



ROCKLINC

Worth. Investing.

ROCKLINC Investment Partners - WEBCAST

“Emergencies Act”

March 18, 2022

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Outline of Presentation

- A. ROCKLINC Overview & Investment Philosophy
- B. Investment Challenges
- C. Market Challenges
- D. Emergencies Act
- E. Performance Summary
- F. Impact of Rising Interest Rates on Investments
- G. Stock Splits

A. ROCKLINC Overview

- ▶ Private investment firm - founded in 2010 - current AUM \$240 million - approx. 225 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 & Political Backdrop

B. Investment Challenges

1. Global Debt Levels - exceed \$300 trillion USD
2. Unfunded Government Promises & Expansion of Government in the overall economy
3. Demographics - aging populations (birth rates have plummeted in 2020-2022)
4. Monetary Policies - Printing money & repressed interest rates
5. Inflation & Monetary Tightening?
6. Emergencies Act

C. Market Challenges - Significant Inflation

1. Stock Market Valuations are still HIGH! We expect continued repricing of overvalued securities. Better valuations are emerging.
2. Central Banks - will they be able to taper money printing and increase rates without an economic contraction? Our answer - NO!
3. Significant increase in debt levels continue.
4. Dramatic increase in inflation (asset prices, commodities and food costs). The highest in over 40 years! Gov't stats show 6-8%, we know it is higher. Housing prices are up more than 40% since March 2020!

Market Challenges

5. Structural Deficits - Governments are addicted to deficits!
UBI - Universal Basic Income is planned in Canada
6. Citizens are oblivious to the precarious financial position of the global economy. Now, we have war in Europe with Russia invading Ukraine. Impact on basic materials and food costs will continue to be significant
7. MMT (Modern Monetary Theory) has failed. Will politicians back off the massive deficits and money printing?

Market Positioning

1. Pay attention to valuations and balance sheet strength.
2. Invest in Hard Assets (examples: infrastructure, real estate)
3. Keep a significant weighting in precious metals through leading royalty companies.
4. Invest in essential industries with above average growth. (examples: technology, healthcare, consumer staples, water, agriculture)

D. Emergencies Act - Gross Abuse of Federal Powers

- ▶ “Temporary urgent and critical situation that seriously endangers the lives, health, or safety of Canadians and is of such proportions or nature as to exceed the capacity or authority of a province to deal with it.”
- ▶ Exposed the overreaching powers of the State and the willingness of the gov’t to target political opposition.
- ▶ Crowdfunding platforms and payment service providers must register with FINTRAC (Financial Transactions and Reports Analysis Centre of Canada)

D. Emergencies Act -

Gross Abuse of Federal Powers (Cont'd)

- ▶ Canadian Financial Institutions have been weaponized against political opponents of gov't without due process. Canadians can be frozen out of their investments and bank accounts at the whim of the government.
- ▶ We now know that the threats from the protests that Trudeau and Freeland used to justify the Emergencies Act were totally untrue.

Emergencies Act -

Some implications

1. Keep some extra cash around your home - ATM machines can be exhausted very quickly. Banks are no longer in the business of giving you cash, and they are vassals of the government.
2. Think about owning small amount of physical gold or silver (monetary substitutes) - for some, Bitcoin
3. Open a bank account outside of Canada - outside the immediate reach of our government.
4. If possible, own assets outside of Canada - investment accounts, real estate etc.

Emergencies Act -

RL Kokomo Fund

1. Rocklinc to launch an investment fund based in the Cayman Islands - Cayman is the number one jurisdiction in the world for offshore funds.
2. Fund custodian, administrator, legal council, and auditor will all be based in the Cayman Islands. It will be completely outside of Canada and open to Canadian and non-Canadian investors. (Minimum - \$100,000 USD)
3. Fund will be a basket of our top 25-30 stocks, liquid (can be purchased and redeemed each month) with a management fee comparable to our business in Canada - 1%
4. Anticipated Launch Date - June 1, 2022 - more details to come.
5. Call or email us if you have an interest. We have a long list of clients ready to invest in the new fund.

E. Performance Summary

As at February 28, 2022 (after all fees)

Rocklinc Book of Business

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

1 Mos.	6 Mos.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
1.1%	- 0.9%	8.0%	11.2%	9.2%	7.8%

* ROCKLINC Book of Business



Performance Summary

As at February 28, 2022 (after all fees)

100% Equity Performance - Canadian and US stocks

	1 mo.	3 mos.	6 mos.	1 yrs.	3 yrs.	5 yrs.
CDN	5.1%	4.5%	3.2%	12.4%	18.0%	12.9%
US	- 3.2%	- 6.9%	- 7.5%	10.2%	14.1%	13.7%
Total	1.6%	- 0.4%	- 1.4%	11.4%	16.4%	13.3%

* ROCKLINC Book of Business



First 48 Trading Days

48 Trading Days (1928 - 2022)						
Rank	Year	Price Return Through 48 Trading Days		Rank	Year	Price Return Through 48 Trading Days
1	2009	-16.9%		9	2008	-10.1%
2	2020	-15.1%		10	2003	-8.6%
3	1935	-14.1%		11	1948	-8.6%
4	2022	-11.8%		12	1942	-8.2%
5	1933	-11.6%		13	1968	-6.6%
6	1982	-10.8%		14	1978	-6.5%
7	2001	-10.6%		15	1984	-6.4%
8	1960	-10.1%				

Capital Structure & Rising Interest Rates

- ▶ A company's capital structure is the mix of debt and equity that is used to finance the business
- ▶ The goal is to find the **optimal mix** of debt and equity that maximizes the value of the company
 - ▶ Conversely, finding the value that minimizes the **Weighted Average Cost of Capital (WACC)**

$$WACC = \frac{E}{D + E} (r_e) + \frac{D}{D + E} (r_d)(1 - t)$$

Where:

E = market value of equity

D = market value of debt

r_e = cost of equity

r_d = cost of debt

t = corporate tax rate

Capital Structure of Businesses We Own

- ▶ The prudent use of debt in a company's capital structure can increase the value of that business
 - ▶ In a taxable world, a 'tax shield' (via interest deductions) creates value
 - ▶ Using relatively low-cost debt to fund a high-return project creates value
- ▶ The portion of debt in the capital structure is dependent heavily on the type of industry in which a particular business operates in

Company	Net Debt/EBITDA
Brookfield Infrastructure	7.4x
Ecolab	3.1x
Franco-Nevada	Debt-free

Defendable and Defensive Top-Lines

Brookfield Infrastructure

- ▶ Inflation-protected contracts on real assets that provide stable revenue streams

Ecolab

- ▶ Recurring nature of revenues from embedded, essential products and services
- ▶ Recent implementation of price increases (8-10% across portfolio of products)

Franco-Nevada

- ▶ Upside optionality from precious metal prices with no exposure to ballooning operating costs

Rising Interest Rates - Cause for Concern for our Businesses?

Case Study - Brookfield Infrastructure Partners

1) Fixed vs. Floating Rate

- ▶ 90% of BIP's debt is fixed-rate

2) Refinancing

- ▶ Refinanced appx. \$18 billion of debt in 2021 alone

3) Staggered Maturity

- ▶ Roughly 10% of BIP's debt comes mature every year, with an average duration of 8 years
- ▶ Helps reduce dependency on potentially volatile capital markets

4) Asset-level Debt

- ▶ Much of the debt is carried at the asset-level, providing limited recourse to other assets in the business

Understanding Stock Splits

What is a stock split?

- Results in an increase or decrease in the number of shares outstanding
- Market value of the company remains the same
- Two main types of stock splits: Forward stock split and reverse stock split

Understanding Stock Splits

Forward stock split example

- On March 9, 2022, Amazon.com's Board of Directors approved a 20-for-1 stock split

	Pre-Stock Split	Post-Stock Split
Number of Shares	10	200
Price/Share	\$3,000	\$150
Total Market Value	\$30,000	\$30,000

Understanding Stock Splits

What is the primary purpose of a stock split?

- Liquidity

How does it affect my portfolio?

- Change in number of shares held
- Change in stock price
- Market value remains the same
- No tax implications
- Dividend adjusted
- Retain same voting rights

Next Webcast
Thursday June 23, 2022





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