



ROCKLINC

Worth. Investing.

ROCKLINC Investment Partners - WEBCAST
“Investing in a World with Negative Interest Rates”

September 19, 2019

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Outline of Presentation

- A. ROCKLINC Overview & Investment Philosophy
- B. Investment Challenges/Environment
- C. Negative Interest Rates
- D. Portfolio Highlights - Finetuning
- E. Performance Summary
- F. Two Company Highlights - AMT & TMO
- G. Questions & Answers
- H. Next Webcast - December 12, 2019

A. ROCKLINC Overview

- ▶ Private investment firm - founded in 2010 - current AUM \$145 million - approx. 125 households
- ▶ Focus - Customized portfolios
- ▶ Investing based upon:
 - ▶ Independent thinking
 - ▶ Deep understanding of investments
 - ▶ Focus on current realities rooted in understanding of past
 - ▶ Interdisciplinary approach - build a worldview

Investment Philosophy

1. Excellent Businesses - high ROE's, strong balance sheet, free cash flow, reoccurring revenue
2. Focused Portfolios - 20-30 stocks - opposite of passive investing!
3. Long-Term Holding Period - tax deferred compounding
4. Purchase with a Margin of Safety
5. Understand Economic Backdrop

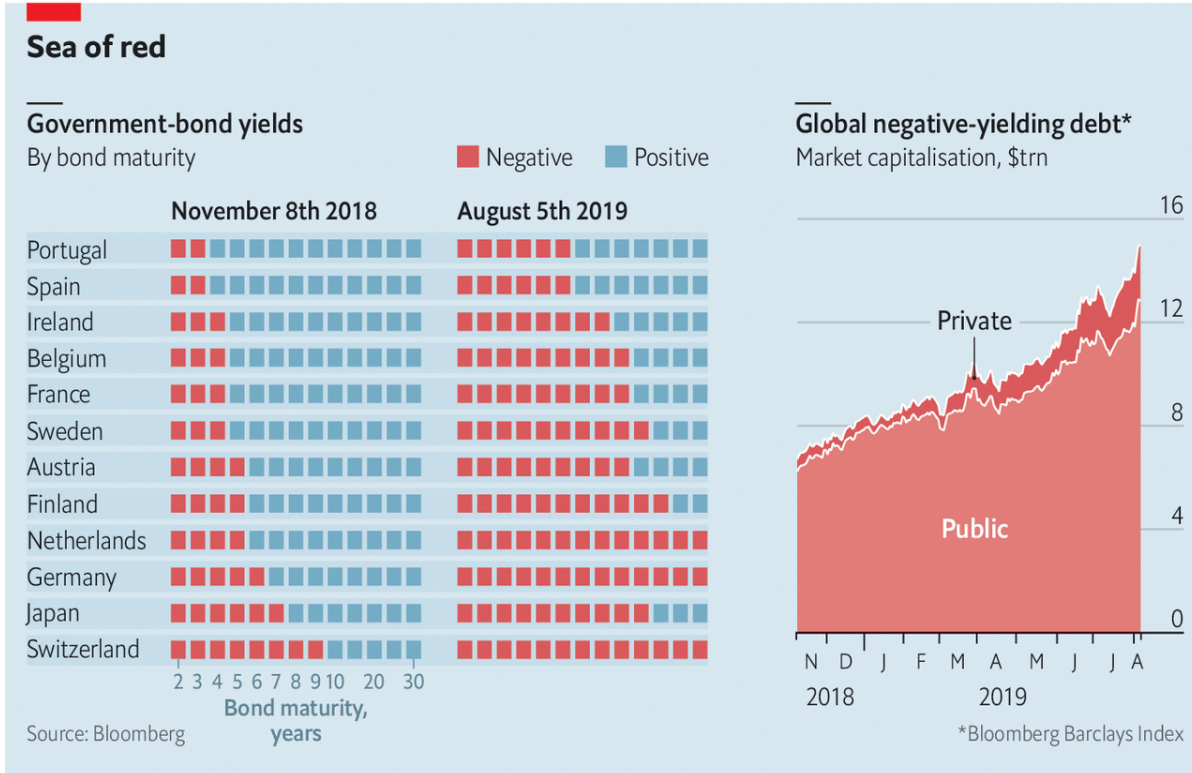
B. Investment Challenges

1. Debt, Debt & more Debt
2. Unfunded Government Promises
3. Demographics - aging of populations lack of family formation
4. Monetary Policies - Printing money and record low/negative interest rates

Key Implications Impacting Investment Decisions

- ▶ Difficult to end money printing & reduce the balance sheets of major central banks, without a recession
- ▶ Impossible to materially raise interest rates without a global recession.
- ▶ Favour hard tangible assets that are essential, scarce & have proven business models.
- ▶ Increasing exposure to monetary substitutes (gold and silver).
- ▶ Have fire power to take advantage of market volatility.

C. Negative Interest Rates



Negative Interest Rates

Figure 2: Yield across different maturity buckets within GBI Broad Index

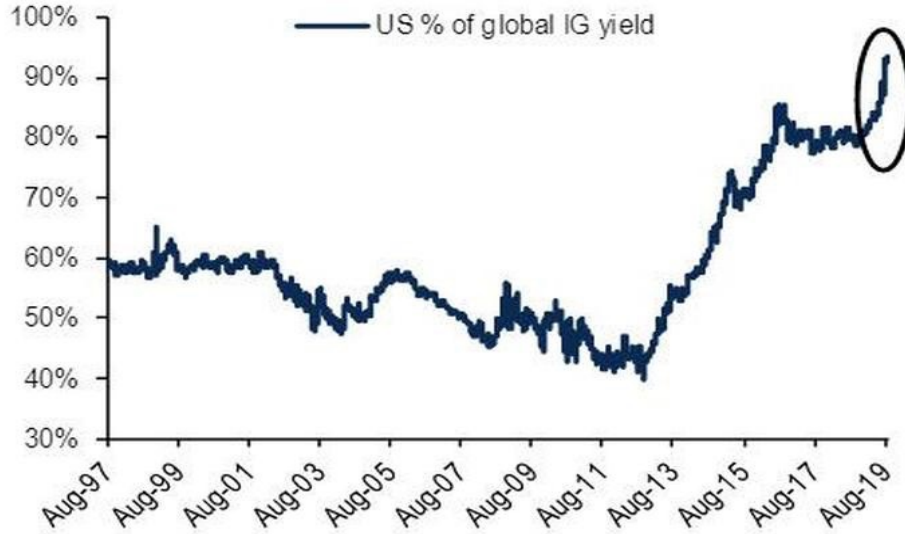
In %, as of close of business on Aug 15, 2019.

15-Aug-19	1-3 Years	3-5 Years	5-7 Years	7-10 Years	10-15 Years	15+ Years
Denmark	-0.919	-0.910	-0.868	-0.789	-0.665	-0.498
Germany	-0.926	-0.949	-0.907	-0.810	-0.644	-0.364
Netherlands	-0.899	-0.877	-0.763	-0.656	-0.471	-0.306
Finland	-0.832	-0.813	-0.701	-0.540	-0.345	-0.084
Sweden	-0.725	-0.738	-0.664	-0.552	-0.339	0.020
France	-0.828	-0.832	-0.704	-0.519	-0.284	0.218
Austria	-0.816	-0.811	-0.712	-0.573	-0.198	0.304
Belgium	-0.802	-0.788	-0.641	-0.468	-0.197	0.269
Japan	-0.279	-0.317	-0.353	-0.298	-0.149	0.092
Ireland	-0.671	-0.628	-0.438	-0.211	0.003	0.490
Spain	-0.562	-0.453	-0.292	-0.099	0.163	0.749
UK	0.379	0.323	0.314	0.358	0.520	0.890
US	1.507	1.439	1.457	1.498	1.526	1.912
Italy	0.147	0.556	0.883	1.115	1.570	2.146

Source: J.P. Morgan

Negative Interest Rates

Figure 3: US share of global IG fixed income yield has reached 94%



Note: Based on index eligible debt in the GBMI index.

Source: ICE Data Indices, LLC, BofA Merrill Lynch Global Research

Damaging Impacts of Negative Rates*

(zerohedge - August 17/19)

1. Distorts the price of credit risk - force pension funds and insurance companies to take on greater duration risk in an attempt to earn higher yields.
2. Compression of risk premia in riskier asset classes (ie. real estate, equities).
3. Lower Bank profitability - weaken financial system.

Damaging Impacts of Negative Rates *

(zerohedge - August 17/19)

4. In Europe seeing reduced credit creation in the real economy!
5. Higher rather than lower savings rates by households and non-financial corporations.
6. Crushes returns and profitability of money market funds - becomes a tax on money!
7. Reduced liquidity in fixed income markets

Damaging Impacts of Negative Rates

* zerohedge (august 17/19)

8. Liabilities increase for pension funds and insurance companies.
9. Wealth inequality increases for households and businesses without capital assets.
10. Central Banks are increasingly trapped.
11. Zombie Corporations (less “creative destruction”).
12. Fosters currency wars!

D. Portfolio Highlights - Recent Changes

Our major focus has been on increasing our clients exposure to precious metals.

Actual weighting will vary by client. On average we are currently at a 13.5% weighting across our client accounts. With 72% invested in equities our exposure as a percent of equities is approx. 20%

This is both **offensive** and **defensive**.

Major holdings are in the royalty space - FNV, RGLD, WPM, SAND and RZZ.

E. Performance Summary

As at August 31, 2019 (after all fees)

Balanced Fund (70% equity 30% bonds and short-term cash)*

<u>3 mos.</u>	<u>6 mos.</u>	<u>1 yr</u>	<u>2 yrs</u>	<u>3 yrs</u>	<u>5 yrs</u>
6.9	10.9	14.2	10.1	8.6	7.8

* ROCKLINC Book of Business

Performance Summary

As at August 31, 2019 (after all fees)

100% Equity ROCKLINC vs. TSX and S&P 500

	<u>3 mos.</u>	<u>6 mos.</u>	<u>1 yr</u>	<u>2 yrs</u>	<u>3 yrs</u>	<u>5 yrs</u>
	9.7	14.9	20.0	14.2	12.1	12.0
TSX*	2.4	3.2	2.5	5.5	5.6	2.8
S&P**	6.9	6.2	2.9	11.0	12.7	10.1

*S&P TSX Total Return

** S&P 500 Total Return in USD



F. Two Companies

- ▶ **American Tower Corporation (AMT)**
- ▶ **Thermo Fisher Scientific Company (TMO)**

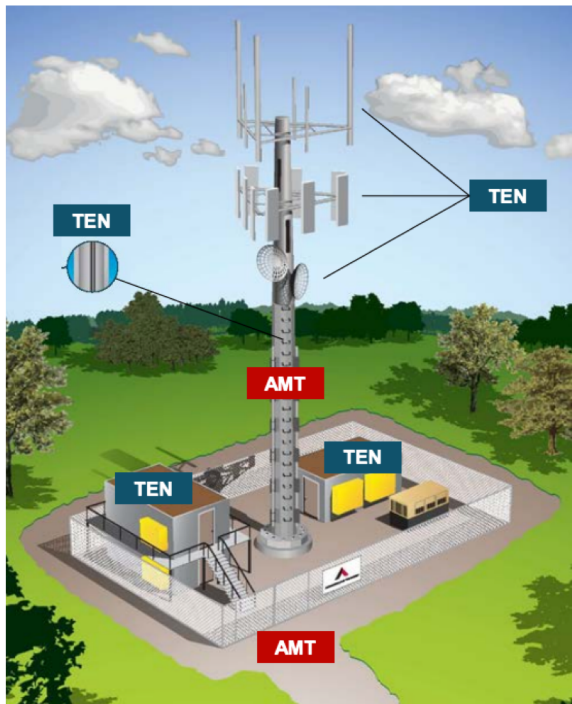
Both trade on NYSE

American Tower (NYSE:AMT)



- ▶ **Operator of multi-tenant communications real estate (ie. cell towers)**
 - ▶ AMT leases out space on communications sites to wireless operators, radio & TV broadcast companies and government agencies
 - ▶ Provides the real estate in addition to ancillary services to the wireless carriers

- ▶ **American Tower is one of three dominant cell tower operators in the U.S - and is very much an international player**
 - ▶ Best positioned of the Big Three to capture global data growth trends
 - ▶ By global positioning, American Tower benefits not only from geographic diversification but technological diversification as well
 - ▶ 171,000 sites across 5 continents and 17 countries



Operated by American Tower **AMT**

- Tower structure – constructed of galvanized steel with the capacity for multiple tenants
- Land parcel – owned or operated pursuant to long-term leases

Operated by Tenant **TEN**

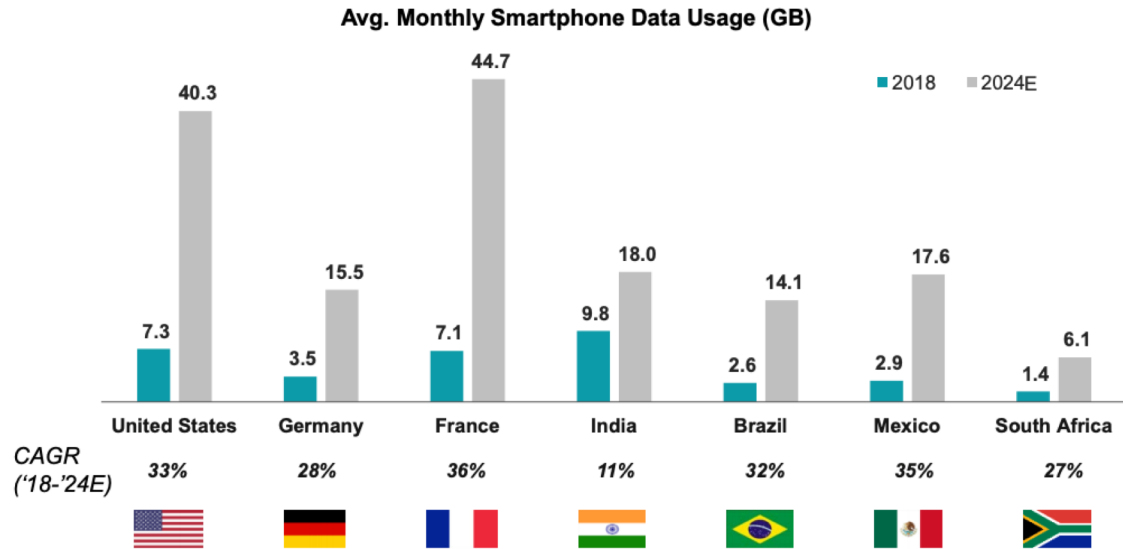
- Antenna equipment, including microwave equipment
- Tenant shelters containing base-station equipment and HVAC, which tenants own, operate and maintain
- Coaxial cable

Source: American Tower

The Tower Business

Data Growth

- ▶ As data use grows and networks become more stretched, locating equipment on more towers and upgrading equipment are primary solutions for carriers
- ▶ With the advent of 5G, one can expect a long runway for data growth in mature markets such as the U.S



Fantastic Fundamentals

▶ Long-term secular revenue growth tailwinds

- ▶ AMT has long-term leases with inflation escalators (appx. 3% in the U.S) with investment-grade counterparties
- ▶ Average 8.6% organic tenant billings growth in the past 5 years

▶ Operating Leverage

- ▶ The business is highly scalable - adding tenants to existing towers and equipment upgrades by tenants provides a sharp increase in revenues with very little additional cost

	One Tenant	Two Tenants ⁽²⁾	Three Tenants ⁽²⁾
Construction/Upgrade Costs (\$ in US)	\$275,000	-	-
Tenant Revenue	\$20,000	\$50,000	\$80,000
Operating Expenses (incl. ground rent, prop taxes, etc.)	\$12,000	\$13,000	\$14,000
Gross Margin	\$8,000	\$37,000	\$66,000
Gross Margin (%)	40%	74%	83%
Gross Margin Conversion Rate ⁽³⁾	-	97%	97%
Return on Investment ⁽⁴⁾	3%	13%	24%

'Data Dependent'



- Five year period ending September 15th, 2019

Company	Price Return	Total Return
American Tower	127.1%	149.5%
AT&T	5.2%	45.4%
BCE Inc.	9.2%	40.6%

Source: Trading View, Morningstar

Thermo Fisher Scientific (NYSE:TMO)

- **Global leader in science**
 - Thermo Fisher Scientific is the world's largest maker of scientific and laboratory equipment
 - Partner to many of the leaders in the pharmaceutical, biotechnology, academic, government, diagnostic, healthcare, industrial and applied science fields
- **Razer and blade business model**
 - Extensive offering of science and medical capital equipment and consumables, which generates recurring revenue (annuity stream)
 - ~25% of the business is instrumentation and equipment, while the remaining ~75% is after-market products, such as consumables, chemicals and services
 - Higher consumable and service offering can translate into a more predictable and stable business

Business Segments

Operates 4 main business segments:

i. Life Science Solutions

- Wide offering of instruments, cell cultures, reagents and consumable products used in medical and biological research, drug and vaccine discovery and genomic research

ii. Analytical Instruments

- Develops highly specialized instruments used to identify and quantify chemicals, proteins and biological entities

iii. Specialty Diagnostics

- Advanced diagnostic tools, reagents, culture media, instruments used in health care, pharmaceutical and food and safety

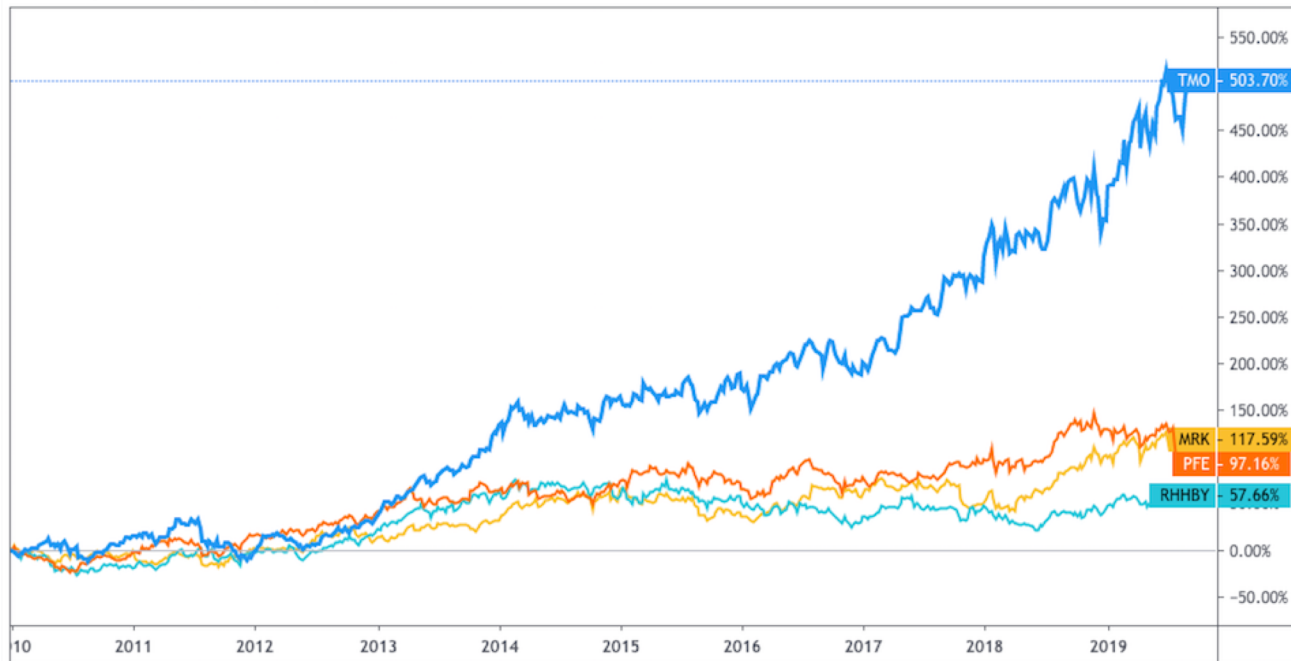
iv. Laboratory Products and Services

- Leading contract development and manufacturer organization (CDMO)

Investment Rationale

- **Predictable & stable business model**
 - Key partner that empowers a diversified group of customers across growing science and medical fields
 - High percentage of recurring revenue from consumables and services, which helps drive consistent profitability
- **Significant manufacturing and distribution network and extensive portfolio of solutions**
 - Substantial product offering makes it a one-stop shop for its client's needs
 - End-to-end capability in drug development, clinical trials and manufacturing services
- **Multiple levers of growth**
 - New launch of innovative technologies driven by industry leading R&D capabilities (>\$1B in annual R&D investment)
 - Successful track record of acquiring and integrating new technologies, which helps to expand its capabilities and offerings
- **Strong financial results**
 - Free cash flow CAGR (2014- 2018): 17%
 - Low debt to equity ratio: <1.0
 - Operating margin growth (2014-2018): >400bps margin expansion

A Master Class in Industry Positioning



Trading View

- From January 1, 2010 to September 16, 2019
 - Thermo Fisher Scientific (TMO) Price Return: **+503.7%**
 - Merck (MRK) Price Return: **+117.59%**
 - Pfizer (PFE) Price Return: **+97.16%**
 - Roche (RHHBY) Price Return: **+57.66%**

G. Questions & Answers

H. Next Webcast

Thursday December 12th

Thank you!





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