



ROCKLINC

Worth. Investing.

ROCKLINC Investment Partners - WEBCAST

“Stay the Course”

December 10, 2020

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Outline of Presentation

- A. ROCKLINC Overview & Investment Philosophy
- B. Investment Challenges
- C. Key Issues - 2021 & Beyond
- D. Strategy & Positioning
- E. Company Highlights - Green Infrastructure & TMO
- F. Questions & Answers

A. ROCKLINC Overview

- ▶ Private investment firm - founded in 2010 - current AUM \$185 million - approx. 180 households
- ▶ Focus - Customized portfolios
- ▶ Investing based upon:
 - ▶ Independent thinking & Deep Understanding
 - ▶ 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

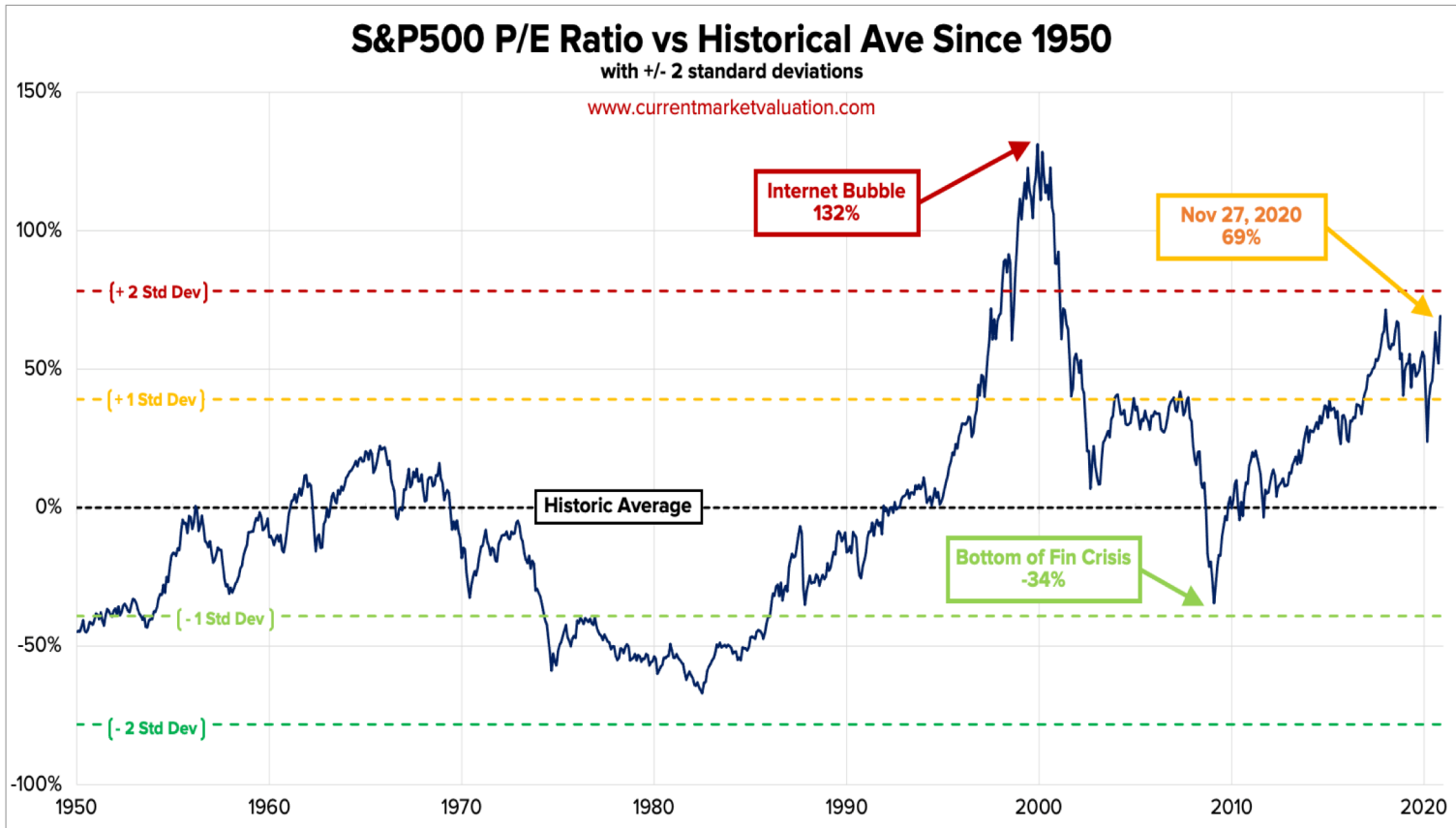
B. Investment Challenges

1. Excessive Global Debt
2. Unfunded Government Promises
3. Demographics - aging of populations lack of family formation (birth rates have plummeted in 2020)
4. Monetary Policies - Printing money and record low interest rates
5. **Lock Down Folly - Four challenges above have been made worse!**

C. Key Issues - 2021 & Beyond

1. Stock Market Valuations - High!
2. Central Banks are Monetizing Debts. (US - \$120 billion/month - Canada - \$20 billion/month) - negative yields hit record in November
3. Unprecedented Increase in Debt Levels - Due to Lock Downs and Government Overreach.
4. **“Building Back Better” Reset Ideology**

High Valuations



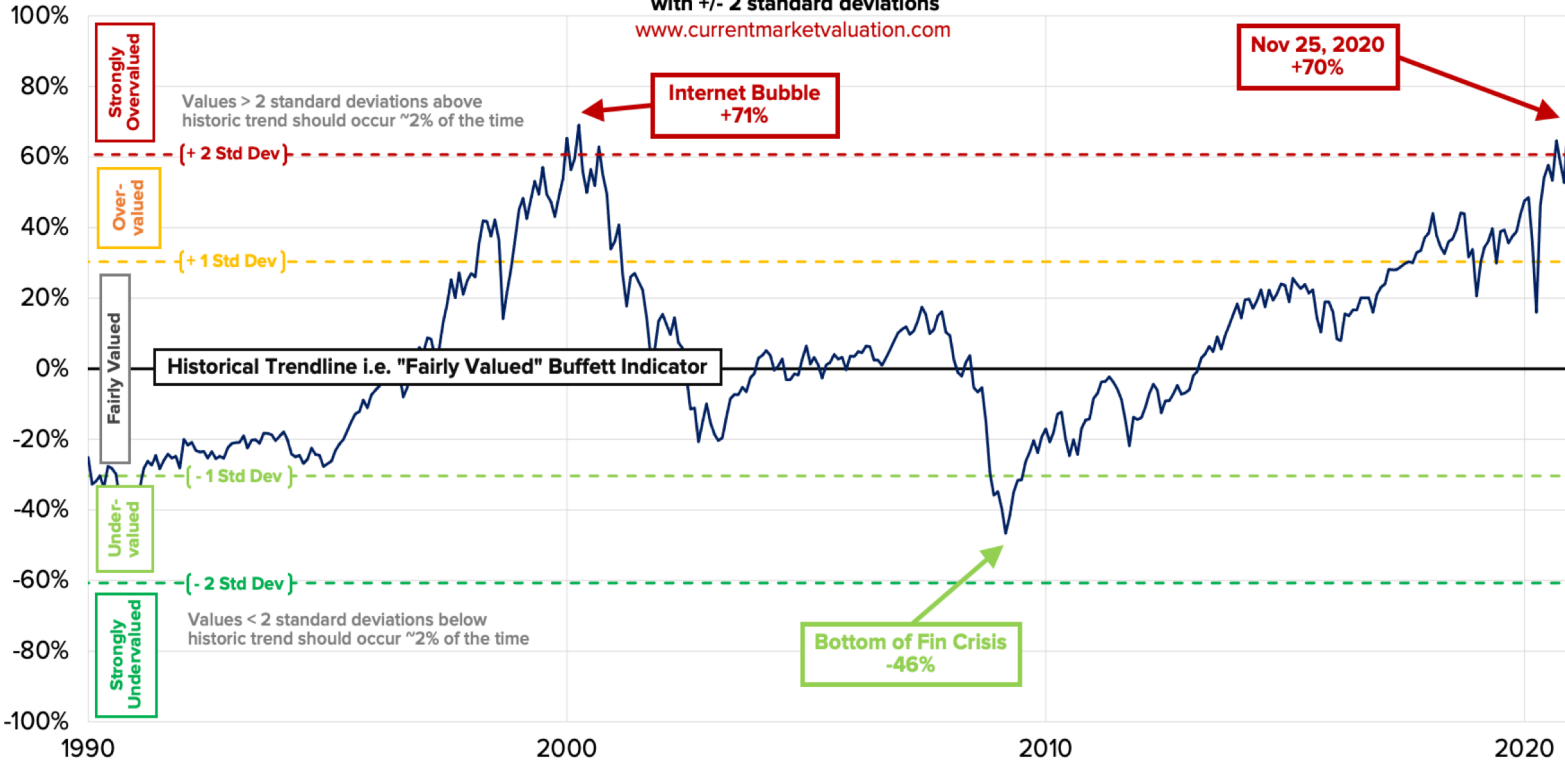
High Valuations

Indicator Value as %
of Historical Trendline

Buffett Indicator: Value vs. Historical Trend since 1990

with +/- 2 standard deviations

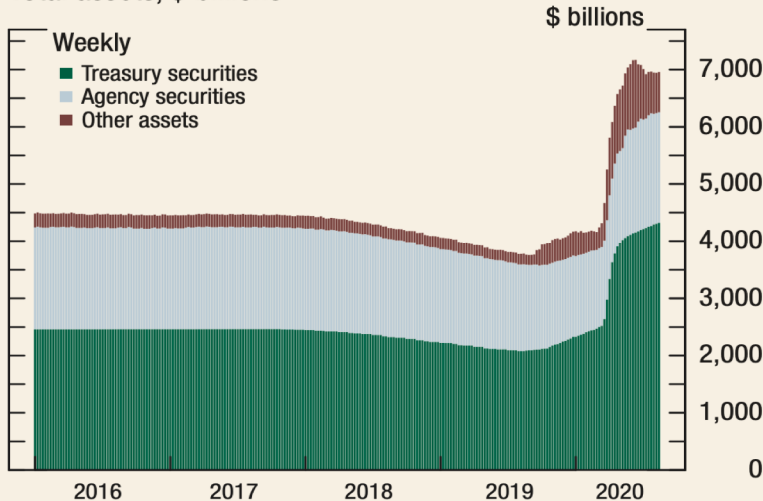
www.currentmarketvaluation.com



Money Printing - off the charts!

Figure 1. Selected assets of the Federal Reserve, in billions and share of GDP, 2016–20

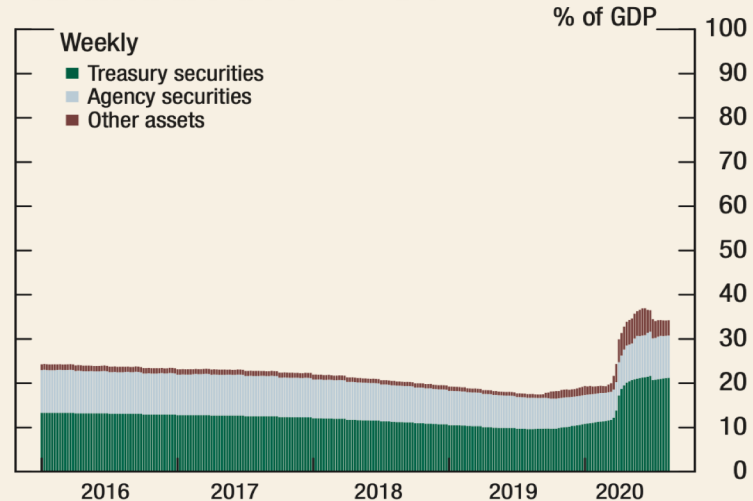
Total assets, \$ billions



Note: Other assets includes swaps, repos, loans, and liquidity and credit facility LLCs.

Source: Federal Reserve Board.

Total assets as share of nominal GDP



Note: Asset values are weekly Wednesday; nominal GDP data are quarterly averages; 2020:Q3 nominal GDP is derived using the BlueChip Economic Indicators August 10, 2020, survey, consensus values.

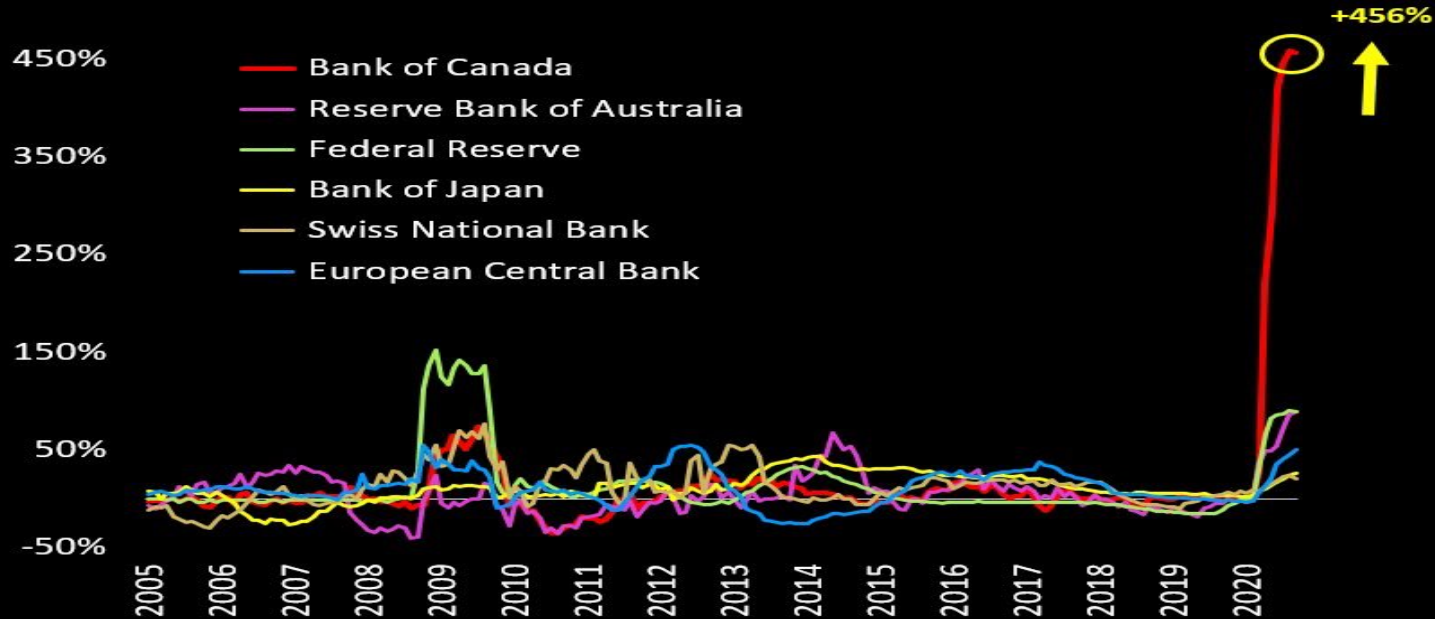
Source: Federal Reserve Board; Bureau of Economic Analysis.

Key identifies bars in order from bottom to top.

Money Printing - off the charts!

Central Bank Assets Growth

Balance Sheet Assets to Nominal GDP YoY Growth



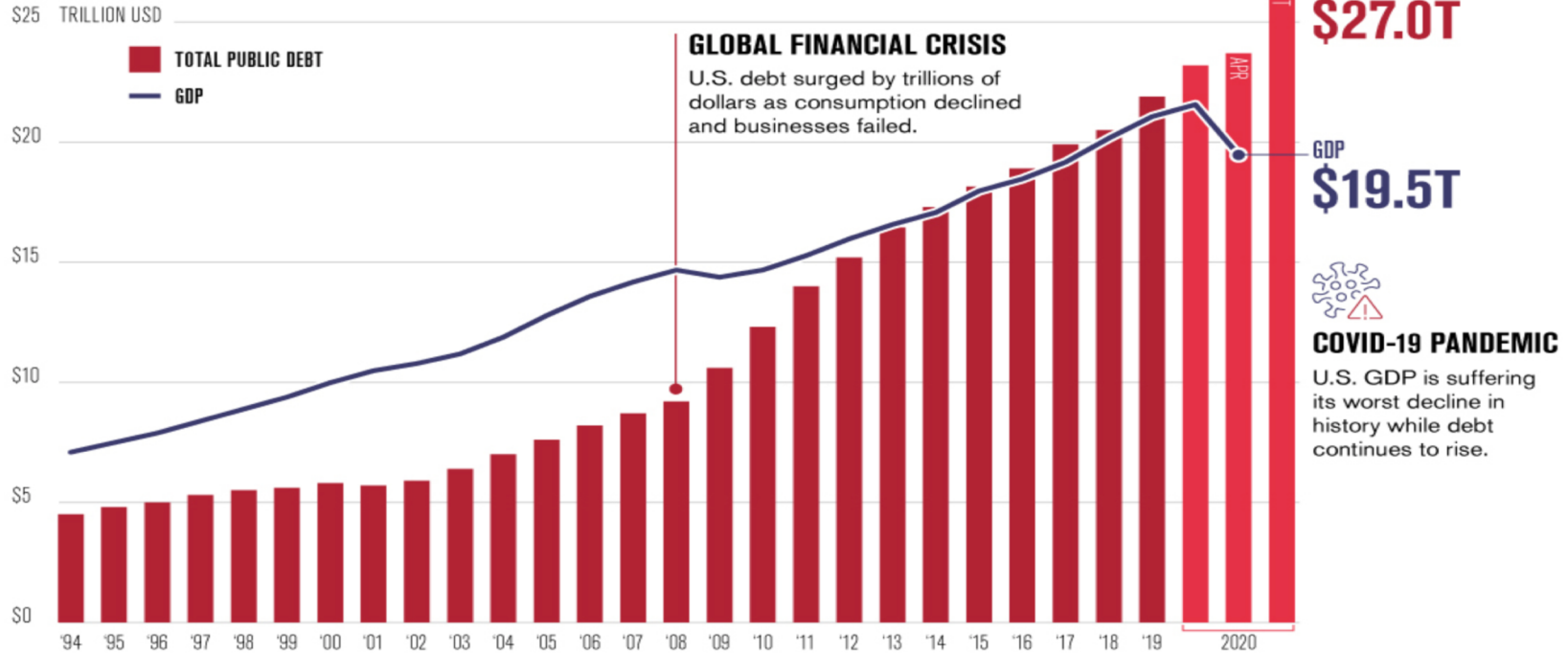
Source: Bloomberg

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Growth in US Government Debt

U.S. TOTAL PUBLIC DEBT VS GDP



Source: Federal Reserve, U.S. Treasury

Debt & Unfunded Liabilities (USA)

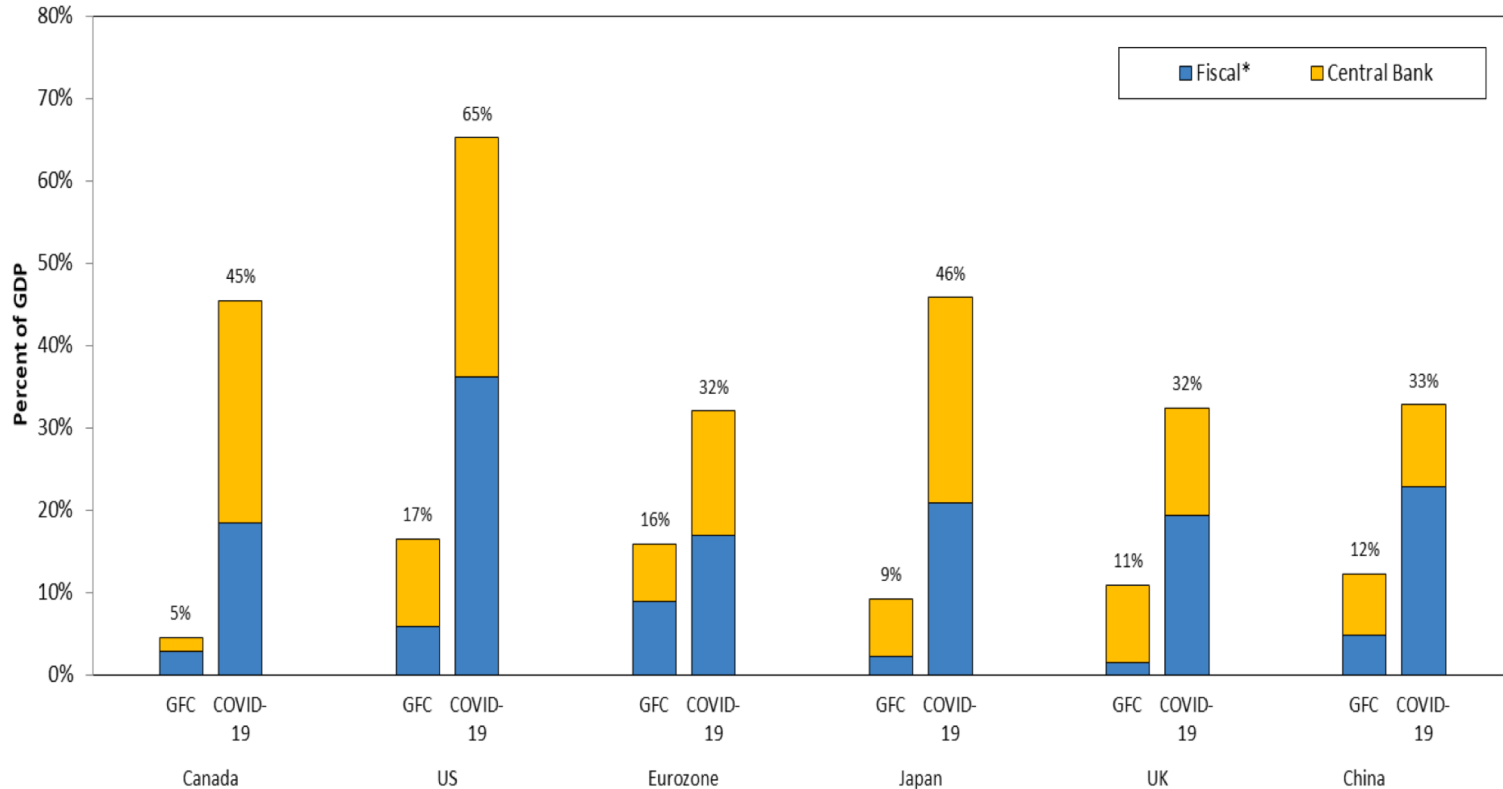
What the Federal Government Owns	
Assets	\$3.99 trillion
What the Federal Government Owes	
Unfunded Medicare Promises	-\$57.09 trillion
Unfunded Social Security Promises	-\$44.09 trillion
Publicly Held Debt	-\$20.43 trillion
Pension & Retiree Health Care Liabilities	-\$8.44 trillion
Other Liabilities	-\$1.64 trillion
Total Bills	-\$131.69 trillion

Assets - Bills = **-\$128 trillion**

Estimated Deterioration to Date: **-\$9 trillion**

THE TRUTH: -\$137 trillion

Record Global Stimulus



Source: BoC, Federal Reserve, ECB, BoJ, BoE, PBoC, StatsCan, IMF, WB, Brookings Institute, and various news sources and BG calculation

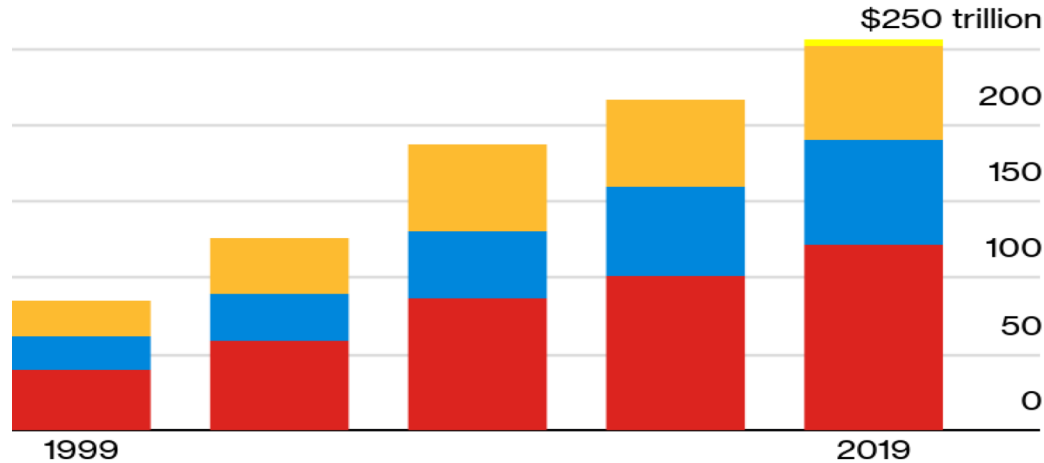
*Fiscal IMF staff estimates and projections for COVID-19 in 2020 and 2021 combined

Debt 2020 - \$275 trillion (est.)

New Record

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

- Private non-financial sector*
- General government
- Financial sector
- Projected debt accumulation in 2H 2019



Source: IIF, BIS, IMF

Bloomberg



Stock of sub-zero debt hits record



“Central banks have been buying up more debt than governments can throw at them,” said Mark Dowding, chief investment officer at BlueBay Asset Management. “That’s been pushing yields down in spite of the huge fiscal expansion.”

Lockdown Perspective - 2020

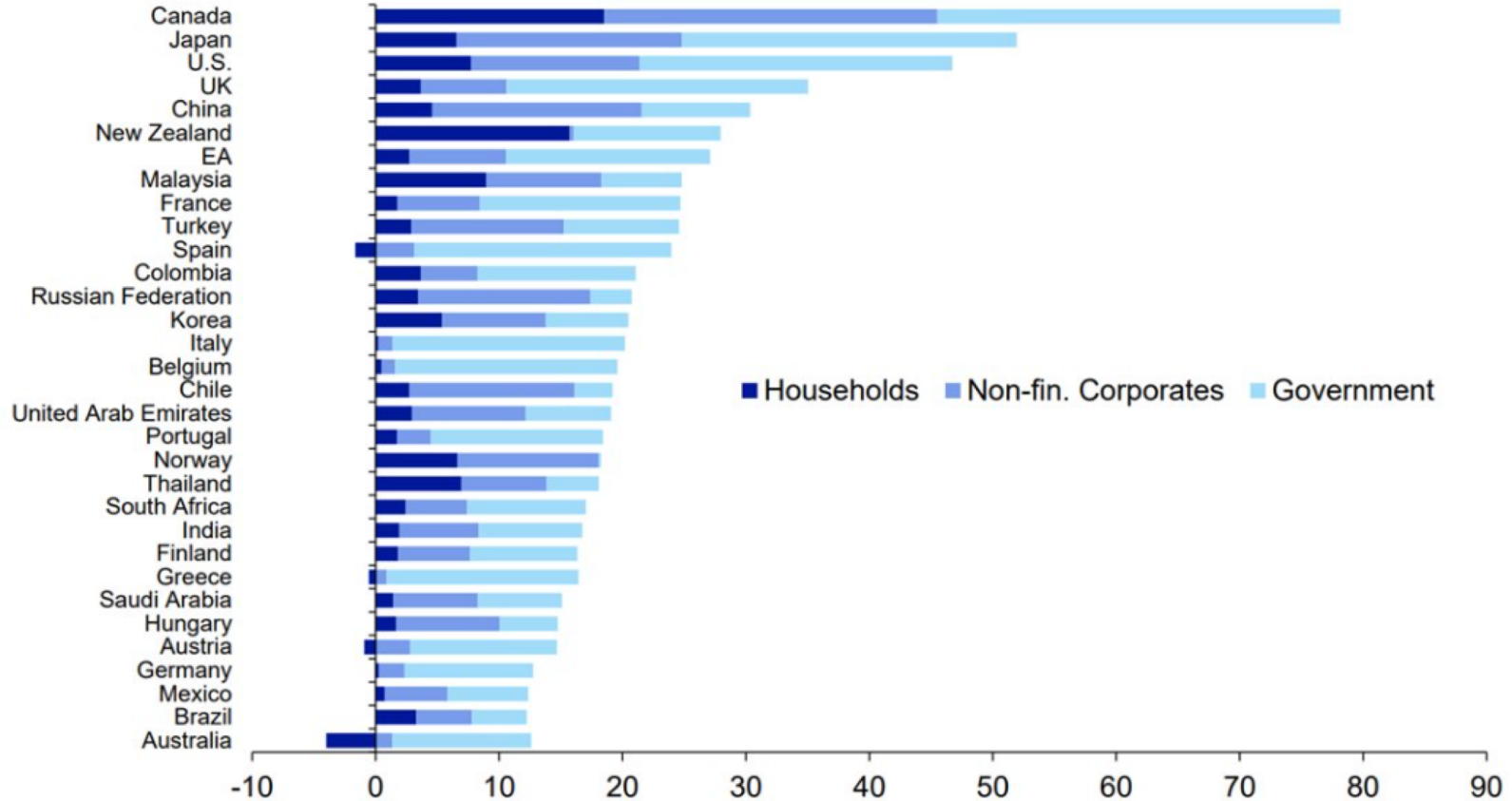
Top 10 Causes of Death

Rounded to the Nearest Thousand

Global (2020)		Canada 2018 & COVID-19 2020	
1. Heart-related	9,708,000	1. Cancer	80,000
2. Cancer	7,220,000	2. Heart-related	53,000
3. Stroke-related	5,433,000	3. Pulmonary, respiratory	22,000
4. Pulmonary, respiratory	4,772,000	4. Stroke-related	13,000
5. Alzheimer's	1,872,000	5. Accidents, road-plus	13,000
6. Diabetes	1,502,000	6. COVID-19	11,027
7. HIV/AIDS	1,478,000	7. Diabetes	7,000
8. COVID-19	1,332,000	8. Alzheimer's	6,000
9. Road Injury	1,318,000	9. Suicide	4,000
10. Diarrheal diseases	1,300,000	10. Kidney Disease	4,000

SOURCES: Global through November 16, 2020: Deathmeters & *Worldometer. Canadian data are for 2018, Statistics Canada: Table 13-10-0394-01. The COVID-19 data: Canadian Public Health Services, through November 16, 2020 – ten and one-half months versus twelve months for the other causes. Data compiled, table constructed by Dr. Reginald Bibby, Professor, Sociology, University of Lethbridge and Research Affiliate, Prentice Institute for Global Population & Economy. www.reginaldbibby.com.

Change in debt-to-GDP, between Q4-2019 and Q3-2020

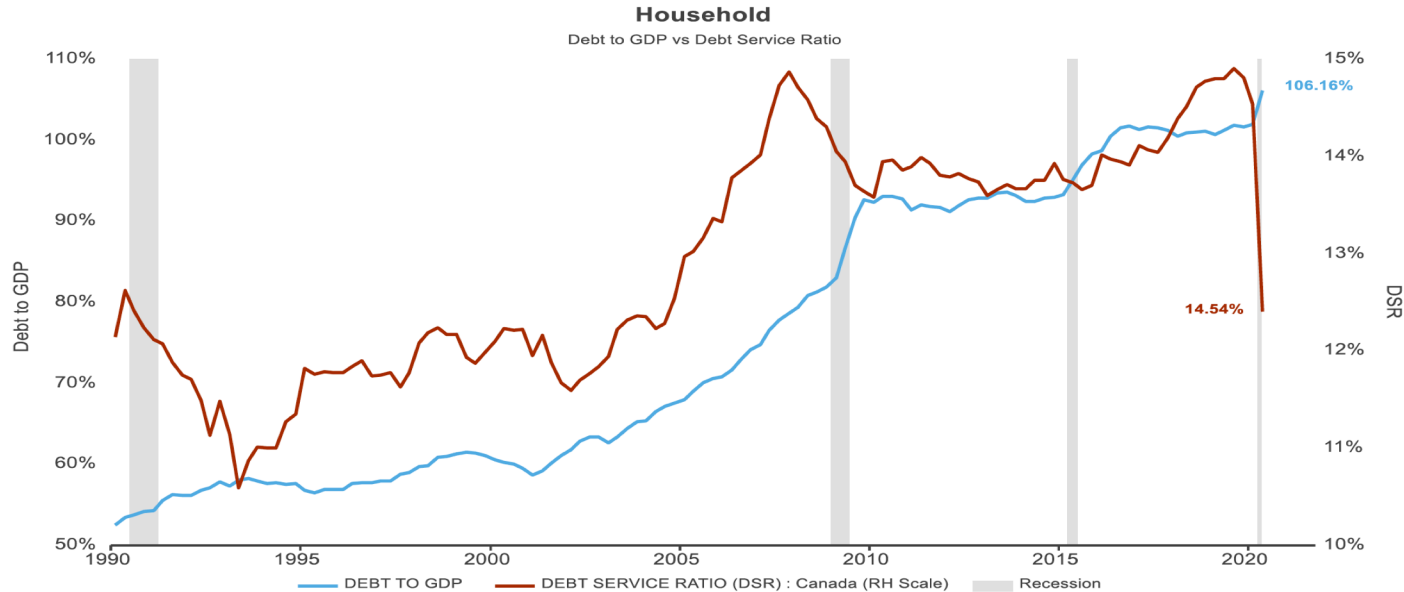


Source: IIF, Deutsche Bank

Canadian Household Debt

Canada household update

Household debt surges as housing rebounds



Government income transfers and payment deferrals eases debt burden, even though household debt to GDP at record level.

“Building Back Better” - Reset Ideology

Chrystia Freeland & Justin Trudeau attack on the CDN Balance Sheet

- Federal Debt from \$700 billion to \$1 trillion in less than 12 months
- Adding \$1 billion /day to our National Debt
- Next three years up to \$100 billion in **extra spending** to “grow economy and make it greener, more innovative, inclusive, competitive.”
- Create 1 million new jobs? Who are they kidding?
- Result: expansion of the State into all parts of our lives, less freedom, lower productivity, higher taxes on income, spending (HST) and capital (capital gains inclusion)!

D. Strategy & Positioning

1. Minimize exposure to Financial Institutions. Too much leverage, exposure to eroding credit markets and pressure on interest spread margins.
2. Minimize exposure to consumer discretionary businesses instead focus on consumer staples. Consumer spending will be under pressure.
3. Maintain healthy exposure to precious metals (gold & silver) as partial hedges to low interest rates, money printing and excessive debt levels.

D. Strategy & Positioning

4. Maintain significant investments outside of Canada to access higher growth opportunities and maintain diversification.
5. Maintain equity weightings in essential businesses in growth sectors with strong balance sheets and substantial moats.
6. Maintain liquidity including a healthy cash balance. This varies by client based on their unique circumstances.
7. Patience! We will not chase stocks. Valuations in some areas are simply insane.

Performance Summary

As at November 30, 2020 (after all fees)

Rocklinc Book of Business (70% equity 30% bonds and short-term cash)*

<u>3 mos.</u>	<u>6 mos.</u>	<u>1 yr</u>	<u>3 yrs</u>	<u>5 yrs</u>	<u>10 yrs</u>
.7%	7.1%	14.6%	11.3%	10.6%	8.0%

* ROCKLINC Book of Business



Performance Summary

As at November 30, 2020 (after all fees)

100% Equity Performance

	<u>3 mos.</u>	<u>6 mos.</u>	<u>1 yr</u>	<u>3 yrs</u>	<u>5 yrs</u>	<u>10 yrs</u>
Rocklinc	1.6%	12.1%	24.9%	17.1%	17.2%	13.3%
TSX	4.7%	14.5%	3.4%	4.7%	7.4%	5.3%
S&P 500	3.9%	20.0%	17.5%	13.2%	14.0%	14.2%

* ROCKLINC Book of Business



E. Company Highlights

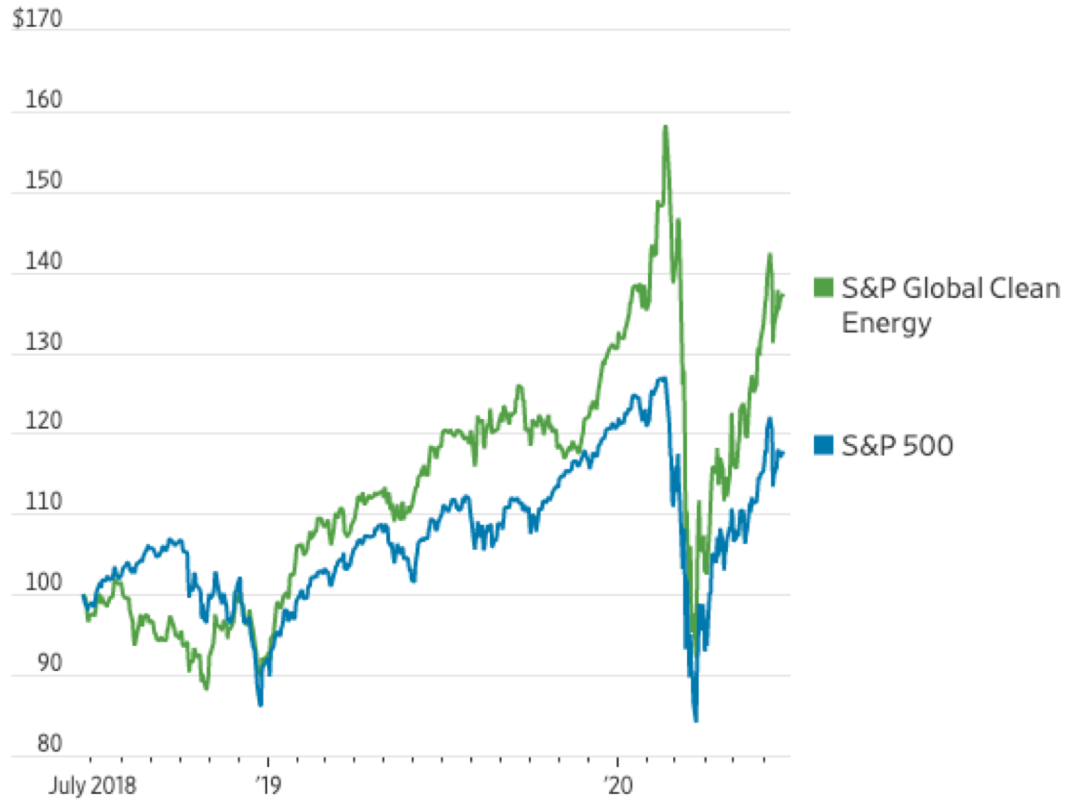
- ▶ **Investing in Green Infrastructure**
- ▶ **Thermo Fisher Scientific (TMO)**

Green Infrastructure

- ▶ Investor sentiment for companies that play a role in decarbonization have soared in the past 12 months
- ▶ Some notable developments in the past year include:
 - ▶ Sharp trend higher in ESG (Environmental, Social, Governance) reporting
 - ▶ Extreme market volatility in particular names such as Nikola in the EV space or Plug Power in the hydrogen fuel cell space
 - ▶ Valuations for established renewable energy producers have increased substantially
- ▶ The anticipation of a Biden presidency, massive COVID stimulus spending and lower treasury yields (boosting the price of long-dated cash flows) have aided sentiment
 - ▶ While these effects are arguably short-term in nature, ROCKLINC has held renewable businesses in client portfolios for 10 years+ for the inherent quality and stability of cash flows from these companies

Green Shoots

Value of \$100 invested



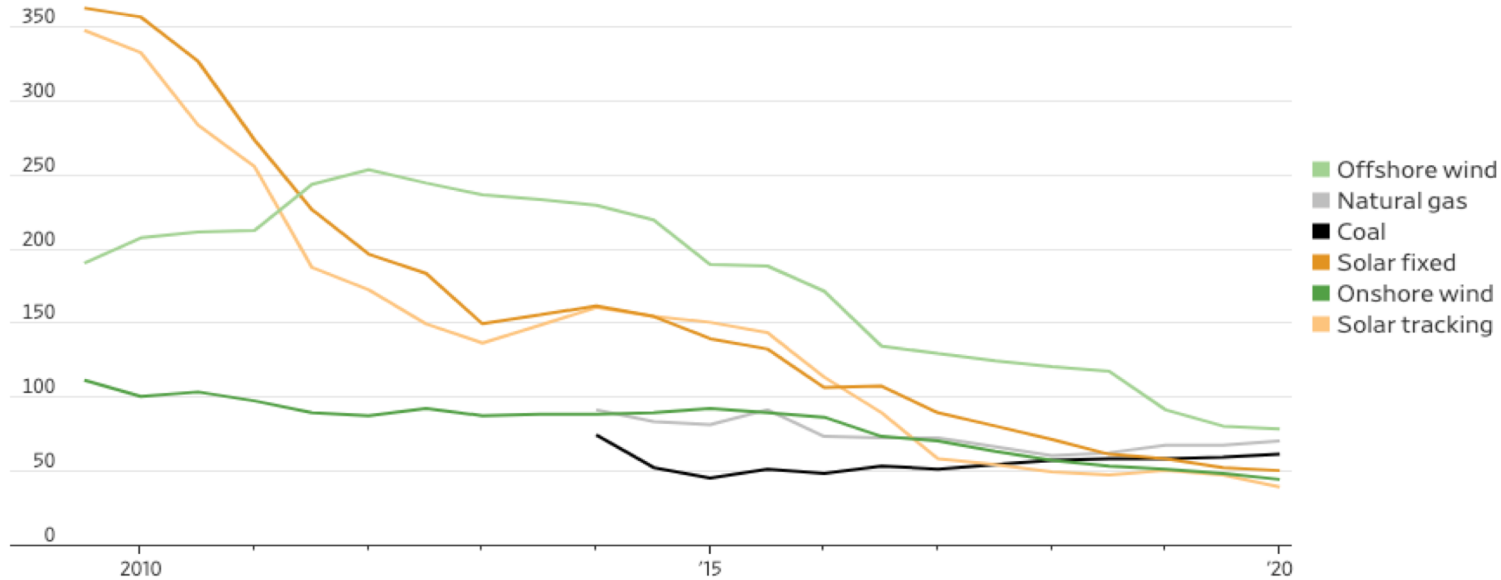
Source: FactSet

- ▶ **Governments** around the world have released various commitments to the greater incorporation of clean energy into their energy production mix
 - ▶ The U.K, South Korea and Japan have recently stated that their nations will seek to be carbon-neutral by the year 2050
 - ▶ The E.U is currently debating its commitment towards cutting GHG emissions by at least 55% by 2030, as compared to 1990 levels
- ▶ While headlines are replete with government initiatives, we know that governments can be notoriously fickle in sticking to lofty long-term targets:
 - ▶ Kyoto Protocol - U.S withdrew in 2001
 - ▶ Paris Agreement - U.S withdrew in 2019
- ▶ **Companies** are and will be the sustaining driving force in the continued transition to a greater mix of renewable energy
 - ▶ Google, Walmart and Amazon are some of the major corporations that have been signing power-purchase agreements (PPA's) directly with clean-energy producers

The Power of Private Enterprise

Levelized cost of electricity*

\$400 per megawatt hour



*2019 prices
Source: BloombergNEF

- ▶ At ROCKLINC, we've been long-term owners of a number of world-class, high-quality renewable energy companies:

Brookfield
Renewable

 **ALGONQUIN**
Power & Utilities Corp.

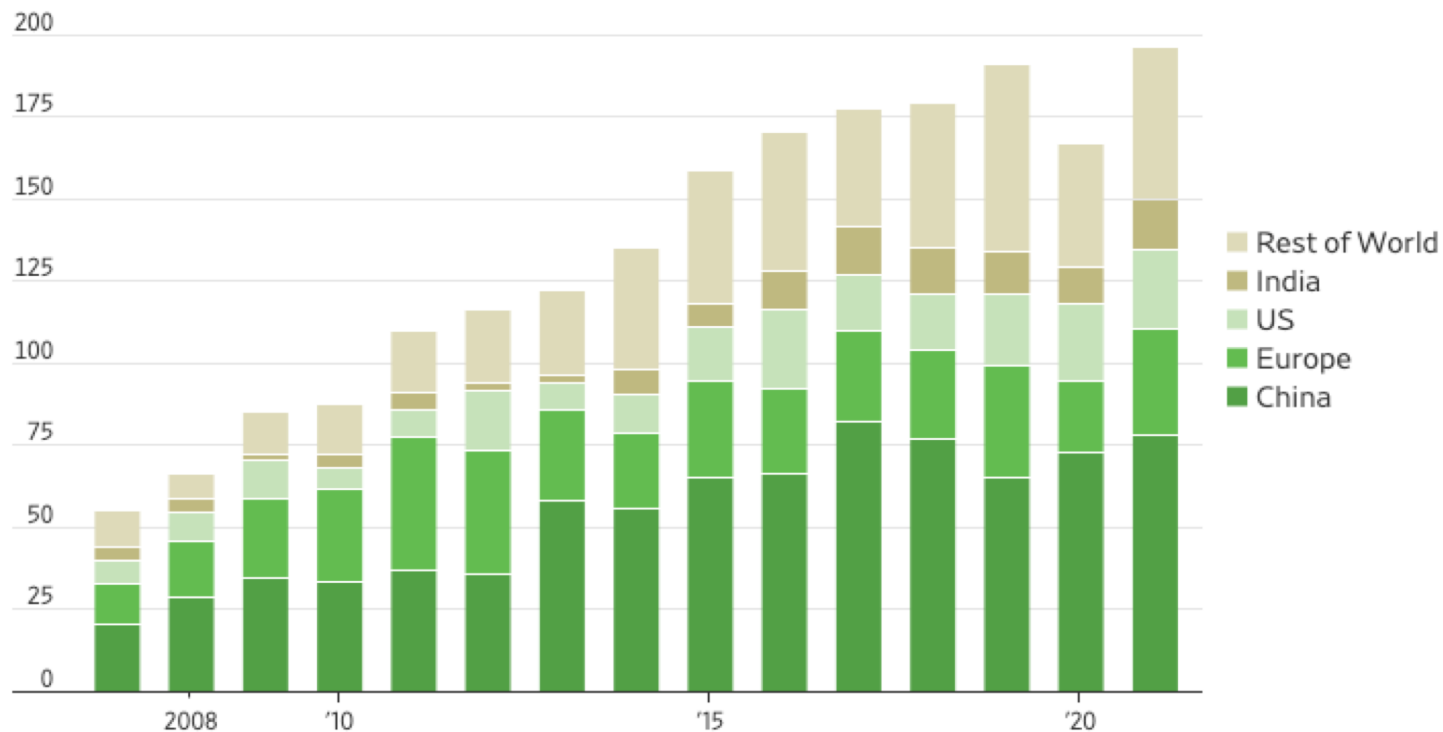
TransAlta renewables^{inc.}

 **NORTHLAND
POWER**

- ▶ These businesses are at the forefront of building out the world's green infrastructure capacity to support targeted initiatives by both corporations and governments
 - ▶ In Canada, we have a number of very high-quality producers that were global pioneers in the development of green infrastructure
 - ▶ Today, approximately 85% of the world's industrial energy is derived from fossil fuels, according to Bloomberg New Energy Finance, resulting in a long runway of opportunity for the world's premier renewable energy power producers

Renewable electricity capacity additions by region*

225 Gigawatts



* 2020 and 2021 are forecasts

Source: International Energy Agency

Alternative Energy Developments

- ▶ We remain attuned to innovation outside of the traditional renewable energy production mix such as wind and solar:
 - ▶ Battery innovation
 - ▶ Electrification of the grid
 - ▶ Hydrogen
- ▶ Positive implications for the hard to decarbonize sectors:
 - ▶ Transportation
 - ▶ Aviation
 - ▶ Steel & cement production

Thermo Fisher Scientific - Recap

(NYSE:TMO)

- **Thermo Fisher Scientific is the world's largest maker of scientific and laboratory equipment**
 - Partner to many of the leading pharmaceutical, biotechnology, academic, government, diagnostic, healthcare, industrial and applied science organizations
- **Investment Rationale**
 - Extensive offering of science and medical capital equipment and consumables, which generates recurring revenue (annuity stream)
 - Significant manufacturing and distribution network and extensive portfolio of solutions
 - Higher consumable and service offering that can translate into a predictable and stable business model
 - Successful track record of acquiring and integrating new technologies to expand its offering

Update: Well-positioned in Covid-19 Environment

New billion dollar business

- Development of the industry's gold-standard in Covid-19 testing
- Involved with >250 Covid-19 related treatment and vaccine projects
- Over the past 6 months, TMO has generated >\$3B from its Covid-19 related business

How has the company performed?

- Strong organic growth of 11% and 34% in Q2-20 and Q3-20, respectively
- High free cash flow growth of 50% and 158% in Q2-20 and Q3-20, respectively

i. Life Science Solutions

- Organic revenue increased 55% and 100% in Q2-20 and Q3-20, respectively
- Strong demand for Covid-19 related testing kits, instruments, sample preparation, vaccine and therapeutic development

ii. Analytical Instruments

- Organic revenue decreased 20% and 3% in Q2-20 and Q3-20, respectively
- Business gradually improved as workers were able to return back to academic and government research labs

iii. Specialty Diagnostics

- Organic revenue increased 12% and 62% in Q2-20 and Q3-20, respectively due to strong demand for testing kits and PPE

iv. Laboratory Products and Services

- Organic revenue increased 5% and 16% in Q2-20 and Q3-20, respectively
- Strong demand for therapy and vaccine support, cold storage products and plastic used in testing workflow



TMO a year later...



Source: Morningstar, Inc

- Thermo Fisher (NYSE: TMO) stock has appreciated over 48% since we first highlighted the company last year
 - December 12, 2019: \$319.36
 - December 4, 2020: \$474.62
- Over that same period...
 - Pfizer (NYSE:PFE): 10.49%
 - Merck (NYSE: MRK): (8.52%)
 - Roche (OTC: RHHBY): 11.03%

F. Questions & Answers

Next Webcast
Thursday March 11, 2021

**Merry Christmas &
Happy New Year**



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