



ROCKLINC

Worth. Investing.

ROCKLINC Investment Partners - WEBCAST

“Coronapanic or Coronaopportunity”

March 12, 2020

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Outline of Presentation

- A. ROCKLINC Overview & Investment Philosophy
- B. Investment Challenges
- C. Key Issues - 2020
- D. Strategy & Positioning
- E. Company Highlights - BEP.UN & CNR
- F. Questions & Answers
- G. Next Webcast - June 11, 2020

A. ROCKLINC Overview

- ▶ Private investment firm - founded in 2010 - current AUM \$155 million - approx. 135 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. Excessive Global 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. Coronavirus - COVID-19

C. Key Issues - 2020

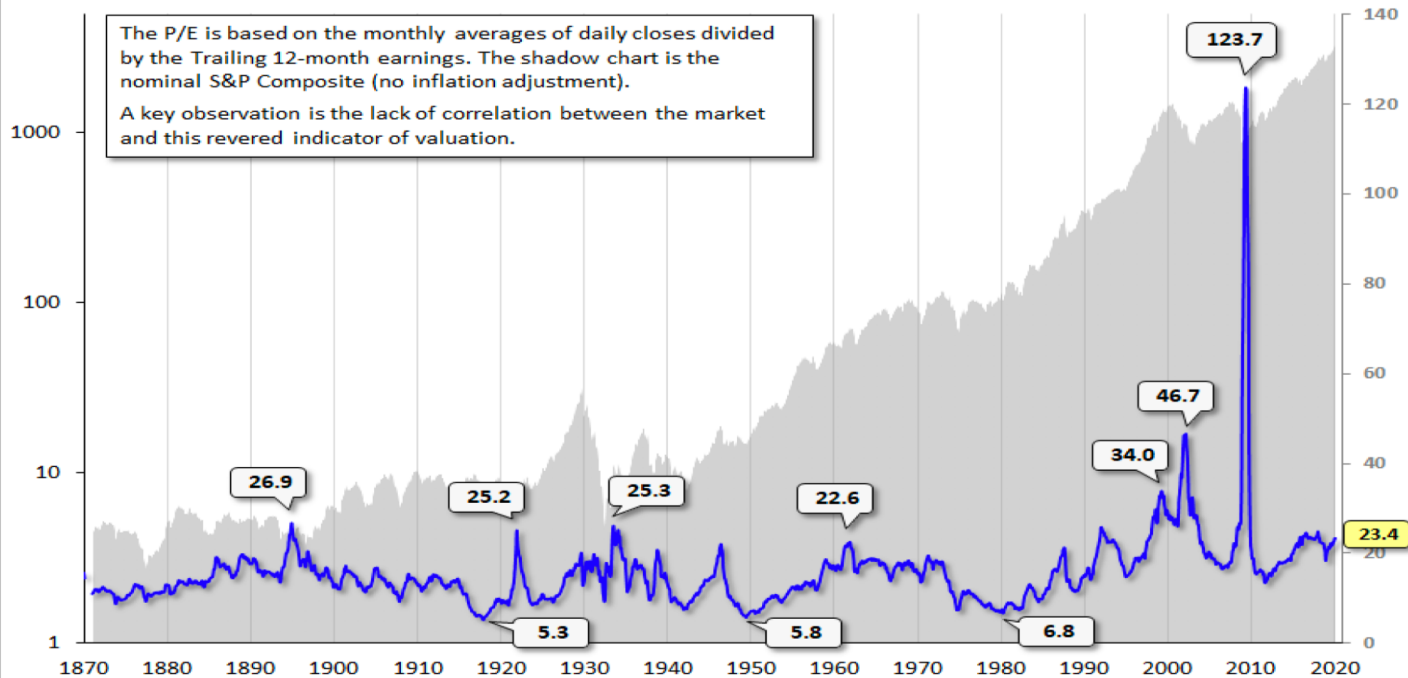
1. Stock Market Valuations
2. Record Levels of Debt
3. Record Low Interest Rates
4. High Levels of Market Volatility
5. The Coronavirus - COVID-19

Stock Market Valuations



S&P Composite: 1871-Present Nominal Price with the Trailing 12-Month P/E Ratio

dshort.com
March 2020
As of February



Stock Market Valuations

Price Earnings Ratio - Earnings Estimates from S & P

March 2020 - Earnings 139.95

Current P/E = 20 X as at March 9th

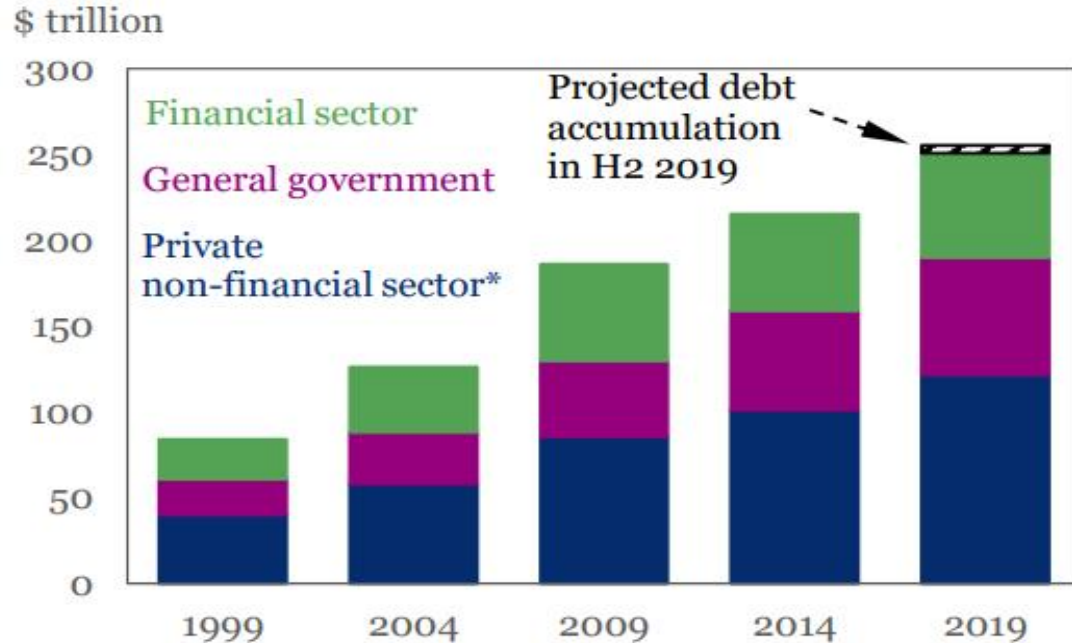
Average P/E since 1870's = 16.8 X

There will be pressure on earnings given the slowdown in the economy due to COVID-19 and the measures being implemented to contain it.

Conclusion: Today markets have more downside than upside!

Record Levels of Debt

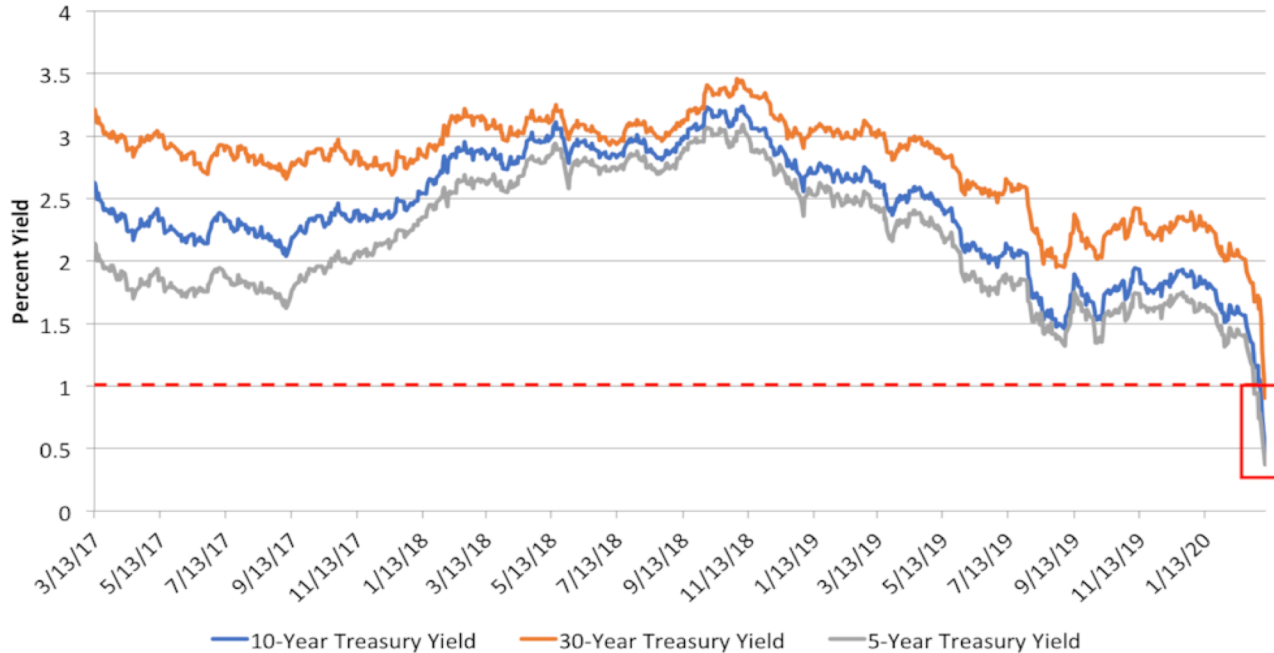
Chart 1: Global debt on track to surpass \$255 trillion in 2019



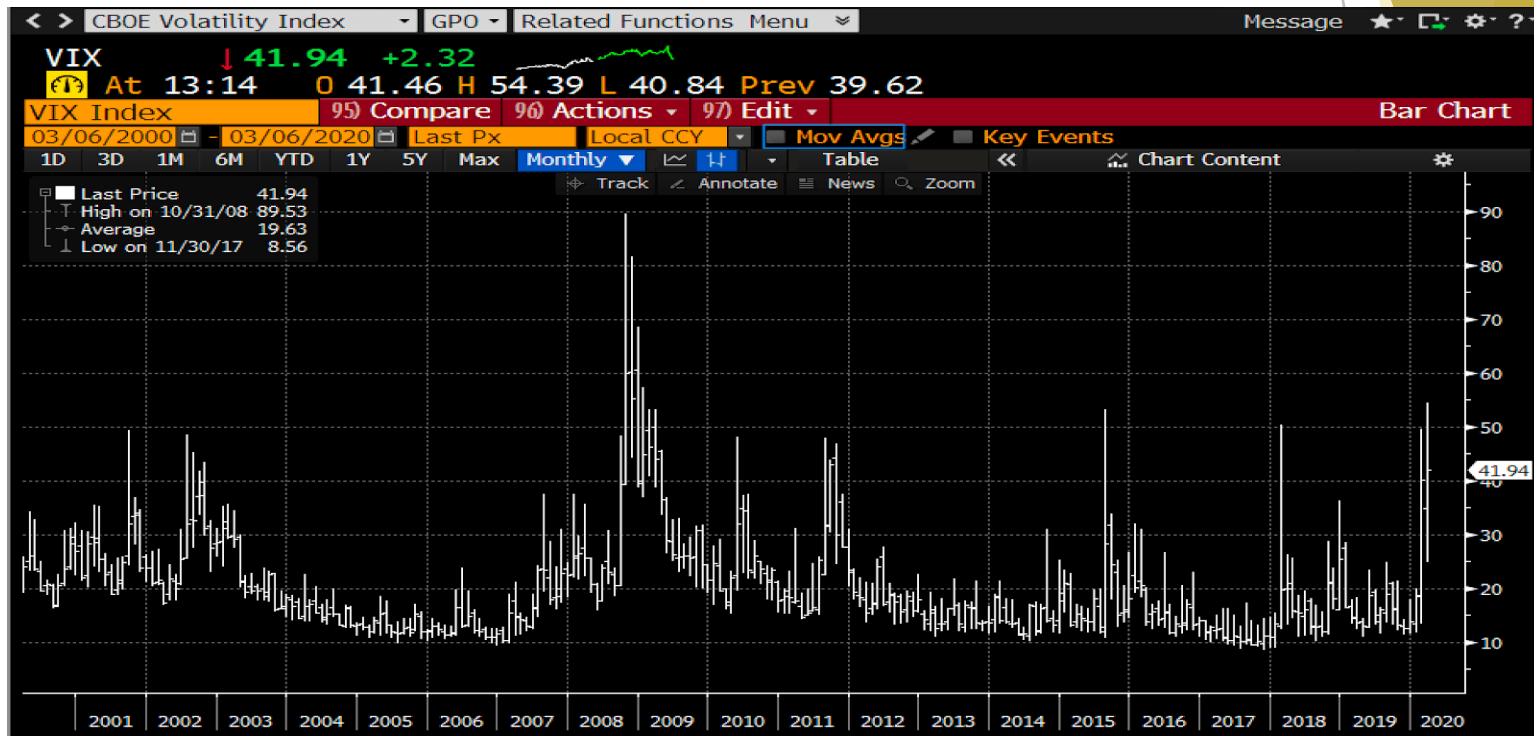
Source: IIF, BIS, IMF

Record Low Interest Rates

Entire US Treasury curve slides below 1% for first time ever



High Levels of Market Volatility (VIX)



The Coronavirus (Covid-19)

1. Virus is spreading quickly and globally.
2. Virus is easily spread and mortality rates are very high for a flu type virus among medically challenged people and those over 50 years of age.
3. Medical treatments are at least 2-3 months away with a potential vaccine at least 12 months away.
4. Containment strategies are choking off supply chains and exposing the significant vulnerabilities we have to the cult of globalization.

The Coronavirus (Covid - 19)

5. Global economic growth will be reduced for at least the next two quarters and this will put downward pressure on earnings and stock prices globally.
6. Central Banks will escalate the expansion of the money supply and put further downward pressure on interest rates. We are approaching zero!
7. Coronapanic has begun to set in!
8. Coronopportunity will emerge in time for the patient investor. In the interim we need to be vigilant.

D. Strategy & Positioning

1. Minimize exposure to Financial Institutions. They have too much leverage, exposure to eroding credit markets and pressure on interest spread margins.
2. Minimize exposure to economically sensitive commodities.
3. Minimize exposure to consumer discretionary businesses. Consumer spending on discretionary items will be weak.
4. Maintain healthy exposure to precious metals (gold & silver) as a partial hedge to low interest rates, money printing and excessive debt levels.

D. Strategy & Positioning

5. Maintain significant investments outside of Canada to hedge against weak dollar and low oil prices.
6. Maintain equity weightings in core businesses, with strong balance sheets that are essential to the economy with substantial moats.
7. Maintain liquidity including a healthy cash balance. This varies by client based on their unique circumstances.
8. To not coronapanic!
9. Be patient! Coronaopportunity is coming!

Performance Summary

As at February 29, 2020 (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>
-0.3%	2.4%	13.5%	10.6%	8.6%	7.1%

* ROCKLINC Book of Business



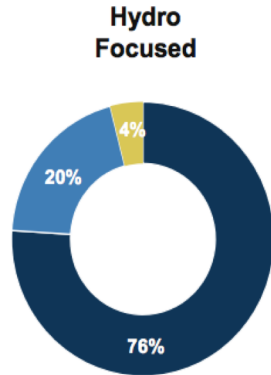
E. Company Highlights

- ▶ **Brookfield Renewable Partners**
- ▶ **Canadian National Railway**

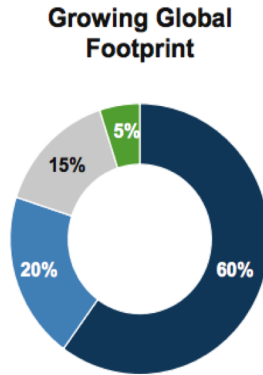
Brookfield Renewable Partners

(TSX:BEP.UN)

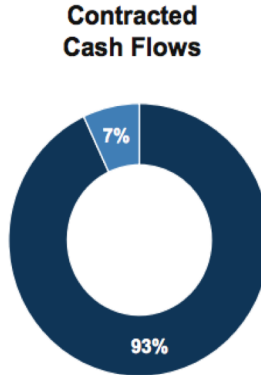
- ▶ One of the world's largest owner and operator of renewable power assets
 - ▶ \$50 billion AUM, 3000 operating employees, 5337 power generating facilities situated in 17 countries with 19,000 MW of capacity



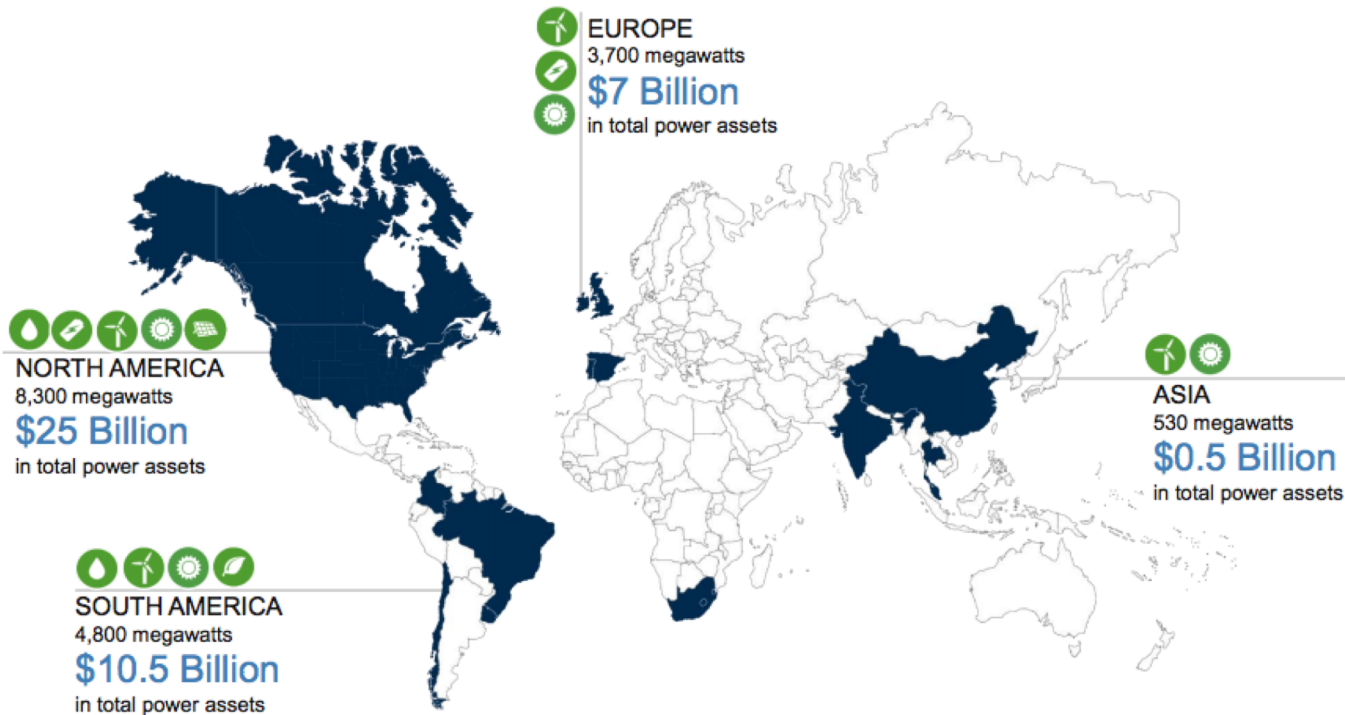
■ Hydro ■ Wind ■ Solar



■ North America ■ Brazil
■ Colombia ■ Europe & Asia



■ Contracted ■ Merchant



- ▶ Brookfield has put \$3.5 billion of equity to work in the past 5 years across organic and inorganic opportunities

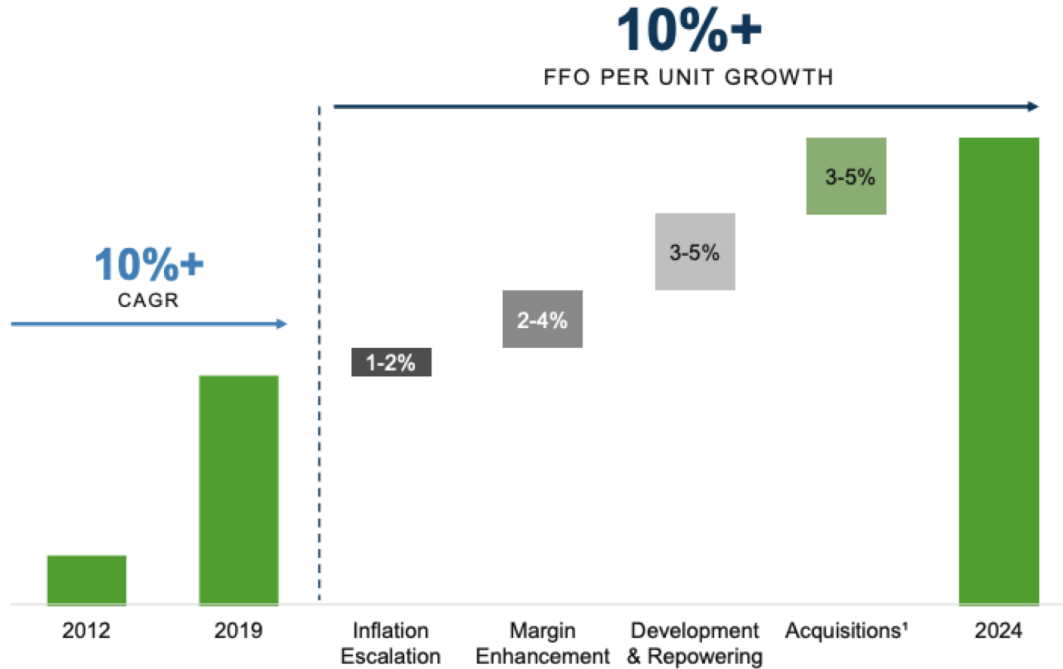
Investment Thesis

- ▶ Contracted cash flows
 - ▶ Stable cash flows largely hedged against inflation and currency fluctuations
 - ▶ Lower interest rates increase the value of BEP's future cash flows
 - ▶ Diversity squared - geographic & technological diversification
- ▶ Decarbonization
 - ▶ In Europe and North America, 45% of capacity is coal and gas¹
 - ▶ In the past 5 years, \$1.5 trillion has been invested in new renewables
 - ▶ ESG/Passive inflows, competitive cost structure, government mandates
- ▶ Brookfield Prowess
 - ▶ Global reach, operational expertise, size, access to capital, asset recycling

¹Bloomberg New Energy Finance



- ▶ Brookfield targets 12 - 15% in total returns
 - ▶ *10% Cash Flow Growth + 5% Distribution Yield = 15% Total Return*



1. Assumes \$4 billion deployed between development and M&A investments at target FFO yields of 11% to 13% and average funding costs of 5.5%.
 Note: slide reflects FFO per unit.



Source: Bloomberg
Total return assuming reinvestment of dividends between November 1999 and August 2019.

Canadian National Railway (TSE:CNR; NYSE: CNI)

- A rich 100-year history of shaping and growing the North American economy
- Vast rail network of 19,600 miles that spans across the Atlantic and Pacific Canada to the Gulf of Mexico
- More than just a railroad company
 - a) Trucking
 - One of Canada's largest full-load trucking business with >1,050 trucking owner and operators located along its network
 - b) Marine
 - Efficient fleet of vessels that are equipped to transport goods and commodities along trade routes
 - c) Intermodal
 - Multi-transportation method of shipping goods



Diversified Portfolio and Customer Base

Current portfolio of business (2019)

- **Petroleum and Chemicals: 20%**
 - Crude oil, natural gas liquids, refined petroleum products, sulfur, diverse range of chemicals and plastics
- **International intermodal: 17%**
 - Transport of import and export containers
- **Grain and Fertilizer: 16%**
 - Barley, canola seed, corn, ethanol, flaxseed, lentils, peas, soybean, ammonium nitrate, urea
- **Forest products: 12%**
 - Lumber, paper, panels, wood pulp

Diversified Portfolio and Customer Base

Current portfolio of business (2019) (Continued)

- **Metals and minerals: 11%**
 - Construction material, iron ore, machinery non-ferrous base metals, steel
- **Domestic intermodal: 8%**
 - Consumer and manufactured goods for retail and wholesale within Canada, U.S. and Mexico
- **Automotive: 6%**
 - Auto parts and completed vehicles
- **Coal: 5%**
 - Coal transported to major utilities to the mid-western and south-eastern U.S.
- **Other: 5%**
 - Non-rail logistics services

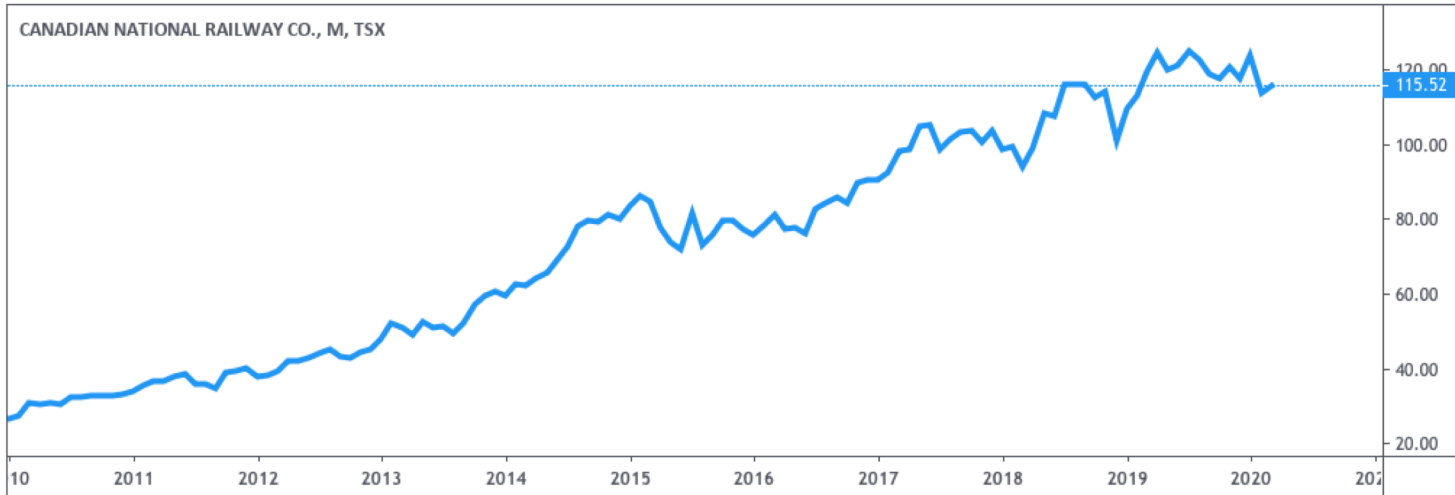
Dynamics of the Railroad Industry

- ▶ **Concentrated number of Class I railroads**
 - ▶ BNSF Railway, Canadian National Railway, Canadian Pacific Railway, CSX Transportation, Kansas City Southern Railway, Norfolk Southern and Union Pacific Railroad
- ▶ **Fundamental backbone of the North American economy and critical enabler of trade**
 - ▶ Railroads account for approximately one third of U.S. exports by volume (Source: Association of American Railroads 2019) and approximately half of Canada's exports (Source: Railway Association of Canada)
- ▶ **Efficient means of transporting goods**
 - ▶ On average, rail is four times more efficient per gallon of fuel than trucks (Source: Association of American Railroads)
 - ▶ The average U.S. freight rail can move one ton of freight over 470 miles per gallon on fuel, which is 200km per liter of fuel (Source: Association of American Railroads)
- ▶ **High barriers of market entry**
 - ▶ Increasing regulation and high capital costs make it very unlikely for a new entrant to replicate existing operations

Investment Rationale

- ▶ **Unrivaled rail network that is strategically located across 3 North American coasts**
 - ▶ Through strategic capital allocation decisions, CN has developed a network infrastructure with access to highly coveted ports and hubs
- ▶ **Exceptionally efficient railroad operator**
 - ▶ As a pioneer of the precision scheduled railroading method, CN has one of the lowest operating ratios in the industry of 62.5% (2019)
- ▶ **Prudent allocator of capital that focuses on growth while maintaining a healthy financial position**
 - ▶ Over the years, CN has prudently reinvested its free cash flow in high return projects and grow its dividend, while maintaining healthy debt levels
 - ▶ ROIC (10-year average) above 15%, Dividend CAGR (10-year) above 15% and Debt to equity ratio <1
- ▶ **Diversified portfolio of business and customer base**
 - ▶ CN's diversified portfolio offers the company exposure to different sectors of the economy

Stock Performance (Jan 4, 2010 to March 6, 2020)



Source: Trading View

If you had invested \$10,000 with dividends reinvested in CNR on the TSE on Jan 4, 2010, you would have \$47,968.26 on March 6, 2020 (Source: Canada Stock Channel)

F. Questions

G. Next Webcast

Thursday June 11, 2020

Thank you!



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