



Worth. Investing.

Focusing on the Playing Field!

A. Third Quarter Global Review

US equities made modest gains during the third quarter, despite economic growth concerns and uncertainty surrounding US-China trade talks. Economic growth concerns peaked in August when the Federal Reserve (Fed) suggested that interest rates needed to be adjusted down but not as aggressively as the market was anticipating. During the quarter, the Fed acted as expected by cutting rates by 25 basis points both in July and in September. Going forward they are less committed to further interest rate cuts without “supporting data”. The US yield curve inverted during the quarter, with short-term yields higher than long term yields, a phenomenon which often is predictive of a recession. Despite the ups and downs of the trade war, any concrete plans to comprehensively solve the ongoing US-China dispute seem to be tenuous at best. Investors had another issue to consider as they approached the end of the quarter, the possible impeachment of President Trump. Fortunately for the stock market, the prospect of a formal impeachment leading to the removal of President Trump is highly unlikely and are another futile attempt by partisan politicians to remove a duly elected President.

US economic data remained stable throughout the quarter. Unemployment remains very low at 3.7% and wage growth continues to expand at the fastest pace in several decades. New nonfarm job additions were lower than expected but remained quite robust given we are in the tenth year of an economic expansion. Consumer confidence while moderating during the quarter remains quite strong. Less economically sensitive areas of the market generally performed more strongly, spurred on by the falling yield curve. Utilities, real estate and consumer staples were amongst the quarter’s better performers. Energy and materials were weaker areas of the market, given expectations of a weaker global economy. Healthcare is one sector that is at the centre of the political debate and this factor continues to weigh on the sector and on the stock performance of many healthcare businesses.

Eurozone

Eurozone shares advanced during the quarter amidst worries concerning trade wars and global economic growth. The best-performing sectors included utilities, real estate and consumer staples. Underperformers during the quarter included the energy and consumer discretionary sectors. Financials showed some strength during September but overall continue to suffer under the repressive regime of negative interest rates throughout the Eurozone. Economic data remained weak with confirmation that the Eurozone economy expanded just 0.2% in August. Annual inflation was 1.0% in August, compared to 2.1% in the same month in 2018. Speculation over the possibility of further stimulus from the central bank dominated the financial papers throughout the summer. In September, the European Central Bank (ECB) took steps to boost the weak economy, including restarting quantitative easing (printing money to the tune of 20 billion Euros per month) in an attempt to drive up inflation and avoid a deflationary cycle. Christine Lagarde, head of the International Monetary Fund, was nominated to replace Mario Draghi as president of the ECB when his term ends on October 31st. Lagarde accomplished very little as the head of the IMF, which ironically gives her standing within the corrupt political establishment in Europe. It is widely expected that she will continue the reckless monetary policies of the ECB under Draghi. For investors the bottom line is clear - expect more disastrous monetary policies from a Lagarde-led ECB, so stay long gold!



Worth. Investing.

United Kingdom

UK equities recorded modest gains during the quarter, amid concerns about global economic growth. Similar to European and American investors, UK investors favoured defensive equities. Merger and acquisition activity was also strong as businesses and private equity buyers took advantage of the relative valuation opportunity of UK equities, sterling weakness and cheap debt financing. In contrast, many economically-sensitive areas of the market performed poorly, including the UK's heavyweight financial and commodity sectors. Some of these shorter term trends reversed towards the end of the quarter as expectations rose that policymakers might switch from monetary to fiscal measures to stimulate the economy in an attempt to drive up inflation. Overall the UK economy remains quite weak amid a global slowdown and weakness in the Eurozone. In fact, second quarter GDP **contracted by .2%**! Brexit and domestic political uncertainty remained elevated as Boris Johnson took over as the UK's new prime minister with a commitment to achieve Brexit. As we have stated in previous newsletters, the UK is better off on its own, rather than being tethered to the socialist EU. Unfortunately, the political establishment in the UK is not interested in independence and is doing everything they can to make Brexit as difficult as possible. It remains to be seen whether the UK will exit the Eurozone by October 31st. In any event, volatility emanating from this potential divorce can only provide us with enhanced investment opportunities! We are patiently doing our research and waiting for a fat pitch.

Japan

The Japanese market advanced by 3.4% during the quarter. The Japanese currency initially strengthened after the cut in US interest rates, but subsequently weakened to end the quarter little changed. The main domestic political event was the Upper House elections in July, which were won comfortably by Abe's Liberal Democratic Party. This result confirmed continuity in the current policies of the government. Bi-lateral trade negotiations between the US and Japan continued to make progress and both sides seem willing to complete a comprehensive deal. The recent cut in US interest rates again raised expectations for additional easing moves by the Bank of Japan. The only real policy development came during September, with a fine-tuning of bond purchases (printing more yen) in an attempt to support a steeping of the yield curve. Meanwhile, survey data suggests that corporate managements view their own share prices as attractive. This is one major factor behind the near-doubling, year-on-year, in the value of share buybacks announced from April to September by Japanese companies. As we have mentioned in previous newsletters, Japan is facing a very bleak future and investors need to be wary! Their two biggest challenges are their extraordinary debt levels (the highest in the world) and the rapid aging of their population. No children means no future and in Japan there are far more deaths than births with a birth to death ratio of .78.

Asia (ex-Japan)

Asia ex Japan equities lost value in the third quarter amid renewed intensification of US-China trade tensions and concerns over global growth. The MSCI Asia ex Japan Index fell -4.5% and underperformed the MSCI World. The Hong Kong stock market was the weakest index, as demonstrations continued, despite the authorities efforts to resolve the social unrest. The political situation in Hong Kong is very disturbing and will probably not end well for the people of Hong Kong. This is a reminder to us that China is a communist country and has little interest in democracy nor the freedom of its citizens. China is a repressive regime and should not be blindly trusted nor should we be dependent on them.



Worth. Investing.

Malaysia, Singapore and Thailand all posted negative returns and underperformed. China and South Korea lagged the index by a more modest margin. In China, the authorities announced fresh policy support in response to domestic weakness. Meanwhile the US announced new tariffs on \$300 Billion of goods imported from China which did not already face a levy, some of which took effect in September. In South Korea, a trade dispute with Japan weighed on sentiment somewhat. By contrast, Taiwan posted a positive return, underpinned by strong performance from technology stocks.

Global Bonds

Government bond yields declined significantly over the quarter due to risk aversion emanating from the US-China trade negotiations and a world drowning in debt with economic growth sputtering.

There was some retracement in September as the US and China announced talks would resume in early-October, giving rise to another bout of optimism. September saw the ECB announce an anticipated new round of stimulus measures which aided sentiment. While the Fed cut rates it disappointed markets by downplaying the prospect of further cuts. Economic data continued to show a slowdown in global economic activity, particularly outside of the US. The US 10-year Treasury yield was over 30 basis points (bps) lower, finishing the quarter at 1.67%. The 10-year yield dropped below 1.5% in late-August, and briefly dipped lower than the two-year yield, signaling a yield curve inversion and increasing economic pessimism among bond investors. In Europe, the 10-year Bund yield fell 24 bps to finish even deeper in negative territory at -0.57%. The Italian 10-year yield saw a substantial move, falling 126 bps to 0.82% due to anticipation, and ultimately announcement of new stimulus measures and a calmer political backdrop. The UK saw further escalation in Brexit uncertainty. The 10-year UK yield fell 34 bps over the quarter, with most of this occurring in July. Overall corporate bonds outperformed government bonds as investors searched high and low for the best yields they could find in a world where positive yields are becoming extinct!

As we have discussed in previous newsletters, these low yields being experience throughout the world and in some instances, negative yields (Eurozone and Japan) are not healthy for long-term economic prosperity. They are signaling to us that all is not well and that the global economy as a whole is very sick. We need to proceed with extreme caution.

B. North American Equity Market Statistics

During the third quarter the Canadian equity market, S&P/TSX increased by 2.5%, and year over year increased by 6.4%, including dividends. The S&P/TSX has been one of the worst performing equity markets in the developed world over the past 10 years. Despite this underperformance, ROCKLINC has managed to generate returns over the past year and for longer periods that have stayed ahead of the overall Canadian market index. We have managed to do this by avoiding many of the weaker performing stocks and minimizing our exposure to some of the underperforming sectors. During the third quarter our basket of Canadian companies outperformed the index by approximately 4.5% and over the last twelve months we were ahead of the Canadian index by almost 15.3%! Our overweight in the gold and silver royalty companies, along with our infrastructure holdings and technology stocks added significant value during the quarter. Our underweight in banks, energy and all things cannabis helped us avoid some of the weaker sectors in the S&P/TSX during the quarter. If we continue to focus on the playing field the scoreboard will take care of itself!

Worth. Investing.

In terms of the S&P/TSX, the sectors ranked from best performing sectors to the worst in the third quarter were: Utilities (+9.0%), Real Estate (+7.4%), Consumer Staples (+5.4%), Financials (+4.2%), Information Technology (+3.3%), Consumer Discretionary (+2.3%), Telecom Services (+.9%), Materials (+.1%), Energy (0.0%), Industrials (-1.8%) and Healthcare/Cannabis (-30.1%),

Pertinent market action during the third quarter of 2019 and during the last 12 months is captured in the following table.

	Sept. 30, 2018	June 30, 2019	Sept. 30, 2019	3 Month	1 Year Return
CAD/USD	\$0.7744	\$0.7637	\$0.7553	-1.1%	-2.5%
Oil WTI (US \$)	\$73.56	\$58.47	\$54.09	-7.5%	-26.5%
Gold (US \$)	\$1,188.38	\$1,413.70	\$1,465.70	3.7%	23.3 %
Silver (US \$)	\$14.61	\$15.34	\$16.90	10.2%	15.7%
S&P/TSX	16,073	16,382	16,659	1.7%	3.6%
S&P 500	2,914	2,942	2,976	1.2%	2.1 %
Cdn 10 yr.	2.43%	1.47%	1.37%	-10 bps	-106 bps
US 10 yr.	3.06%	2.01%	1.67%	-39 bps	-139 bps

Source: Bloomberg

The Canadian dollar continued to trade in a tight range over the past three and twelve-month periods, decreasing by 2.5% against the USD over the past year. Currency moves will impact the performance of your investments in the short-term but tend to cancel out over longer periods of time. The best way to mitigate currency risk is to buy strong and growing businesses that generate revenue in numerous currencies and as a result, create a natural currency hedge in your portfolio.

Oil continues to be very volatile and held hostage to geo-political events. Over the past year oil is off more than 26%! Fortunately, our exposure to the oil and gas sector remains very low! Commodities in general are very volatile and lack predictability making them poor long-term investments. Too add further pain, in Canada we have the added complexity of having political leaders who are more interested in sabotaging the resource sector (especially the oil and gas sectors), rather than leaving it alone to prosper and create significant wealth for all Canadians.

The one area that continues to surprise market participants is the “unending” drop in bond yields! Over the past twelve months the yields on Canada and US 10-year sovereign bonds dropped 106 and 139 bps points respectively. These are massive drops! The pundits were all predicting increasing rates as the Fed started the arduous task of normalizing rates about two years ago. **But as we have discussed many times; interest rates are hostage to the outlandish levels of global debt. In our view, it will be impossible for central bankers to normalize interest rates, without a full-blown economic depression.**

We do not expect interest rates to increase in 2019 or 2020! In fact, the market is currently factoring in at least one more interest rate cut between now and the end of this year.

The drop-in interest rates, coupled with fears of a global slowdown, ignited the price of gold to its highest level in six years. Year over year gold is now up over 23%. Our expectation is that this is just the beginning for gold and its lagging counterpart silver. With interest rates approaching zero and,



Worth. Investing.

in many geographic regions, negative, coupled with record amounts of money printing globally, it's a safe bet that monetary substitutes, like gold and silver, will experience substantial upside in the years ahead. The bottom line is that currencies, whether US dollars, pounds or yen are based on nothing more than trust. Precious metals have a 5000 year history as money and represent a dependable store of labour and real value. Trust is not required to hold gold and silver because they have no counterparty risk and are not another person's liability. With governments around the world coupled with their central banks destroying trust in the financial system with their profligacy it's not difficult to understand why investors should maintain a portion of their portfolios invested in the precious metals.

C. ROCKLINC Investment Update

In terms of our ROCKLINC portfolios, that hold on average, 70% equities and 30% short-term bonds, they advanced by 4.3% during the third quarter, 17.9% year-to-date, and 14.4% during the last 12 months (period ending September 30, 2019).

More importantly, our average annual compound rate of return over the past 3 and 5 years is clocking in at approximately 8.1% and 8.2%, respectively. Returns are after all fees, and are based on an asset mix of approximately 70% invested in equities, with the remainder invested in short-term deposit accounts, bonds and preferred shares. This asset mix has varied over the past five years but in general we have averaged approximately 67% invested in equities. Please note that the performance we are disclosing is our **aggregate performance** across all our accounts. Each client's portfolio is unique, and performance will vary, based on your risk tolerance and your specific asset allocation.

When we dig further into our numbers, we find that our basket of equities increased by 5.8% during the third quarter, 25.2% year to date and by approximately 20.2% during the past 12 months. Our equities have been compounding by approximately 12.6% per year over the past 5 years. We like to point out the significant difference in performance between Canadian and US equities. Over the past five years, our Canadian equities have been compounding at 10.2% per year, while our US equities have been growing at 16.3% per year! This points to both the greater investment opportunities outside Canada and the strong US stock market. We continue to allocate capital into global businesses and glean the benefit of global growth and diversification in our portfolios.

Although the markets have been very positive in the third quarter and year-to-date, our focus never changes and we continue to focus on the playing field! This means that we **first**, selectively add companies as our research team ferrets out new opportunities. **Second**, prune underperforming businesses. **Third**, take advantage of market swings and add to our outstanding companies at better prices! Whether the markets are woozy or exuberant, there are always opportunities we can seize, when prepared and when focused on the playing field.

D. Company Update -



Fifteen years ago, Wheaton Precious Metals saw an opportunity to create a new business model and pioneered the precious metals streaming business. Today, all companies in this space have adapted and developed their own streaming businesses to complement existing royalty portfolios. Since inception,



Worth. Investing.

Wheaton has invested nearly \$10 billion into deals, generating \$6 billion in cash flow and a 17.5% annual compound rate of return. Currently, the Company maintains a portfolio of 23 streaming agreements with 17 operating partners.

ROCKLINC's preferred exposure to the precious metals space is through the ownership of companies that use the streaming and royalty model (in addition to Wheaton, our clients own Franco-Nevada, Sandstorm Gold, Royal Gold and Abitibi Royalties). Investors in royalty and streaming companies own a portfolio of precious metal derived cash flow streams that are diversified across types of metal, geographic location, mines and mining companies. Wheaton's corporate administrative expenses equate to 0.38% of the Company's Enterprise Value, comparable to the most inexpensive exchange traded funds (ETF's), in return for an arguably better investment. Due to the ubiquitous presence of these companies across our client portfolios, it is important for us to take a moment to explain this business model in greater detail.

The Streaming and Royalty Business Model

In essence a **royalty** involves a Royalty Company that provides an upfront payment in exchange for the right to a certain percentage of revenue produced from the mine over a specific period of time. A **stream**, which is different from a royalty, but similar, involves the Streaming Company making an upfront payment in exchange for the right to pay a fixed amount (well below the current market price) per ounce of gold or silver produced from the mine, with the Streaming Company capturing the difference between the fixed amount and the current spot price of the precious metal.

There are a number of advantages that are derived from both the Streaming and Royalty model:

- 1. Produce large cash flow streams that are highly scalable (high operating leverage).**

These are cash generating machines that reinvest and compound their cashflows. Likewise, because they are highly cash generative, these royalty and streaming companies typically carry little to no debt on their balance sheets and require very little overhead.

- 2. Provide capital at a time when traditional means of capital are not available.**

A move from active to passive investing has affected the ease of financing for mining companies. Royalty companies are unique in their position to offer non-dilutive expedited financing, creating a real partnership with the company with both parties achieving mutually beneficial outcomes. The best deals are available when there is a bear market in the precious metals.

- 3. Provide tremendous flexibility to mining companies.**

There are a plethora of benefits to miners from entering into a streaming or royalty deal such as no fixed repayment requirements, no restrictive debt covenants and no regulatory consents among others.

- 4. Large upside optionality from both price and mine expansion without downside operational risk.**

More than 8.4 million GEO's (Gold Equivalent Ounces) through exploration and inferred resources has been produced and developed on Wheaton's properties since inception - without having to lay out any additional capital on Wheaton's part (essentially 'free' production attributable to the Company).



Worth. Investing.

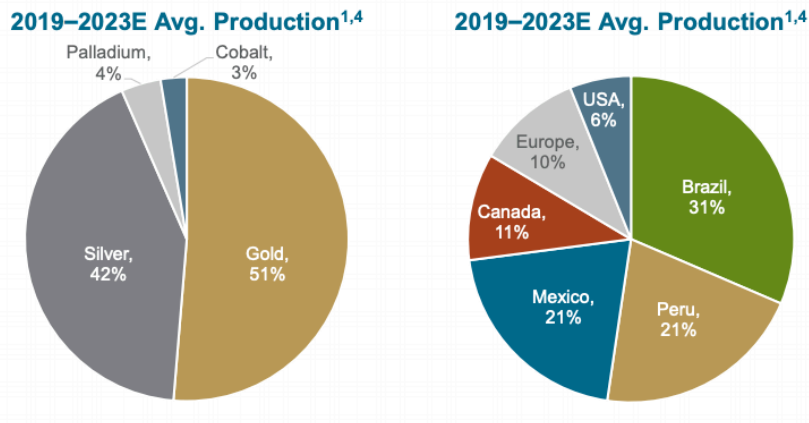
5. Hedge to monetary foolishness and a future problem in our financial markets.

Given the nature of the challenges we face within our global financial system (massive increase in global debt levels and the insurmountable amount of unfunded liabilities such as pensions and entitlements) royalty companies provide our clients with a hedge to these risks through their ownership right to future gold and silver production, at locked in prices!

Wheaton Precious Metals

Wheaton maintains 23 streaming agreements with 17 operating partners, many of whom represent the premier gold and silver companies operating globally. Top tier partners include Vale, Newmont Goldcorp, Barrick Gold, First Majestic Silver and Glencore. Wheaton works closely with its partners - offering technical support where appropriate and providing financial support to their mining partners' economic, environmental and social initiatives within the communities that are directly influenced by the mines. The strength of these partnerships is highlighted by the fact that five of the last nine streams on operating mines were with existing partner, providing them with repeat business.

Reflecting the diversity of its production base, the Company changed its name from Silver Wheaton to Wheaton Precious Metals in 2017, after seeing opportunities several years ago in the gold space to explore a new avenue of growth for the business. Today, the revenues are roughly split between silver and gold, with a small amount of exposure to palladium and cobalt.



Source: Wheaton Precious Metals

Wheaton seeks to remain a flexible provider of capital by tying their dividend (royalty companies are much more likely to pay a dividend than gold producers as a result of the stability of cash flows) to 30% of operating cash flow generated in the prior four quarters. In addition, the Company aims to eliminate its debt by 2021 after judiciously using debt to fund lucrative deals during periods of lower precious metal prices. Having recently been delivered a favorable tax ruling from the CRA (Canada Revenue Agency) regarding the taxation of its international operations (resulting in the share price receiving a substantial rerating), the next near-term catalyst includes the announcement of potential \$1 billion expansion plans at the Salobo mine in Brazil operated by Vale.



Worth. Investing.

Looking forward, Wheaton is positioned to be a key provider of capital to the mining industry, aided by a strong balance sheet, dynamic partnerships and astute management. We are pleased with our investment in this excellent business. Over the past 12 months we have added substantially to our position.

G. Moving Forward

Our goal has not changed. We will continue to keep our eyes fixed on the fundamentals of the businesses we are investing in, within the context of the global economy. **We will do our best to take advantage of any moves in the market, which might be larger and more intense than what we have been accustomed to recently.** As investors, volatility and turbulence are our friends and we will use them to your advantage.

The investment team at Rocklinc is working hard to make sure our existing companies are performing as expected, or better and searching for new companies that we can add to your portfolios. Over the past year we have added several new companies to our mix including Abitibi Royalties, Northland Power, Pan American Silver and ThermoFisher Scientific and eliminated one significant position Oracle along several smaller positions. Our most significant asset allocation change over the past twelve months has been the increasing weight or exposure to the precious metals sector through the streaming and royalty companies. Given the global monetary insanity we are engulfed in, we view this allocation as a strategic hedge to protect the overall value of your portfolios.

Our basic strategy has not changed and continues to be summarized in the following six points!

1. Diversify across asset classes, sectors and geographic regions. At the current time we are focusing on nine sectors. These are agriculture, consumer staples, financial, healthcare, infrastructure, manufacturing, precious metals, technology and water.
2. Invest in businesses with strong balance sheets, backed by hard and tangible assets.
3. Invest in firms that produce essential products and services, in growing industries, with long-term secular growth trends well established.
4. Avoid/minimize highly leveraged financialized firms that have incomprehensible balance sheets, loaded with risky derivatives.
5. Maintain liquidity in our portfolios, in order to take advantage of significant moves in the stock market. **Cash is not trash** when the markets become irrational!
6. Stay optimistic and opportunistic without being naive to the risks all around us. **Investing in turbulent times can be rewarding, with the right investment philosophy and prudent execution.**

If you have any questions pertaining to your account please call or email for an appointment.



Worth. Investing.

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)

www.rocklinc.com

Doretta Amaral damaral@rocklinc.com (ext. 1)

Jonathan Wellum jwellum@rocklinc.com (ext. 2)

Andrew Cheng acheng@rocklinc.com (ext. 5)

Jesse van de Merwe jvandemerwe@rocklinc.com (ext. 3)

Jonathan Wellum Jr. jwellumjr@rocklinc.com

Disclaimer:

The information contained herein reflects the opinions and projections of ROCKLINC (ROCKLINC) Investment Partners Inc. as of the date of publication, which are subject to change without notice at any time subsequent to the date of issue. ROCKLINC does not represent that any opinion or projection will be realized. All information provided is for informational purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data presented. This communication is confidential and may not be reproduced without prior written permission from ROCKLINC.