ROCKLINC

Worth.Investing.

Time to Sow & Reap

"Cast your bread upon the waters, for you will find it after many days… he who observes the wind will not sow, and he who regards the clouds will not reap." Ecclesiastes 11:1,4

A. Third Quarter Review

US Market

2020 continues to provide us with many surprises. An aggressive virus from China (COVID-19), the shutdown of large swaths of the global economy, the deepest recession since the 1930s, a short lived global equity market collapse and now record highs for the U.S. equity market. To top it off the upcoming U.S. election is shaping up to be quite the contest, with more surprises to come. To say that we should expect further market volatility is an understatement!

This year technology stocks have been the darlings of the market but valuations are elevated and the risk of a significant move down continues to grow every day. With the U.S. federal election fast approaching there is uncertainty around tax changes, government regulations and the re-escalation of China/U.S. trade tensions.

It is important to point out that much of the increase in the US stock markets has been as a result of the strong performance of the technology stocks, the so-called FAANGs— Facebook, Apple, Amazon, Netflix and Google. These stocks, plus Microsoft, comprise 25% of the market capitalization of the S&P 500® as of September 2020, and they account for all the year-to-date gains in the index. Excluding these stocks, the S&P 500 would have declined by around 4% for the first three quarters of 2020.

Technology stocks received two benefits from the lockdowns. The first was from the decline in government bond yields. Investors typically regard technology stocks as long duration as they are expected to grow their earnings over the longer term. The decline in bond yields made the present value of those future earnings more valuable. The second benefit was from the boost to current earnings from the lockdown as consumers went online for purchases, made more use of video call technologies and watched streaming services. These two benefits will not have the same beneficial impact going forward and therefore we must proceed with caution.

Equity markets, particularly in the U.S., are expensive after several years of strong returns, while credit market spreads are very narrow. This reflects the difficulty in finding any sort of excess returns in either the equity or bond markets. It is largely as a consequence of ultra-low, risk-free government bond yields and central bank asset purchases (money printing) that have compressed risk premiums and lifted asset prices.

Central banks have literally painted themselves into a corner. With more than a decade of money printing and record low rates they have facilitated the buildup of extraordinary levels of debt. The problem is that the global economy is addicted to artificially low rates and an expanding money supply. How can these long-term trends be reversed without plunging the global economy into an economic depression?

During the quarter there was a shakeup in the components of the Dow Jones Industrial Average (DJIA). Exxon Mobil (its longest current component), Raytheon (due to a merger) and Pfizer were all removed in favor of Amgen, Honeywell and Salesforce. Since the Dow has a complicated price-weighted formula, it's largest component is now United Healthcare, followed by Home Depot and Amgen. Apple's stock split, after reaching a market value of over $2 trillion, actually reduced the Dow's exposure to information technology.

Looking at the US economy, the big number was the change in GDP for the second quarter. The final decline was -31.7% on an annualized basis. This was the biggest decline in the post-World War II era, surpassing the -10% in the first quarter of 1958. Consumer spending was down over 34% and domestic investment was down 49%. Federal government spending was up due to stimulus payments, while state and local governments saw their tax revenues fall. US Federal government debt exceeded 100% of GDP, the highest level post-war, and looks like it is going to keep going up! The Federal Reserve (Fed) announced that they expect near-zero rates through the end of 2023 and warned that the lack of further stimulus could jeopardize the recovery.

In a policy change, the Fed will now place more emphasis on employment and will not pre-emptively increase rates to head off inflation, looking to "even out" periods of inflation at 2% over time rather than trying to keep inflation always below the 2% target. This simply means that the Fed is pushing hard to avoid deflation and is willing to let inflation increase above 2% for an extended period if necessary. As investors we need to be positioned in such a way as to minimize the impact of inflation and the decreasing value of paper money. This is a topic we have discussed since we started Rocklinc back in 2010!

Eurozone

Eurozone equities were basically flat during the third quarter. The rate of improvement in economic data came to a screeching halt over the quarter and renewed worries took over as Covid-19 infections began to rise within many European countries. The energy and financials sectors saw the sharpest falls while materials and consumer discretionary increased along with automotive and luxury goods stocks.

In July, the EU approved a €750 billion fund to help member states recover from the pandemic. Covid-19 infections rose rapidly in several countries as the quarter progressed, particularly in Spain and France. Unfortunately, new restrictions to contain the virus were implemented. However, these new restrictions tended to be localized, and not countrywide measures that were seen in the first phase of the virus. Various European countries, including Germany, extended their furlough schemes which are designed to support jobs through the crisis and minimize the drop in GDP.

It is important to point out the economy in the Eurozone remains very weak. Business activity stalled in September with the purchasing manager's index (PMI) falling to 50.1, down from 51.9 in August. Note that 50 is the level that separates expansion in business activity from contraction. Eurozone annual inflation turned negative, at -0.2% in August compared to 0.4% in July. If inflation remains negative or close to zero, expect more money printing and larger economic deficits throughout the region.

United Kingdom

UK equities lagged behind other regions during the period, extending their year-to-date underperformance. Renewed fears around a disorderly Brexit also weighed on sentiment, as did worries towards the end of the period around the implications of a second wave in Covid-19 infections. Rising infection rates led to the reimposition of localized restrictions following similar

measures taken in continental Europe. Notwithstanding these new measures, the country's economic recovery continued as Covid-19 restrictions were generally eased. The second quarter reporting season saw increased corporate confidence with many companies resuming financial performance guidance for the remainder of 2020. Where appropriate, a number of companies resumed the payment of dividends that they had deferred in the spring. One bright spot was the renewed merger & acquisition interest from global companies investing in UK quoted firms.

Japan

The Japanese equity market trended upwards during the quarter and the Japanese Index recorded a total return of 5.2%. This was despite a gradual strengthening of the yen against the US dollar over the period. Domestically, the quarter was dominated by the change in Japan's prime minister. Shinzo Abe announced his resignation as prime minister of Japan on August 28th due to a health problem. Following his resignation, Yoshihide Suga, the Chief Cabinet Secretary, surfaced as the frontrunner and won the LDP's leadership election on September 14th. The change in leader seemed to have little impact on the overall market.

Although corporate profits are under pressure, the quarterly earnings reporting season, which finished in early August, brought more positive surprises than the market expected. Economic data released in the last few weeks has also exceeded expectations. Inflation, however, continues to be below expectations. With all the debt and money printing in Japan over the past 20 years the country continues to fight deflationary pressures. One has to wonder how long the yen can maintain its value against other paper currencies given the high debt levels, money printing and devastating demographics.

Asia (ex-Japan)

Asia ex-Japan equities recorded a solid third quarter, led by Taiwan, where technology stocks advanced, generating most of the gains. India, China and South Korea all posted double-digit returns and outperformed the MSCI Asia ex Japan index. In China, economic data pointed to an ongoing recovery and quarter two corporate earnings results were positive. However, tensions with the US escalated, including new restrictions on Chinese telecoms company Huawei, while President Trump signed an executive order to prevent US companies from doing business with TikTok and WeChat.

Not all of Asia performed well during the quarter. Thailand, Indonesia, Philippines and Singapore all finished in negative territory and underperformed the region's index. In Thailand, the lack of improvement in the tourism sector was the major drag on the economic recovery. In Indonesia, Covid-19 cases rose and led to tighter and costly restrictions.

B. North American Equity Market Statistics

During the third quarter, the Canadian equity market as measured by the S&P/TSX increased by 3.9%. Year-over-year, the index decreased by 3.2%, including dividends. The S&P/TSX index has lagged most of the world's major stock markets over the past 15 years and over the past 5 years has only generated returns of 6.3% per year! Despite this underperformance, ROCKLINC has successfully generated returns over the past year and for longer periods that have trounced the overall Canadian equity market index. We have managed to do this by avoiding many of the weaker performing stocks and minimizing our exposure to underperforming sectors.

During the third quarter, our basket of Canadian companies outperformed the index by approximately 8.4% and over the last twelve months we were ahead of the Canadian index by

approximately 33.9%! Clearly this level of outperformance cannot be maintained, but we will take it when available! This is another reason why we love active investing over passive index investing! Our overweight position in the gold and silver royalty companies, along with our infrastructure holdings and technology stocks, added significant value during the quarter and over the past five years. Our underweight position in banks and energy stocks helped us avoid some of the weaker sectors in the S&P/TSX during the quarter and over the past year. Regardless of the short-term noise, our focus is on the long term economic fundamentals of the companies we own.

In terms of the S&P/TSX, all the sectors except for two generated positive returns during the third quarter! Here are their returns from best to worst: Industrials (+13.2%), Utilities (+9.9%), Materials (+8.8%), Consumer Staples (+8.6%), Consumer Discretionary (+7.8%), Information Technology (+3.6%), Real Estate (+2.9%), Financials (+2.8%), Telecommunications (+.8%), Energy (-9.4%), and Healthcare (-14.4%).

Pertinent market action during the third quarter of 2020 and during the last 12 months is captured in the following table.

	Sept. 30, 2019	June 30, 2020	Sept. 30, 2020	3 Month	1 Year Return
CAD/USD	$.7553	$0.7366	.7508	+1.93%	-.60%
Oil WTI (US $)	$54.09	$39.27	$39.89	+1.58%	-26.25%
Gold (US $)	$1,465.70	$1,783.40	$1,892.60	+6.12%	+29.13%
Silver (US $)	$16.90	$18.20	$23.39	+28.52%	+38.40%
S&P/TSX	16,659	15,515	16,121	+3.91%	-3.23%
S&P 500	2,976	3,100	3,363	+8.48%	+13.00%
Cdn 10 yr.	1.37%	.52%	.54%	+2 bps	-83 bps
US 10 yr.	1.67%	.66%	.68%	+2 bps	-99 bps

Source: Bloomberg

The Canadian dollar, during the third quarter increased 1.93% against the $USD and was down .60% over the last year. Over 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. At the time of writing this report our Federal government continues to spend money at an unprecedented rate. Our federal deficit is expected to exceed $353 billion and could reach $400 billion this year. During the next two years, our federal deficit is expected to exceed $125 billion plus each year. In fact, your guess is as good as the government's estimate given their complete lack of transparency and dishonesty in managing the finances of our country. These are staggering numbers. At the beginning of the year, our total federal debt was approximately $750 billion. This means that in one year we will increase our national debt by 50%, and in less than four years we could witness a doubling of our national debt. Let those numbers sink in for a moment.

Economic policies, such as those in Canada, which are being duplicated in many countries around the world underscores for our investors why our basic thesis is to buy hard assets along with precious metals to protect us from our own government which is determined to undermine the value of our own currency.

During the quarter, oil finally stabilized! After a disastrous first quarter oil continued to advance in the third quarter by 1.6%. Year over year oil is still down by 26.3%! Fortunately for our investors, our exposure to the oil and gas sector remains miniscule and our interest in the sector remains

muted. Commodities in general are very volatile and lack predictability making them poor long-term investments. We would rather gain exposure to the energy sector through businesses that service the sector or provide long-term infrastructure assets (pipelines, storage, cleaning, recycling) to the broader energy sector.

During the first quarter, interest rates collapsed in the face of the economic turmoil resulting from the policy decisions to shut down the global economy in response to the coronavirus. What is particularly interesting is that interest rates continued to fall in the second quarter even as economies began to reopen. It wasn't until the third quarter that rates edged higher by a mere 2 basis points. The overall trend reinforces what we have been telling our investors for ten years: **we do not expect interest rates to increase significantly for a long time! How could they? With global debt at levels never before seen in world history the global economy could not even absorb an increase of 200-300 bps without sinking into a depression!**

Canadian Throne Speech - September 23, 2020

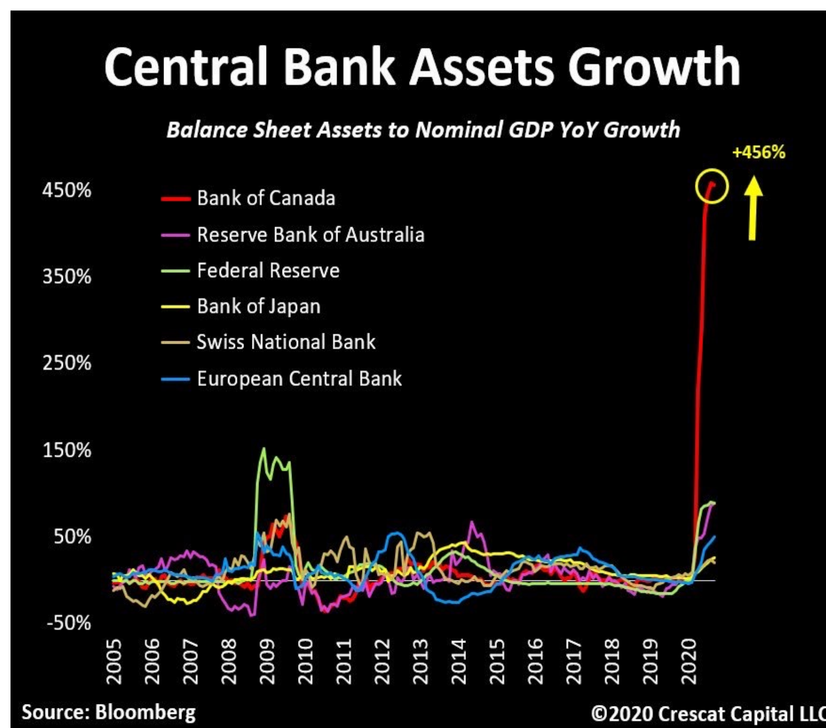
Back to Canada for a moment. In the Canadian government's September 23rd throne speech, they made it clear that the aberrantly low interest rates create an opportunity for massive deficit spending to pursue their "fairy tale dreams" of a net-zero carbon emissions standard by 2050 and a universal income benefit for all Canadians among other wild spending ideas. While every Canadian wants to have a cleaner and more sustainable economy and environment, massive government spending and bureaucratic programs are certainly not the answer. Governments have proven time and time again that they are the worst allocators of capital and it will be no different this time. But as Leslyn Lewis rightly points out there is much more going on with all this spending and the trashing of our Canadian balance sheet.

> "Trudeau has stated clearly that he wants Canada to be a "post-national" country. He is perceived as an evangelist for a new type of 21st-century socialism — a quiet and bloodless revolution that seeks to control our lives through economic dependency. Under this socialist revolution, there is no need to confiscate your property — they can simply redistribute your wealth through a home equity tax, confiscate hunting firearms that were legally purchased and owned, increase a ubiquitous carbon tax, or even potentially confiscate a portion of your retirement savings through a new tax on the private sale of your home. Many Canadians rightly fear the repercussions of Trudeau transforming Canada into a cashless society. They have told me that they are afraid the Liberals will impose a social credit score, similar to the one that exists in China where people's behaviours are monitored through 5G cameras; for this reason, they also distrust the COVID Alert app.
>
> But, the truth is maybe more insidious. There is no need for an official social credit score when the government is already picking and choosing which businesses can be open and which ones can't, and which jobs are essential. Looking back on the Canada Summer Jobs debacle (in 2019 and 2020 with the "WE" scandal) we see the Liberals had already taken their first shot at controlling who was worthy of government support based on personal (religious) beliefs. They simply hide behind government bureaucracy to do it. They have made it plain that they believe those same beliefs make people unfit to serve in public office, become judges or hold any position of influence in society."[1]

[1] Lewis, Leslyn, National Post, October 2, 2020.

What does all this mean for Canadians? In the very least it means, a larger and a more intrusive government. It means lower levels of economic growth, given the staggering levels of debt that are crowding out private funds. It means much higher taxes on every Canadian which can only lead to lower standards of living. And as we have seen so often in the last 5 years it means the further erosion of our freedom of speech as more and more of the failing main stream media (MSM) is bought, paid for and subsidized by the current Liberal/NDP government. Have you listed to the CBC recently? How many of the scandals of this current government have been covered and investigated by the Canadian MSM? I could go on and talk about other freedoms such as the freedom of religion which are also under attack in our country but I will stop here. Proverbs 29:2 states it very well, "When the righteous thrive, the people rejoice; when the wicked rule, the people groan." There is a lot of groaning going on in Canada!

If you need one quick snapshot to capture the undermining of our Canadian financial system (aside from the massive accumulation of debt) look no further than our paper currency and check out the picture below. It shows the level of "central bank asset growth" otherwise known as money printing that is going on in Canada. Seldom if ever have we witnessed such a growth in the Canadian money supply as we are seeing today. The reality is that the vast majority of the deficits we are incurring are not being financed in the capital markets they are being financed by the printing of Canadian dollars by our central bank! Currently the Bank of Canada is printing between $20-$25 billion per month. Eventually this financial theft and corruption (let's call it what it is) will lead to higher levels of inflation and a government driven reallocation of wealth. We must obviously attempt to protect ourselves as best as possible by buying and owning real assets, investing in scarce and essential assets and avoiding problem sectors that have very little future.



C. ROCKLINC Investment Update

1. Private Client Assets

In terms of our ROCKLINC portfolios, with a 69% equities and 31% short-term bonds mix, they increased by 6.0% during the third quarter and by 17.8% during the last 12 months (period ending September 30, 2020).

More importantly, our average annual compound rate of return over the past 3 and 5 years is clocking in at approximately 12.5% and 11.2%, respectively. Returns are after all fees, and are based on an asset mix of approximately 68% 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 68% 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 10.1% during the third quarter and by approximately 28.7% during the past 12 months. Our equities have been compounding by approximately 17.9% per year over the past 5 years and outperforming their relevant indexes. Over the past five years, our Canadian equities have been compounding at 17.8% per year (compared to the index at 6.3%), while our US equities have been growing at 17.8% per year (compared to S & P 500 index at 14.1%)! The higher performing US equity markets point to the reality that there are greater investment opportunities outside Canada although we have been able to invest in a handful of excellent Canadian companies. 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 volatile during the first nine months of 2020, our focus has not changed. We continue to fix our attention on the economic fundamentals! 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 upon.

2. Rocklinc Partners Fund

Three years ago in September 2017 we launched our Rocklinc Partners Fund. Our goal was to offer our clients a low cost and efficient way to purchase our top 20-25 companies in one bundle. It is an effective way to gain access to a diversified portfolio with more modest amounts of investment capital.

Our plan was to quietly develop a three year track record that could be marketed not only to our own private clients but also to the Canadian broker dealer network. By having an investment product that can be marketed to other firms and financial advisors Rocklinc Investment Partners will have a new avenue of growth for the firm. This will provide us with increased revenues that we can use to invest back in the firm as we continue to add professionals to our roster in order to serve all our clients and offer a high quality investment experience. In September we added another full time employee to our roster his name is Braden Van Dyk. Braden is a recent graduate of Redeemer

University in Ancaster Ontario where he completed an undergraduate degree in business. Over the next few months each of you will have the opportunity to meet Braden and welcome him to the Rocklinc Team. Braden will be helping in the areas of administration and client relations.

Commencing with this quarterly update we will provide our clients with our updated performance numbers on our Rocklinc Partners Fund. All performance numbers are after all fees and rates of return beyond one year are annual compound rates of return.

As at September 30, 2020 (NBN 1211)

	1 mo.	3 mos.	6 mos.	YTD	1 yr.	2 yr.	Inception
RL Partners	.48%	5.80%	29.19%	18.36%	26.26%	20.06%	13.80%

D. Company Update

The decades-long transition to a more diverse mix of power generation will be a tailwind for a number of world-class Canadian renewable energy companies for years to come. A growing number of jurisdictions around the world are aiming for a carbon-neutral power generation mix by the year 2050. This includes the E.U. and several American states. With or without government help, the proliferation of renewables is inevitable. The all in cost of power for onshore wind and solar is now comparable to new natural gas power plants, with costs having fallen 56% and 87% respectively during the past 10 years. According to Bloomberg New Energy Finance, there has been $2 trillion of investment in the renewable energy space in the past 5 years with a projected $5-10 trillion of investment over the next decade. In light of these realities and the forecasted increase in the electrification of the grid, ROCKLINC has selectively been adding several high-quality renewable power generation and utility operators to client portfolios in order to benefit from these trends through companies that are providing the critical resources to power the world.

One such company which will benefit from this transition is Algonquin Power & Utilities, a Canadian-based operator of a large portfolio of utility and power generation assets. Although the Company's headquarters is based in Oakville, Ontario, Algonquin has a heavy presence in the U.S, which benefits its Utility and Power business in two major ways. First, the regulated utility industry is very fragmented, offering the Company a long runway to consolidate smaller players. Second, in its power generation business, the U.S has a smaller proportion of its energy generated from renewable sources, presenting many opportunities for developers such as Algonquin to build out new power infrastructure.

<u>Renewable Power Generation</u> – *Liberty Power*

Algonquin's renewable power generation business operates by the name of Liberty Power in the United States. Nearly half of the power is generated by onshore wind, followed by a mix of solar, hydro and thermal generation. Algonquin has 53 renewable and clean energy facilities generating 1.5 GW of gross capacity, with over 86% of the generation under long-term power purchase contracts with inflation escalators. Greenfield developers such as Algonquin can create value by originating

projects and constructing them to completion with management noting that they will never make acquisitions of completed projects. Unlike pension funds and other investors with large pools of capital, Algonquin has the experience, knowledge and ability to construct projects, avoiding the need to compete with institutional investors that have lower costs of capital and often end up paying too much for their acquisitions. Developers such as Algonquin also have the ability to move globally to projects and jurisdictions that offer higher risk-adjusted IRR's (Internal Rates of Return).

<u>Regulated Utility</u> – *Liberty Utilities*

Algonquin operates by the name of Liberty Utilities in the United States. Currently, the portfolio is comprised of 40 utility systems, encompassing water, natural and electricity distribution, with over 800,000 connections across 13 states and 1 Canadian province. The market is fragmented, with thousands of small utility systems operational in the U.S, which provides a great opportunity for consolidation by a large and experienced player. Algonquin has opportunistically bought up many utilities over the past 10 years, streamlining operations and implementing best practises as it seeks to grow the rate base. Where possible, the company will buy adjacent utility systems or within an existing state/rate regulatory jurisdiction where it is familiar with the territory, customers and growth rates. These acquisitions are tremendously accretive, with Algonquin adding value for shareholders as it gathers each new utility system under its corporate umbrella. It is no surprise that 70% of Algonquin's 5-year $9.2 billion capital program is focused on this regulated space.

From an investment perspective, there are a number of reasons why we own Algonquin in client portfolios. Long-term contracted cash flows and regulated utility earnings provide a stable and highly predictable revenue stream. With this revenue stream, Algonquin can provide a sizable dividend while maintaining a relatively low payout ratio, resulting in a significant retention of internally generated cash flow. In fact, due to the high visibility of its cash flows and its historic dividend policy, Algonquin has increased its dividend by 10% over the past 10 years, earning its place in the S&P/TSX Canadian Dividends Aristocrats Index. The company's outstanding dividend track record and voracious pace of acquisitions has not jeopardized its balance sheet—Algonquin maintains an investment grade rating from all the major credit rating agencies. Dual-listing of its securities in both Toronto and New York enables a higher profile and a stronger access to the North American capital markets. In the past few months, Algonquin has been added to the S&P/TSX60, which is anticipated to generate additional trading volumes and increase visibility to international investors.

Algonquin benefits from several major trends. These include the massive shift to renewable energy, the electrification of automobiles and trucks along with supportive corporate and governmental policy directives. The confluence of these long-term secular changes is reflected in Algonquin's anticipated 15% growth per year in EBITDA (cash flow) out to 2024. For all those electric car enthusiasts, and there are a lot, owning companies that control the electric grid that you will have to plug into every night to charge your car makes great investment sense!

E. Moving Forward – Turning Challenges into Opportunities

Our focus has not changed. We continue to keep our eyes riveted on the fundamentals of the businesses we invest in, within the context of the global economy. **<u>We will do our best to take advantage of sharp moves in the market!</u>** As investors, volatility and turbulence are our friends and we will use them to your advantage. During this quarter we had the opportunity to nibble away at some of our favourite positions, but not at the same prices as last quarter when the market was in freefall. It is important that we remain vigilant given the economic and social challenges facing

the global economy. Anyone who believes that the market cannot drop sharply this Fall or Winter is mistaken.

As a result, 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. During the same period we eliminated several positions. Our most significant asset allocation change over the past 12 months is our increased weighting in the precious metals sector primarily through the streaming and royalty companies but also through several high quality mining companies. Given the global monetary recklessness we are engulfed in, we view this allocation as a strategic hedge to protect the overall value of your portfolios as discussed in many of our previous updates.

Our basic strategy has not changed although we are continually sharpening our thoughts and processes to deal with the extraordinary times we are living in. Here is a summary our thoughts.

1. Patience – we need to wait for “fat pitches”. We will only swing at stocks when they are compelling opportunities. Today we remain in uncharted waters. We have never shut down/locked down large swaths of our economy before and simply filled the loss in economic production with massive amounts of debt! We do not know when this “lock down insanity” will end so we will be careful not to rush into the market without ensuring we are sowing our seed in fertile ground.

2. Watch the world’s leading Central Banks. The level of money printing is already historic and it is just beginning. **Our collective profligacy makes the Roman Empire in its dying and most decadent years look vibrant and judicious!** The only solution central bankers know is to try and reflate the economy with unlimited digital money.

3. Pay attention to the irresponsible decisions of governments around the world. Governments are now running massive deficits that are larger as a % of GDP than during WW2. For example, the US deficit could exceed $5 trillion this year and stay in the multi trillion dollar range for many years. **Canada’s federal government deficit will exceed $375 billion this year and is expected to stay well above $125 billion for the next two years!** These numbers are scandalous. They are also irresponsible and immoral. Current policies will continue to ravage the finances of our country.

4. 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. Our largest weightings are in precious metals, infrastructure and technology.

5. Minimize our exposure to the Canadian dollar. Unfortunately Canada is suffering under the weight of incompetent leadership. Investment monies have been leaving Canada over the past five years at a record rate and at the same time our politicians, particularly our federal politicians, are increasing our national debt at a speed that is beyond any sort of rational comprehension. To top it off, our Bank of Canada has agreed to monetize these massive deficits with almost unlimited money printing (see earlier commentary in this update).

6. Invest in businesses with strong balance sheets, backed by hard and tangible assets with limited counterparty risk.

7. Invest in firms that produce essential products and services, in growing industries, with well-established long-term secular growth trends. Our highlighted company this quarter Algonquin Power is an excellent example.

8. Avoid/minimize highly leveraged financialized firms that have incomprehensible balance sheets, loaded with risky derivatives. We continue to minimize our exposure to banks and avoid life insurance companies altogether!

9. 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! We expect our cash allocation to be put to work during the next six months!

10. Remain optimistic and opportunistic without being gullible to the risks all around us. Investing in turbulent times can be rewarding, with the right investment philosophy and prudent execution.

Regardless of the challenges that encircle us we must **sow** the seeds of great investments, even when we have a windy forecast! In time we must also be prepared to **reap** our reward, despite the clouds that hang over us. There are always opportunities and risks in life. We cannot and will not be investors that are immobilized by the irrationality around us. As Solomon wrote in Ecclesiastes 11: 1; “Cast your bread upon the water and after many days you will find it again.” We continue to cast carefully and with as much thought as possible because we believe that sowing and reaping even in the face of great challenges can be rewarding. Life is not a random walk. History is linear and we are all under the sovereign providence of God. With confidence in Him we move forward.

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

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