



**ROCKLINC**

*Worth. Investing.*

**ROCKLINC Investment Partners - WEBCAST**

**“Transitory Inflation?”**

June 17, 2021

# Outline of Presentation

- A. ROCKLINC Overview & Investment Philosophy
- B. Investment Challenges
- C. Market Challenges
- D. Market Developments
- E. Performance Summary
- F. Company Highlights
- G. Questions & Answers

# A. ROCKLINC Overview

- ▶ Private investment firm - founded in 2010 - current AUM \$220 million - approx. 200 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
3. Long-Term Holding Period - tax deferred compounding
4. Purchase with a Margin of Safety
5. Understand Economic Backdrop

## B. Investment Challenges

1. Global Debt Levels
2. Unfunded Government Promises
3. Demographics - aging populations, lack of family formation (birth rates have plummeted in 2020)
4. Monetary Policies - Printing money and low interest rates
5. **Lockdown Folly**

# Lockdown Folly - Cure far worse than the disease!

- ▶ Destruction of private wealth
- ▶ State intrusion in the economy
- ▶ Increase in sovereign debt
- ▶ (Pending) Increases in taxes
- ▶ Loss of freedoms
- ▶ Negative effects on mental & physical health
- ▶ Negative impact on children & education
- ▶ Increase in divorce
- ▶ Increase in substance abuse
- ▶ Massive backlog in surgeries and screenings

## C. Market Challenges - Inflation Pressures are Mounting

1. Stock Market Valuations are High!
2. Central Banks are Monetizing Debts. (US - \$120+ billion/month - Canada - \$12-15 billion/month)
3. Unprecedented Increase in Debt Levels continue.
4. Increasing concerns over the emergence of inflation (asset prices and food costs).

# Market Challenges

5. Structural Deficits - Governments are addicted to deficits! (UBI - Universal Basic Income)
6. Central Banks are addicted to money printing - their options are very limited.
7. Citizens are oblivious to the precarious financial position the nations of the world are in.
8. Economists keep dreaming up new theories to justify this madness - MMT (Modern Monetary Theory)

**Inflation vs. Deflation - We give the nod to inflation given government and central bank policies.**

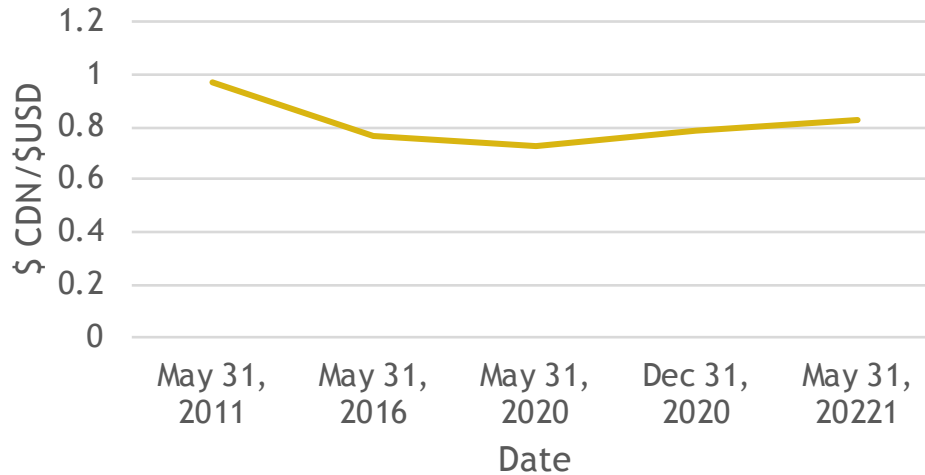


# D. Market Developments

1. Canadian Dollar Headwinds YTD 2021
2. Geo-Political Risk (Miners) - Mexico, Central and South America
3. Macro Economic Challenges - negative real rates of return, as inflation spikes higher for the foreseeable future

# Market Developments

## Canadian Dollar on the Rise



% Change Over Time			
YTD	1-yr	5-yr	10yr
5.40%	13.99%	8.39%	(14.5%)

# Market Developments

## Geo-Political Risk - Mining Sector Nationalization

- ▶ Shifts in political ideologies
- ▶ Monetary policies in the industrialized nations leading to inflation and economic pressures on poorer countries
- ▶ Unstable currencies
- ▶ Lack of education and economic knowledge
- ▶ Community pressures
- ▶ Higher commodity prices

# Market Developments

## Geo-Political Risk - Mining Sector Nationalization

- ▶ Keeping our eyes focused on Mexico, Central and South America
- ▶ We have a low exposure to Africa which is another area that suffers from bouts of instability
- ▶ Currently Chile, Peru, Argentina and Mexico are countries of strong interest
- ▶ Recent elections in Peru lead us to reduce positions in Pan America Silver and Wheaton Precious Metal and add to Agnico-Eagle, First Majestic, SilverCrest Metals, Abitibi Royalty and Equinox Gold

# Market Developments

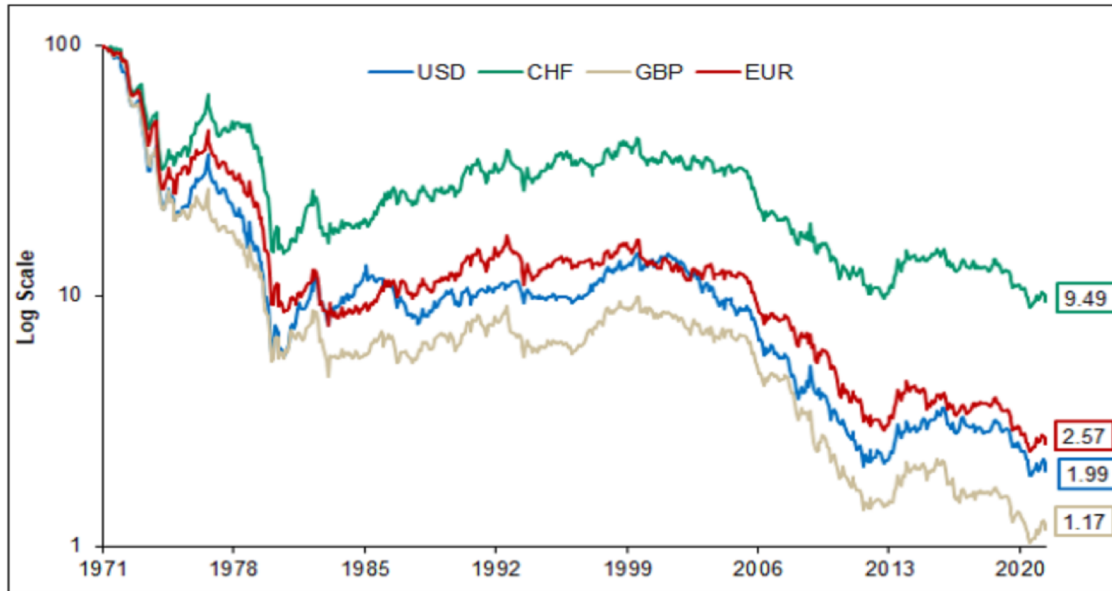
## Macro-Economic Challenges - negative real rates

Real Central Bank Rates (rate minus inflation)*			
US	-4.9%	Mexico	-1.9%
Brazil	-4.6%	UK	-1.4%
Canada	-3.2%	Switzerland	-1.4%
Eurozone	-2.5%	Russia	-1.0%
S. Korea	-2.1%	India	-0.3%

\*As of May 31, 2021

# Golden Anniversary - 50 years of Fiat Currencies

Figure 1. Purchasing Power of Main Currencies Valued in Gold (Log Scale: 1971-2021)



Source: Bloomberg. Data as of 5/31/2021. Reuters Eikon, Nick Laird, goldchartsus.com, Incrementum AG. CHF is the Swiss Franc; EUR is the Euro; USD is the U.S. Dollar; GBP is the British Pound Sterling. Past performance is no guarantee of future results.

# E. Performance Summary

As at May 31, 2021 (after all fees)

Rocklinc Book of Business

(70% equity 30% bonds and short-term cash)\*

3 Mos.	6 Mos.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
4.6%	2.1%	9.3%	12.3%	9.9%	7.4%

\* ROCKLINC Book of Business



# Company Highlight - Andrew Cheng

- A. The Canadian Banking Landscape
- B. TD Bank





# The Canadian Banking Landscape

## Bank Resiliency Driven by Government Support

- ▶ Canada's Big 5 Banks began 2020 with major decreases in earnings and increases in loan loss provisions
  - ▶ Q2-2020 - Big 5 Banks record >45% decrease in YOY Earnings
  - ▶ Q2-2020 - Big 5 report combined \$10.3B PCL (\$3.3B in 2019)

# The Canadian Banking Landscape

## Bank Resiliency Driven by Government Support

- ▶ Government support helped ease credit losses & improve performance
  - ▶ Q4-2020 - Big 5 report combined PCL of \$3.2B (\$6.8B in Q3-2020)
  - ▶ 2021 YTD - Banks have started recording loan loss recoveries
- ▶ 2021 YTD - Earnings rebounding sharply and strong PCL recovery

# Relief Provided By Canadian Banks

March 2020 - February 2021

- ▶ >800,000 mortgage deferrals & >1M consumer credit product deferrals
- ▶ 3.4M Canadians enrolled to receive direct deposit of emergency government benefits
- ▶ \$112M in fees waived for personal accounts and >\$4.9M in fees waved for small businesses
- ▶ >\$3.3B in loan deferrals for >89,000 small and medium-sized companies
- ▶ >879,000 CEBA loans valued at >\$47.5B were approved and processed by financial institutions

Source: Canadian Bankers Association, 2021

# TD Bank

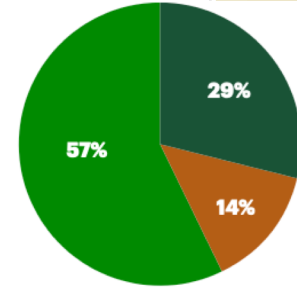
(TSX/NYSE: TD)

## Top 5 largest North American Bank

- ▶ Ranked #1 Canadian Bank<sup>1</sup>
- ▶ 3 Main Businesses: Canadian Retail, U.S. Retail, Wholesale Banking
- ▶ 26.5M Customers Globally
- ▶ Ranked #1 Common Equity Tier 1 Capital Ratio<sup>2</sup>
- ▶ >6,200 ATMs, >2,300 Retail Locations in North America
- ▶ >14M Active Digital Customers

### TD'S PREMIUM RETAIL EARNINGS MIX<sup>1</sup>

- Canadian Retail
- U.S. Retail
- Wholesale



86% Retail  
14% Wholesale

<sup>1</sup> Reported basis excluding Corporate segment.

1 - Based on total assets and deposits as at March 31, 2021

2 - As at March 31, 2021

# TD Bank

(TSX/NYSE: TD)

## Differentiated Business Model

- ▶ Successful integration and execution of U.S acquisitions and investments
- ▶ Strong deployment of digital banking capabilities that increase customer adoption and retention
- ▶ Conservative management team with a prudent risk appetite
- ▶ Stable earnings and dividend growth (5-year CAGR >8%)

# Company Highlight - Jesse van de Merwe

- A. Network Effects
- B. Intercontinental Exchange
- C. CoStar Group



Intercontinental Exchange®



# Network Effects

- ▶ Network effects occur when *‘more usage of the product by any user increases the product’s value for other users’*
- ▶ This dynamic tends to create strong business franchises when the platform or network reaches critical mass due to:
  - ▶ **High operating leverage:** Value increases exponentially and costs increase linearly
  - ▶ **Low capital expenditures:** Once entrenched, a positive feedback loop organically helps stave off competition
  - ▶ **Strong Growth:** The monopolistic structures of these businesses grow close to the size of the entire market

Intercontinental Exchange<sup>®</sup>





# Intercontinental Exchange

*NYSE:ICE*



- ▶ Owner of the New York Stock Exchange (NYSE), in addition to several other key equity and derivatives exchanges
- ▶ Stock exchanges are emblematic of network effects in action:
  - ▶ ‘Liquidity begets liquidity’ - investors and traders will flock to the platform where there are the majority of investors and traders
  - ▶ Once established as *the* platform to transact, a trading venue becomes a mini-monopoly for the trading of a particular security or derivative

# CoStar Group

NYSE:CSGP



CoStar Group™

- ▶ Platform which provides info, analytics and a variety of online marketplaces for the commercial real estate (CRE) market
  - ▶ A place where industry professionals and consumers can interact and facilitate transactions
  - ▶ Maintains the industry's most comprehensive database on CRE info
- ▶ CoStar embodies network effects
  - ▶ Near impossible to replicate CoStar's platform due to the quality of information and relationships on the platform
  - ▶ High switching costs + strong pricing power, largely agnostic to the underlying CRE market as manifested by the +95% retention rates

# G. Questions & Answers

**Next Webcast**  
**Thursday September 16, 2021**



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