



**ROCKLINC**

*Worth. Investing.*

**ROCKLINC Investment Partners - WEBCAST**

**“Year in Review & Locked and Loaded for 2020”**

**December 12, 2019**

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# Outline of Presentation

- A. ROCKLINC Overview & Investment Philosophy
- B. Investment Challenges/Environment
- C. Year in Review
- D. Locked and Loaded for 2020
- E. Company Highlights - CHP.UN/FCR & ECL
- F. Questions & Answers
- G. Next Webcast - March 12, 2020

## A. ROCKLINC Overview

- ▶ Private investment firm - founded in 2010 - current AUM \$150 million - approx. 130 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
5. Increasing Size of the State - crowding out private sector and lower growth 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) with approx. 20% of our equity weighting!
- ▶ Have fire power to take advantage of market volatility.

## C. Year in Review

1. Capital Markets Performance - “The Easy Year” where everything went up but cannabis stocks!
2. Federal Reserve Policy - The Great Reversal!
3. Global Central Banks - Easy Money Everywhere
4. ROCKLINC Performance - YTD



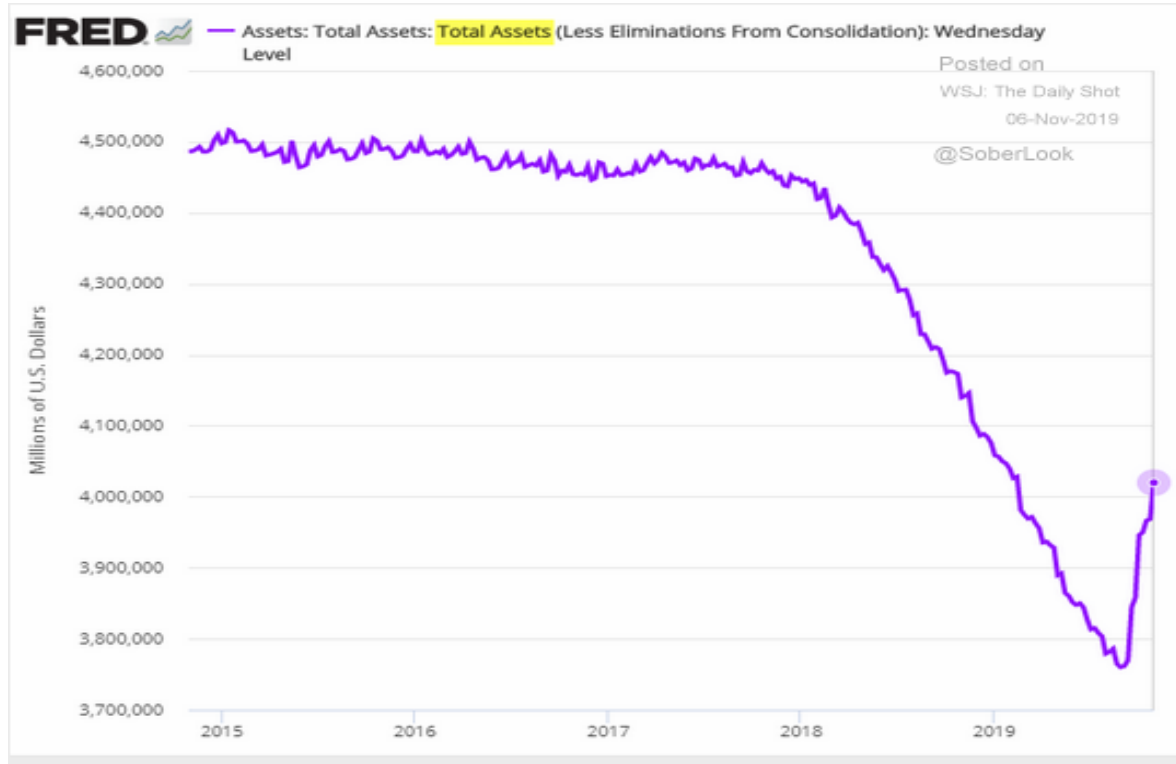
# Rising Tide Lifted Most Boats in 2019 (YTD - November 30<sup>th</sup>)

DJIA	+20.3
S&P 500	+25.3
S&P TSX	+22.3
MSCI World (USD)	+21.7
MSCI EM (USD)	+ 7.7
BOND - World	+ 6.8
BOND - Canada	+ 8.2
GOLD	+14.1
OIL (WTI)	+21.5
Energy Oil & Gas (E&P)	- 8.5
Cannabis (Top 3)	- 40.0

# Looking Back Beyond 2019!

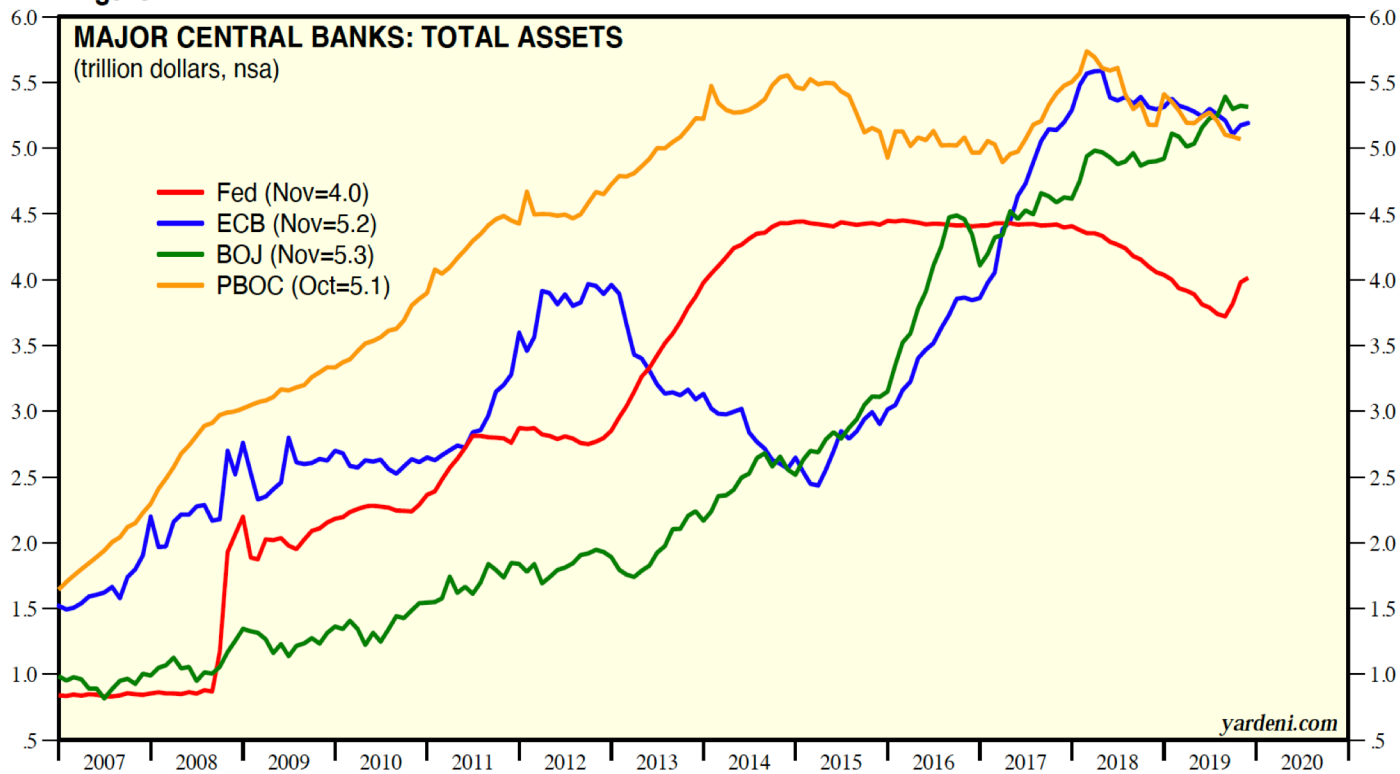
S&P Sector	1999-2019	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Consumer Discretionary	498%	24%	2%	23%	6%	10%	9%	43%	24%	6%	27%	41%	-33%
Health Care	417%	17%	6%	22%	-3%	7%	25%	41%	17%	12%	3%	20%	-23%
Industrials	383%	28%	-13%	24%	20%	-4%	10%	41%	15%	-1%	28%	22%	-39%
Materials	342%	21%	-15%	24%	17%	-9%	7%	26%	15%	-11%	21%	48%	-44%
Utilities	339%	22%	4%	12%	16%	-5%	29%	13%	1%	20%	5%	12%	-29%
Energy	285%	7%	-18%	-1%	28%	-21%	-9%	26%	5%	3%	22%	22%	-39%
Consumer Staples	268%	26%	-8%	13%	5%	7%	16%	26%	11%	14%	14%	14%	-15%
Technology	242%	43%	-2%	34%	15%	5%	18%	26%	15%	3%	11%	51%	-41%
Financials	140%	29%	-13%	22%	23%	-2%	15%	36%	28%	-17%	12%	18%	-55%
Real Estate	N/A	27%	-2%	11%	3%								
Communication Services	N/A	29%											

# From QT to QE! The PIVOT!



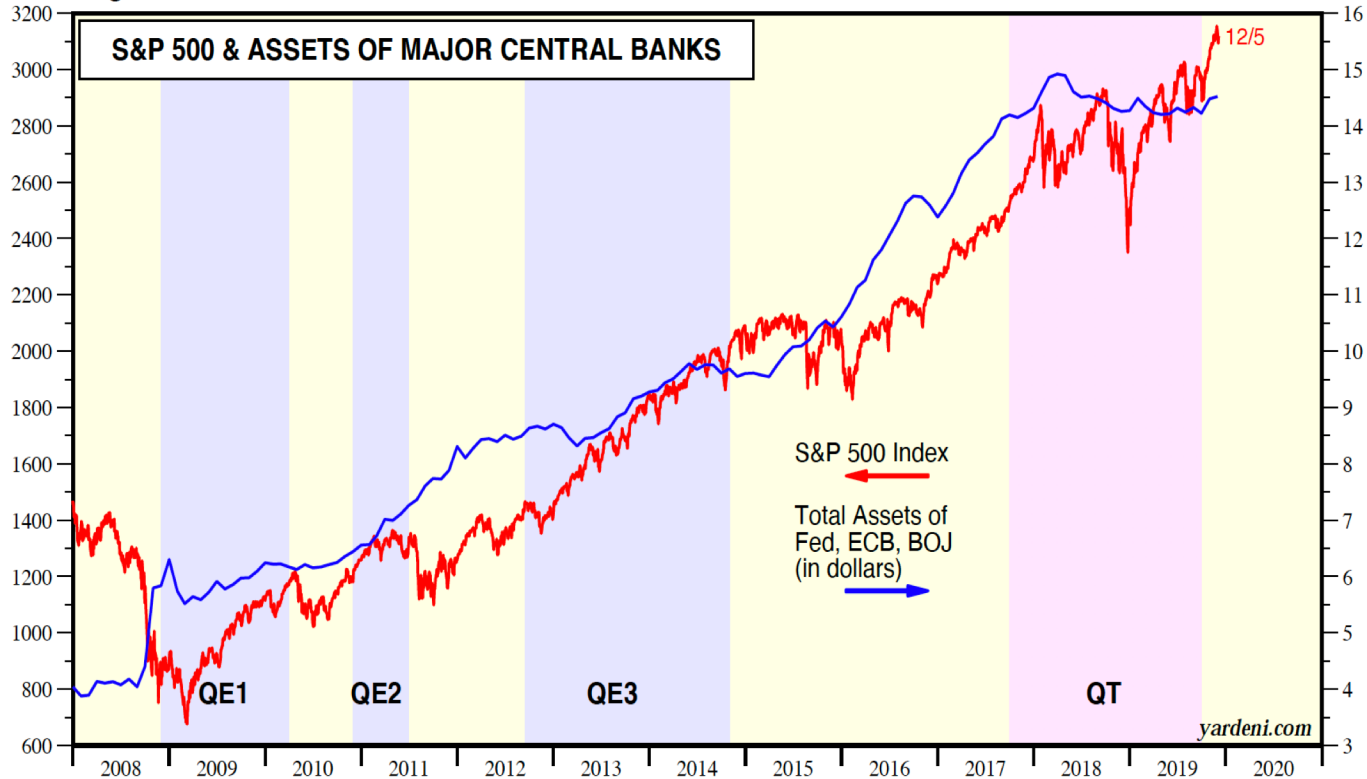
# Total Assets of Major Central Banks

Figure 1.



Source: Haver Analytics.

Figure 4.



Note: QE1 (11/25/08) = Fed starts buying \$1.24tn in mortgage securities. QE1 expanded (3/16/2009) = Fed starts buying \$300bn in Treasuries. QE2 (11/3/10) = Fed starts buying \$600bn in Treasuries. QE3 (9/13/12) = Fed starts buying \$40bn/month in mortgage securities (open ended). QE3 expanded (12/12/12) = Fed starts buying \$45bn/month in Treasuries. Fed terminated QE net purchases (10/1/14). Fed reduced holdings (10/1/17-9/30/2019).  
Source: Federal Reserve Board, Standard & Poor's and Haver Analytics.

# Performance Summary

As at November 30, 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>
2.7	9.8	18.8	9.8	10.0	8.4

\* ROCKLINC Book of Business

# Performance Summary

As at November 30, 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>
	3.6	13.6	26.2	13.4	14.3	12.9
TSX*	4.6	7.1	14.8	5.7	6.9	5.6
S&P**	7.9	15.3	16.1	11.1	14.9	11.0

\*S&P TSX Total Return

\*\* S&P 500 Total Return in USD

## D. Locked and Loaded for 2020

Our basic strategy has not changed, summarized in the following six points!

1. Diversify across asset classes, sectors and geographic regions. Currently we are focused on 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 long term growth industries.



# Locked and Loaded for 2020

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.

# Locked and Loaded for 2020

1. Expect more headline risk - tariff talks, focus on impeachment of President by Democrats in the US, geo-political skirmishes and US election to name a few!
2. Valuations are at the higher end of historical averages, expectations for 2020 should be modest.
3. Growing debt concerns - the unsustainability of the growth in debt above the GDP growth rate is obvious, yet few leaders talk about it and fewer want to deal with it. Markets will deal with it at an inconvenient time.... 2020???
4. More focus on central banks. 2019 was the year of the **great pivot** from tightening policies back to easy money policies. Markets will respond negatively to any sustained tightening in monetary policy.

## E. Company Highlights

- ▶ **Choice Properties/First Capital Realty**
- ▶ **Ecolab**

# Real Estate Investment Trusts

## ▶ What are they?

- ▶ A Real Estate Investment Trust (REIT) is a company which generates income through the development and leasing of its properties
- ▶ It passes the majority of the income (>90%) as dividends to its unit holders

## ▶ Advantages

- ▶ 1) Offers stable income streams
- ▶ 2) Low cost, liquid form of ownership of real estate with low transaction costs
- ▶ 3) Exposure to certain segments of real estate not often available by individuals (ie. industrial, commercial, telecom)
- ▶ 4) In a world of low interest rates, REIT's can provide high risk-adjusted yields

# Choice Properties (TSX:CHP.UN)



- ▶ In 2012, Loblaw Limited announced it would spin off 75% of its real estate portfolio into a new \$7 billion REIT called **Choice Properties**
  - ▶ Loblaw related properties occupied 88% of the gross leasable area
  - ▶ Building on that strategic partnership, Choice has diversified its tenant holdings and portfolio in the subsequent years
- ▶ Today, Choice owns 725 properties spanning the retail, industrial, office and residential segments
  - ▶ Choice's tenant composition is made up of high-quality retailers providing basic necessities (ie. grocery, pharmacy, banking), with less exposure to higher risk retailers such as clothing and department stores
    - ▶ 576 retail properties
    - ▶ 112 industrial properties
    - ▶ 15 office complexes
    - ▶ 4 multi-family residential buildings
    - ▶ 19 development properties

# CREIT Acquisition

- Choice announced the \$6 billion acquisition of CREIT, Canada's oldest public REIT. Choice now has portfolio of 206 high-quality properties
- ▶ This combination of the two companies created Canada's largest REIT by size (>\$16 billion Enterprise Value), providing diversification and a long runway of development and intensification opportunities for Choice, particularly in core urban markets
  - ▶ There are 60 properties in core urban markets, some of which Choice is beginning to develop massive mixed-use residential projects

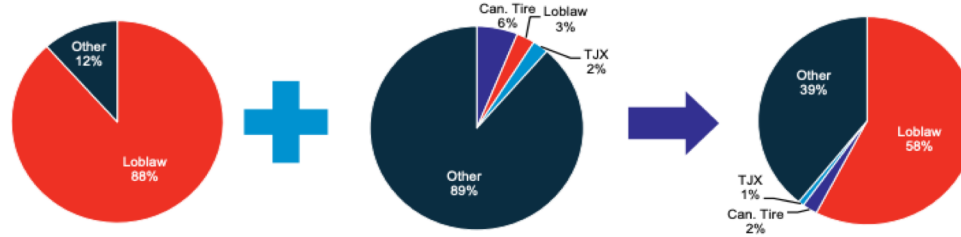


**Asset Class  
Diversification<sup>(1)</sup>**



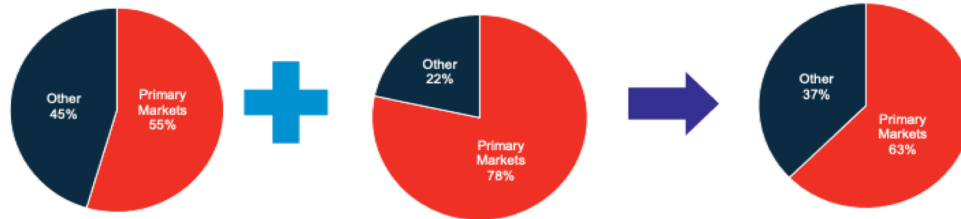
**Increased asset class diversification, including recent exposure to residential, creates stability in the portfolio**

**Tenant Mix  
Diversification<sup>(2)</sup>**



**Anchored by Canada's largest retailer with increased exposure to national, investment grade tenants**

**Primary Market  
Exposure<sup>(1)(3)</sup>**



**Significantly improved exposure to Canada's largest and fastest growing urban markets**

# First Capital Realty

## (TSX:FCR)



- ▶ First Capital is a Canadian real estate company that focuses on the development and leasing in ‘super urban’ markets with strong demographics that the Company expects will continue to grow stronger over time
  - ▶ They attract high quality tenants with growing rent potential
- ▶ First Capital maintains a portfolio of 166 properties
  - ▶ Averages 280,000 residents within a 5 km radius of its properties
  - ▶ The Company’s rents are 26% higher than the peer group average
- ▶ Responsible for key developments in the City of Toronto such as Liberty Village and Yorkville Village
  - ▶ FCR Strategy - typically focuses on developing and acquiring properties adjacent to its existing ones in order to control tenant selection, appearance and character
- ▶ REIT Conversion
  - ▶ Expected to be completed by the end of this year



# Ecolab Inc (NYSE:ECL)

- **Global leader in solving the world's water, hygiene and energy challenges**

- Ecolab is a trusted partner to ~3 million customers across 170 countries in managing complex water, food safety, infection control, sanitation, energy conservation and environmental challenges
- Diversified customer base across many industries such as chemical, food & beverage products & services, hospitality life sciences, manufacturing mining, oil & gas, power generation



- **Value Proposition**

- Ecolab has a team of 27,000 field associates that work directly with customers in developing personalized solutions to address customer's unique operational challenges
- Ecolab has helped its customers save 188 billion gallons of water, conserve 19 trillion BTUs of energy, clean >1B hotel rooms and help serve 45 billion meals

- **Circle the Customer, Circle the Globe Strategy**

- Circle the customer - involves providing the most comprehensive offering of solutions to meet the customer's various needs
- Circle the Globe - involves positioning the company to grow with its customers across different geographical regions

# Business Segments

## Global Industrial

- Serves customers in the food and beverage, water (light and heavy industry), mining, paper, life sciences and textile markets
- Offers cleaning, sanitization and disinfection programs, boiler and cooling water management, wastewater treatment solutions, energy management solutions

## Global Institutional

- Serves customers in the food service, food retail, hospitality, commercial buildings and facilities, health care, government and education markets
- Offers kitchen sanitation solutions, hygiene solutions, cross-contamination prevention, cleaning agents and detergents, surface disinfection

## Global Energy

- Serves the global petroleum, petrochemical, and natural gas markets
- Offers corrosion and scale control, petrochemical plant applications, fuel additives and refinery applications

## Other

- Serves customers in healthcare, hospitality, manufacturing, commercial building and the food processing, retail, service and storage markets
- Offers pest elimination services and applications for silicon manufacturing

# Investment Rationale

- **Predictable and stable business model**

- Ecolab plays an important role in offering value added services to its customer's operations
- This enables the company to generate >90% recurring revenue from a diversified customer base across end markets and geographies

- **Differentiated valuation proposition**

- Ecolab has built strong partnerships with many world leading companies by working directly with customers to offer high quality products and helpful customer service
- Empowers customers to achieve water conservation, improve energy efficiency and prevent infections and disease

- **Prudent allocator of capital**

- Management deploys capital in digital innovation opportunities and tuck-in acquisitions that bolster its market position
- Strategically divests assets to focus on more productive opportunities

- **Strong financial results**

- Revenue CAGR (2009-2018): 13%
- Free cash flow CAGR (2009- 2018): 17%
- Low debt to equity ratio: <1.0

# F. Questions & Answers

# G. Next Webcast

Thursday March 12, 2020

Thank you!





ROCKLINC

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