ROCKLINC

Worth.Investing.

Preserving Wealth in an Absurd World

"Give me Liberty or Give me Death" Patrick Henry - March 23, 1775

A. 50th Anniversary

This past quarter, a few of us remembered the 50th anniversary of President Richard Nixon removing the US dollar from the last vestiges of the gold standard. The actual date of infamy was August 16, 1971. With the US monetary system completely decoupled from a collateralized monetary standard, the size and scope of government has been able to expand dramatically. Without a dollar tethered to a gold standard, governments have embarked on years of endless deficits, massive increases in the national debt, reckless money printing and record low interest rates artificially depressed by complicit central bankers. As debts have grown, the State has expanded. The State has expanded their intervention into all aspects of the economy, resulting in the lowering of living standards and a massive reduction in human liberties and freedoms.

During the last fifty years, we have watched governments that were once hostile to communism abroad become increasingly accepting of a growing totalitarianism within our own country and throughout the entire Western World. The growth of the State, supported by expanding levels of debt and money printing, is staggering. Without the financial discipline of a gold standard our mendacious and power-hungry political class has spent most of its time finding more and more ways to regulate and control its citizens, extract wealth from the productive class, while redistributing much of this money to themselves and institutions that genuflect to their edicts. The best growth industry in Canada, and in most "Western democracies", has been the government. Even during the last 18 months, when small businesses were being throttled by government edicts, a bloated public sector became even more distended!

The only remaining check to this massive expansion and intrusion of government must come from each of us. We must push back against the massive growth of the State and its intervention into all aspects of our lives. During the past 18 months, would-be central planners in national governments and globalist institutions have identified the opportunity to go beyond any remaining limits to their power, despite many of these actions being unconstitutional. Under the guise of "public health," once proud "liberal democracies" have imprisoned their own citizens without due process. They have locked down economies, while destroying countless small businesses, driving up suicides, drug addictions, mental health challenges and dividing families. They have mandated medical procedures that go way beyond the role and proper authority of government and with the help of regulated and bought off corporations, have attempted to silence political "nonconformists", otherwise known as those who are exercising what was formerly a right in this country, free speech.

Too many people have forgotten that the State always strives for more power unless kept in check by an active, informed and virtuous population. The easiest way for governments to seize more power is through the propagation of fear and economic dependence. Over the past fifty years, the State has made its citizens more dependent on their largesse through the massive expansion of socialized medicine and social welfare to everyone. With this dependence always comes greater control. In the last eighteen months, we have seen a massive escalation of fear in the State's response to COIVID-19. It is this message of fear that has propelled the types of repressive policies that were not even conceivable just a few years ago. Had anyone suggested only over two years ago that whole countries, including Canada, the US, Australia and the democratic European countries, would close down and quarantine healthy people in their homes, most of us would have thought

that they were crazy. But it happened. Yes, we are living in an absurd world. Fear drummed up by the State in the midst of a weak and dependent population is a powerful combination. The result is people capitulating to their repressive actions and not even flinching while they hand over freedoms and liberties secured by the blood of their forefathers. Thankfully, we are finally seeing more protests and resistance. Unfortunately, much of the damage has been done. It is now possible to roll back these devastating economic and social policies?

One of the troublesome implications of the lockdowns is the damage caused to the economic system. Not only were people locked down, but society and therefore practically the whole economy was forcefully halted. The problem is that there is no "pause button" for the economy. The very notion that you can somehow suspend an economy could only make sense to politicians and bureaucrats who have no concept of how the real world works. You cannot simply pause a business. You cannot simply suspend for a period of time the global supply chain. Anyone who has run a business knows that being an entrepreneur is not a steady state but a constantly changing process. It is a constant struggle to generate revenue for a business to cover expenses, expenses that were committed to a long time ago. That's what entrepreneurs and businesses do. They assume costs and then work at getting paid more than their costs so they can make a profit and a return on their invested capital.

If you "pause" a business, the costs remain but the revenue is gone! How are you going to pay those bills when the economy has been locked down and put on hold? You aren’t. Of course this is where our “benevolent” governments stepped in to offer relief in the form of loans and handouts to many businesses and individual citizens they were crushed by their misguided policies. Unfortunately, such schemes come with the usual cronyism and favoritism. The loans often do not end up in the hands of those intended. They also shift power and influence away from the market to the bureaucrats in government. Or to put it differently, businesses survive or go under as decided by bureaucrats, not by consumers and the market. On top of this, all these “handouts” from the government were financed by massive deficits and more money printing, which is pure folly. You cannot replace the wealth created in the private sector and destroyed by lockdowns with printed fiat currency backed by the promises of an increasingly failed State. Who wants their increasingly worthless paper?

As we are witnessing today, the longer the lockdowns and interference in the affairs of the market, more businesses will fail and more supply chains will be weakened if not destroyed. While businesses and supply chains can be rebuilt, it will be at an enormous expense and it still requires people with the know-how and willingness to start businesses again. Can we rely on them to rise and try again, even after they have been trodden on by an expansive and corrupt State?

The long-term effects of this madness have yet to be seen in their fullness. Make no mistake, they will be more far reaching than the escalation of inflation and the collapsing of our standard of living. Even if this virus disappears tomorrow, the problems remain. The issue will take time to be resolved and lots of work to piece things together again.

The greater issue for all of us is that governments around the world along with many global non-government entities seem to like this new playbook of abusing a dependent and fearful population. With this new playbook, they have set their sights on some very large global ambitions! Institutions like the International Monetary Fund, the UN and the World Bank are seeking to use similar tools in the future, in the name of whatever crisis they deem worthy to strip away more freedoms and liberties in their push for their “brave new world” and their utopian view of “peace and harmony”. Climate change, overpopulation, domestic extremism, misinformation or whatever the next

"manufactured" crisis is will all follow the same playbook. Instill fear in populations, take away more freedoms and liberties and solidify their control over the power structures in the world.

In the paraphrased words of the World Economic Forum or the Davos crowd (the ones who tell us "do as we say, not as we do"), we will own nothing, we will have no privacy, we will do what we are told, and we will like it—or else. Are you prepared to stand up for your freedom? Will you be a Patrick Henry? It is an absurd world and preserving your wealth in the midst of this madness is our unyielding focus.

B. Third Quarter Review

US Market

US equities notched up a small positive return in during the quarter. Strong earnings lifted US stocks through the month of August when the Federal Reserve (Fed) seemed to strike a dovish tone, confirming its hesitance to tighten interest rates too fast. However, growth and inflation concerns late in September pulled US equities down as the quarter came to an end.

The Fed stated in September that it was considering the tapering of quantitative easing (slowing down its money printing) and more information would be released at their November meeting. Meanwhile, the fed funds rate projections now show a faster rate hiking schedule than they did back in June. The median rate expectation for 2023 moved up to three hikes from two in June, with three additional hikes in 2024. As far as we are concerned, the Fed really doesn't know what they are doing and their ability to project the future has proven to be woefully inaccurate. Bottomline: while we listen to the Fed we heavily discount their projections. Given the level of global debt the probability that the Fed lifts rates in any substantial manner without damaging the global economy is low to nil. The spending binge by the Biden administration can only be funded by the printing of more funny money and supported by negative real rates of interest (interest rates below the inflation rate).

During the quarter, real GDP growth for 2021 was revised down to 5.9% from the 7% growth estimate earlier in the year - while inflation has continued to rise. The Fed now sees inflation running close to 4.2% this year, above its previous estimate of 3.4%. As consumers, we know that these inflation rates are low balls at best and the real inflation rate is much higher. The Fed also raised its GDP projections for 2022 and 2023 to growth rates of 3.8% and 2.5%, respectively. When factoring in the true rates of inflation and not the numbers produced by the Fed, the real growth rates in the economy are less than advertised, meaning that true economic growth over the next few years will be very weak. This should not come as a surprise given the massive intrusion of the State into the private sector and the hangover from the lockdowns experienced in 2020/2021.

On a sector basis, financials and utilities outperformed. At the other end of the spectrum, industrials and materials struggled, although September's sell-off hit almost all sectors. Energy was an exception, rising as supply constraints, over regulation and misguided "green energy policies" drove prices to new six year highs.

Eurozone

Eurozone equities were flat in the third quarter. The energy sector was one of the strongest performers, followed by information technology and semiconductor-related stocks. Consumer discretionary stocks were among the weakest for the quarter, with luxury goods companies under pressure amid China's government assault on business owners.

The quarter had started with gains amid a positive second quarter earnings season and ongoing economic recovery from the lockdowns. While the Delta variant of COVID-19 continued to spread, most of the large eurozone countries have either vaccinated a large portion of their population against the virus, or are starting to realize that the virus is endemic and they will all have to learn to live with it and move forward.

As the quarter progressed, worries emerged over inflation due to supply chain bottlenecks and rising energy prices. If you believe any of the official numbers, annual inflation in the eurozone was estimated at 3.4% in September, up from 3.0% in August and 2.2% in July. We suspect that the true inflation rates are much higher, similar to what we are experiencing in Canada and the US. Of course, the European Central Bank (ECB) said that it would tolerate any moderate and transitory overshoot of its 2.0% inflation target largely because they have no choice given their high debt levels.

During the end of the quarter and into October, the region has seen a very large surge in power prices as a result of low gas supplies and inadequate wind levels over the summer, among other factors. The Eurozone is experiencing first-hand what happens when you try to convert to a green economy too fast and reduce your dependence on more predictable energy sources. We expect higher levels of inflation to persist in the region with lower economic growth than predicted by the ECB.

United Kingdom

UK equities rose during the quarter driven by a number of factors. While there were some clear sector winners (such as energy on the back of a recovery in crude oil prices) the difference between the best and worst-performing stocks, or dispersion, was quite marked. For example, within consumer staples, some of the more highly valued consumer goods companies performed poorly, while the grocery retailers performed very well. Merger and acquisition (M&A) activity remained an important theme with a large number of transactions taking place during the quarter.

The Bank of England, similar to the Fed, took a more hawkish tone as inflationary pressures continued to surpass expectations. Business surveys confirmed that supply bottlenecks are constraining output and putting upward pressure on prices. Natural gas and fuel shortages made headlines towards the end of September and have only become worse at the time of writing this report in early October. These conditions can only lead to higher levels of inflation and slower economic growth as we have seen in North America and in the Eurozone.

Japan

The Japanese equity market traded in a range through July and August before rising in September for a total return of 5.2% for the quarter. Since the beginning of COVID-19, Japan has consistently seen a lower infection rate than most developed countries but faced a more serious test during the

early summer as infections picked up. Public opposition towards the government's approach ratcheted up again and the approval rate for the government's leadership fell to the lowest levels seen since this government took office in September 2020.

On September 3rd, in a surprise decision, Prime Minister Suga announced his intention to resign without contesting the LDP leadership election. Mr Kishida was ultimately elected as LDP party leader and becomes Japan's 100th prime minister. An establishment politician within the LDP, Mr. Kishida should be a safe, and predictable choice to guide Japan through the next stage of its post-COVID recovery. There is unlikely to be a change in the direction of monetary or fiscal policy as a result, and the likely shape of next major stimulus package should emerge over coming weeks.

Although corporate results for the quarter that ended in June were strong, sentiment was impacted in August by the announcement from Toyota Motor that they were going to have production cuts in September and October, due to the global shortage of semiconductors (remember that supply chain issue!). For the rest of market, order trends and capital expenditure forecasts continue to look strong.

Asia (ex-Japan)

Asia ex-Japan equities recorded a sharply negative return in the third quarter, driven by a significant sell off in China. This was largely due to concerns over the ability of property developer and owner Evergrande to service its massive debts. The Evergrande situation sparked global investor concerns over the risks of contagion. Market concerns over inflation and the outlook for interest rates also dampened investor confidence during the quarter. China was the worst-performing index market, with sentiment towards the country weakening significantly given the communist government using its powers to crackdown on a number of key sectors including the very important technology sector. Power outages also hammered China as they rationed energy use, scaring investors and hampering the production of key commodities. The downside risks in China have significantly increased against a backdrop of slowing economic activity and concerns that recent regulatory policies will further weigh on growth. As our investors know from previous reports, we have no interest in any direct investment in this communist country. Our exposure will continue to come through large multinational corporations with exposure to the country and region.

Pakistan was also sharply weaker as ongoing political upheaval in neighboring Afghanistan weakened investor sentiment towards the country, and fears that violence and unrest could overflow into Pakistan. Hong Kong and South Korea also followed China lower, with both markets sharply lower as market jitters over China spilled out into the wider region.

India was the best-performing index market during the quarter and achieved a strongly positive performance as accommodative monetary policy and the easing of COVID-19 restrictions, aided by their successful use of treatments like Ivermectin boosted investor sentiment. Indonesia also achieved a positive return. Singapore was largely unchanged, while declines in Taiwan and the Philippines were modest.

Commodities

The S&P GSCI Index recorded a positive return in the third quarter, driven by higher energy prices. Energy was the best performing component in the quarter, with all subsectors achieving a positive result. The price of natural gas was significantly higher in the quarter, closely followed by gains in the price of heating oil. Unleaded gasoline also gained strongly on stronger demand as consumers started to return to normal consumption patterns after the COVID-19 saga. The industrial metals component was modestly higher, with a sharp rise in the price of aluminum offsetting price declines for lead, copper and nickel which all performed strongly earlier in the year. The price of zinc was almost unchanged. The precious metals component declined, with the price of silver significantly lower. The price of gold edged lower, but the decrease was very modest. The livestock component also declined. The agriculture component reported a small decline in the quarter, with sharp declines in the prices of corn and soybeans offsetting higher prices for cotton, cocoa, Kansas wheat, coffee and sugar.

B. North American Equity Market Statistics

During the third quarter, the Canadian equity market as measured by the S&P/TSX increased by 0.2%. Year-over-year, the index increased by 27.1%, including dividends. The S&P/TSX index has lagged many of the world's major stock markets over the past 15 years and over the past 5 years, generated a return of 8.8% per year compared to the S&P 500 at 16.9% per year. The recent pick up in the index has been largely driven by commodity stocks coupled with the upswing in the value of the banks after a sharp selloff due to the lockdowns last year. At Rocklinc we continue to focus on a basket of great businesses that can weather the inevitable challenges facing the global economy and do not try to market time the short term moves in any particular sectors. This strategy has proven to not only protect our clients' money in the downturns but provide strong long-term performance.

During the last three and five years, our basket of Canadian companies outperformed the index by approximately 7.8% and 2.1% respectively. Our weighting in the gold and silver royalty companies, along with our infrastructure holdings and technology stocks, added significant value over the last three to 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 last 3-5 years. However, during the last three quarters, energy stocks and financials, have gained back some of their lost ground and given our underweight we have lagged the index over the past year. Regardless of the short-term noise, our focus is on the long-term economic fundamentals of the companies we own and we would not trade any of our core positions for other companies with less favourable long-term fundamentals.

In terms of the S&P/TSX, six sectors generated positive returns and five decreased during the third quarter! Here are their returns from best to worst: Consumer Staples (+4.2%), Industrials (+3.6%), Real Estate (+2.6%), Energy (+1.6%), Financials (+.3%), Utilities (+.1%), Telecommunication Services (-.4%), Information Technology (-1.3%), Materials (-6.0%), Consumer Discretionary (-7.0%), and Healthcare (-19.5%).

Pertinent market action during the third quarter of 2021 and during the last 12 months is captured in the following table.

	Sept. 30, 2020	June 30, 2021	Sept. 30, 2021	3 Month	1 Year Return
CAD/USD	.7508	$0.8070	$.7886	-2.20 %	+5.03%
Oil WTI (US $)	$39.89	$73.52	$75.03	+2.05%	+88.1%
Gold (US $)	$1,892.60	$1,763.20	$1,756.92	-.36%	-7.17%
Silver (US $)	$23.39	$27.00	$22.17	-17.9%	-5.2%
S&P/TSX	16,121	20,165	20,070	-.47%	+24.5%
S&P 500	3,363	4,297	4,307	+.23%	+28.1%
Cdn 10 yr.	.54%	1.39%	1.51%	12 bps	97 bps
US 10 yr.	.68%	1.45%	1.49%	4 bps	81 bps

Source: Bloomberg

During the third quarter, the Canadian dollar decreased 2.2% against the USD and was up 5.03% over the last twelve months. Over time, the best way to minimize currency risk is to buy strong and growing businesses that generate revenue in numerous currencies. As a result, these businesses create a natural currency hedge in your portfolio and mitigate the impact of fluctuating currencies and inflation. Our view is that all fiat currencies will continue to lose value against tangible or real assets because governments around the world, through their central banks, continue to print record amounts of money to support their weak and indebted economies. Increasing the supply of paper money can only depreciate its value over time. Over the past 18 months, we have witnessed the largest expansion of fiat money in the history of the world. Despite this reality, the price of gold and silver have been quite weak. Gold edged lower by .36% during the quarter and is down 7.17% over the past twelve months after reaching a new all-time high in August of 2020. Silver dropped by 17.9% over the last three months and by 5.2% over the past year. We believe the long-term trend for precious metals is to the upside. We continue to build long-term positions in the precious metals sector despite weakness in the sector year to-date.

During the quarter, oil continued to rebound and increased by 2.05%. Year-over-year, oil is up 88.1% given the devastating drop in the price of oil during the first quarter of 2020 when much of the global economy was forced into a lockdown. Our exposure to the oil and gas sector remains quite small given the volatility. 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. Most of our infrastructure businesses have exposure to this essential industry.

During the third quarter, interest rates continued their upward trend (after reversing in the second quarter). The 10-year Canadian bond increased by 12 bps and the US 10-year treasury increased by 4 bps. Despite the extreme volatility in interest rates, we believe that interest rates will remain historically low and well below the true levels of inflation, not the rates published by our government! **We do not expect interest rates to increase significantly for the foreseeable future! How could they? With global debt reaching levels never seen before in world history the global economy simply cannot absorb an increase of 200-300 bps without sinking it into a serious and prolonged depression!**

C. ROCKLINC Investment Update

1. Private Client Assets

In terms of our ROCKLINC portfolios, with 68% invested in equities and 32% in a short-term bond mix, they decreased slightly by 0.4% during the third quarter and increased by 3.2% during the last 12 months (period ending September 30, 2021).

More importantly, our average annual compound rate of return over the past 3, 5 and 10 years is clocking in at approximately 11.7%, 9.0% and 8.1% 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 65%-70% 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 decreased slightly by 0.45% during the third quarter and increased by approximately 3.2% during the past 12 months. Our equities have been compounding by approximately 16.9% per year over the past 3 years and by 12.7% over the past 5 years. Over the past five years, our Canadian equities have been compounding at 10.8% per year (compared to the index at 8.8%), while our US equities have been growing at 19.1% per year (adjusting for currency changes) (compared to S & P 500 index at 16.9%). The higher performing US equity markets underscore the reality that there are typically greater and more consistent investment opportunities outside Canada. We continue to allocate capital into global businesses in order to glean the benefit of global growth and diversification in our portfolios.

Although the markets remain volatile, 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 weak or exuberant, there are always opportunities to seize upon.

2. Rocklinc Partners Fund

Four 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 portfolio. It is an effective way to gain access to a diversified portfolio with more modest amounts of investment capital.

Our plan is to develop a long-term track record that can be marketed not only to our own private clients but also directly to other Canadian investors. By having an investment product that can be marketed to other investors we will have another avenue of growth for the firm. As Rocklinc continues to grow our number one objective is to add investment professionals to our roster in order to provide each of our clients with a high-quality and high performing investment portfolio.

Quarterly we will provide our clients 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, 2021

	1 mo.	3 mos.	6 mos.	1 yr.	3 yr.	4 yrs
RL Partners	-2.0%	-1.6%	1.9%	-2.2%	11.9%	8.9%

D. Company Update –

Formerly known as Roper Industries, the company was rebranded as Roper Technologies as it evolved from a manufacturer of industrial products such as valves and fluid testing equipment into an astute acquirer of niche software businesses operating in a variety of fast-growing, specialized end-markets. Given the relatively small size of these niche markets and the intimacy of customer relationships, competition for their products and offerings is quite low. Roper's businesses seek to become big players in small markets rather than small players in big markets. In most instances, Roper's products are either number one or two in their market segment. Due to highly defendable market positions, these companies do not need to make substantial capital reinvestment back into their business providing management with a wonderful supply of free cash flow that can be redeployed into higher-return ventures (whether that be an acquisition or supplying capital to another business that can effectively deploy the cash). This prudent compounding of cash flow has led to some amazing stock performance; Roper has outperformed the broader market index by a factor of 2x since the early 2000's.

It is no coincidence that this period of outperformance was marked by the arrival of Brian Jellison, who was installed as CEO in 2001. Under his leadership, Roper began shedding much of its legacy products like industrial pumps and valves, as Jellison saw and understood the power of great software—its operating leverage, scalability, asset-light nature and strong recurring revenues. All these factors served to lift returns on invested capital and Roper's market capitalization (the value of the firm ballooned from $1.5 billion to over $30 billion under Jellison's leadership). Tragically, Jellison passed away in 2018 after a battle with cancer, but was successful in passing his philosophy onto the next generation of executives. Jellison's protégé and current CEO, Neil Hunn, has done a superb job of embodying Jellison's shrewd business acumen and has endeavoured to make his own mark on the company, executing several multi-billion acquisitions. Corporate culture rewards finding the very best software businesses to buy, maintaining strict criteria for high cashflow generative companies with high margins and defendable market positions and avoiding targeting 'synergies' in its acquisitions. Similar to other first-class business franchises, such as Brookfield and ThermoFisher, Roper is an active 'portfolio manager' of its portfolio of companies. It will prune mature or lower-return businesses and redeploy cash into higher-return opportunities. Two demonstrative acquisitions are detailed below.

In 2016, Roper spent $2.8 billion to acquire Deltek, a leading global provider of software and information solutions for project-based businesses. Deltek provides solutions in niche markets like

government contracting, as well as the architecture and engineering fields, boasting a loyal and diverse customer base with a customer retention ratio of 97% plus. It is easy to imagine how Deltek's software becomes embedded into contractors' operations and the resultant high retention ratio that the business enjoys. For example, to be a successful government contractor, you must demonstrate compliance with a plethora of U.S regulations such as detailed expense reports, extensive audit trails and conformity to a wide variety of invoice formats. The U.S federal government is prone to choose incumbent firms, making it of the upmost importance to have software that enables the contractor to meet all of these compliance requirements and to have their workflows tailored to a project-based business model. Broad enterprise software programs offered by big players are not ideal as their software is not tailored to specific nuances and challenges in key project-based businesses like government contracting, meaning revenues are less sticky and makes it easier for Deltek to gain market share.

In 2020, Roper spent $5.4 billion to acquire Vertafore, a provider of SaaS (Software-as-a-Service) solutions for the Property & Casualty (P&C) insurance industry. Vertafore focuses on cloud-based software solutions that simplify and automate the uniquely complex and highly regulated P&C insurance lifecycle. The business streamlines processes, improves efficiency and drives productivity for more than 20,000 insurance agencies and over 1,000 insurance carriers, touching over $140 billion of premiums per year. The company's software is the core agency management software solution, providing the system of record for these agencies. Additionally, it offers tools that enable client interaction and solutions that enable more effective connectivity with their carriers. Sitting at the intersection between agencies and carriers is a tremendous amount of data, which Vertafore packages it up into benchmarks and analytics and sells it back to its clients so they can understand and analyze their book of business. With over 90% recurring revenue, Vertafore's mission critical application software is embedded into day-to-day operations and boasts a long history of consistent mid-single digit organic growth, fitting nicely into Roper's repertoire of high-quality niche software businesses.

Roper has successfully institutionalized its culture and has perfected its decentralized business model. Roper procures highly driven human capital and combines it with niche businesses with durable competitive advantages that compete on customer intimacy as opposed to scale. The Company's governance structure ensures that the management teams are accountable for their performance while allowing the CEOs of the independent businesses under the corporate umbrella to focus on one specific area of excellence for years. Roper has compounded at a rate of 22% per year for the last five years, as opposed to the relevant broader market index at 15.5% per year and over the past 10 years, Roper outperformed the market by a factor of two times. The vast majority of Roper's businesses do not require significant amounts of capital to keep growing, which means free cash flow generation has been very strong; free cash flow has grown at strong double-digits over the past five years, with cash flow conversion consistently above 100%. Roper espouses the very best of not just software businesses, but of all kinds of businesses. We've held the stock for the past several years and look forward to enjoying strong compound returns for many more to come!

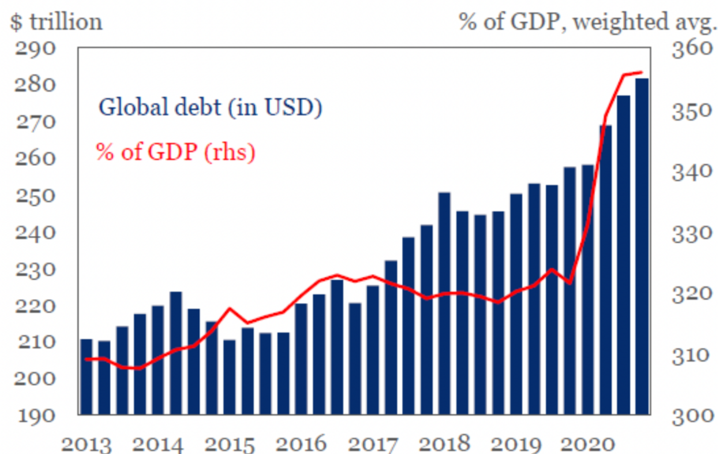
F. Moving Forward

We continue to keep our eyes focused on the fundamentals of the businesses we invest in, within the context of a global economy submerged in debt. **We will do our best to take advantage of sharp moves in the market!** As investors, volatility and turbulence are our friends and we will use them to your advantage. 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 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/reduced several positions. Our most significant asset allocation changes over the past 12 months have been the increased in weighting of both the precious metals sector and the technology sector. We also maintain a large weighting to the infrastructure sector.

Given the global monetary recklessness we are engulfed in, we view large allocations to these sectors as great areas to protect the overall value of your portfolios as discussed in many of our previous updates. Currently the least expensive sector we can find is the precious metals sector. We find this rather ironic given the precarious state of the global economic system and the record levels of debt around the world. In the chart below you can see the massive run up in global debt over the past several decades. **In the last quarter global debt exceeded $300 trillion USD for the first time in history. In the last 8 years, from 2013 to 2021 we have grown global debt by approximately $90 trillion USD! To put that in perspective the total global GDP is also around $90 trillion USD. In only eight years debt has expanded by 100% of global GDP! Astounding! This level of growth in debt cannot be sustained!**



Given this environment our basic strategy has not changed. We are positioned strongly to deal with the extraordinary times we are living in. Here is a summary of our thoughts as we invest in a world submerged in debt, addicted to money printing and increasingly ruled by tyrants.

1. Patience – we need to wait for well-priced opportunities. Today we are 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 and money printing! We do not know when this “lock down insanity” will completely end so we will be careful not to rush into the market without compelling opportunities. While we are hopeful that

vaccines will assist in the process of building herd immunity and the opening up of the global economy, we are not betting your accounts on it! It appears that scientists are now as easily bought as politicians and our politicians are so inebriated with their new-found power, that is it impossible to know when this catastrophe will end.

2. Watch the world's leading Central Banks. The level of money printing is already historic and it is just beginning. **Our collective profligacy is truly historic and without precedent. Using COVID-19 as justification to destroy our country's balance sheet and print money at nauseating levels is immoral.** This will not and cannot end well.

3. Pay attention to the irresponsible decisions of governments around the world. Governments are running massive deficits. These deficits are larger as a % of GDP than during World War 2. Sadly, there does not seem to be any end in sight for this madness. There are even calls for governments around the world to spend more, including Universal Basic Income (UBI).

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. By investing in global businesses, we also gain exposure to many different currencies providing a hedge to any weakness in the Canadian dollar.

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

6. 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 Roper Industries, is an excellent example.

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

8. 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 to twelve months!

9. Remain optimistic and opportunistic seasoned with a dose of reality. Do not succumb to fear mongering nor believe that you cannot survive quite well without the "help" of an intrusive State into all areas of our lives.

10. Place your faith and hope in God and not the State. As our population has become more secular, people's faith in God has been lost in our land. We would do well to remember the words of G.K. Chesterton, "When men choose not to believe in God, they do not thereafter believe in nothing, they then become capable of believing in anything."

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

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