocklinc Assets (60% equity 40% bonds and short-term cash)*

<u>6 mos.</u>	<u>1 yr</u>	<u>2 yr</u>	<u>3 yr</u>	<u>5 yr</u>
3.5	7.7	5.5	7.4	8.2

Equity Return (100% Equities Portion)

<u>6 mos.</u>	<u>1 yr</u>	<u>2 yr</u>	<u>3 yr</u>	<u>5 yr</u>
4.6	11.1	7.7	12.8	12.8



Concluding Quote

“Seek the truth, hear the truth, learn the truth, love the truth, speak the truth, hold the truth and defend the truth until death”

- John Hus (1369-1415 AD)



ROCKLINC

Worth. Investing.

WWW.ROCKLINC.COM