ROCKLINC

Worth.Investing.

Profiting from the ESG Religion!

A. Extortion, Shakedown & Grift (ESG)

Everywhere you look you come across the acronym ESG, which officially stands for Environmental, Social & Governance. Like most trends, it's important to look a little deeper to understand the real agenda. On the surface it sounds so righteous but in reality, ESG (which we like to refer to as Extortion, Shakedown and Grift) is a political tool used by "progressives"—more appropriately called "regressives"—to advance a Marxist/Leftist ideology within the corporate sector. Examples of their agenda include requiring NASDAQ-listed companies to appoint board members based on race and sex rather than competency and merit, and forcing companies to report their greenhouse gas emissions (along with an increasing number of other arbitrary "green" metrics). The assumption is that high greenhouse gas emissions and the use of fossil fuels are evil and companies must alter their way of doing business, regardless of the costs and without challenging the validity of the assumptions advancing the green agenda. The ESG blueprint is undermining free-market capitalism and threatening our liberties and way of life by pushing a full-fledged ESG religion.

Today, we no longer worship the Creator or rule over His creation as vice-regents as He commanded us to do in the Bible. Instead, we have turned our worship towards the creation and have replaced God and his Word as our source of truth with the State. It is the State that tells us how we can use the resources God has given us, including our own bodies. It is the State that defines what a family is, how many genders exist, when your life begins and ends and what you can put into your body, including what can be forced into your body. It is the State that is regulating who must be considered for positions on the boards of private sector companies. It is the State that thinks it can dictate the terms of Christian/religious worship and it is the State that tells us what content can be taught in our schools. It is the State that is seeking to control our speech and even wants to define what "truth" is for its citizens. The bottom line is that ESG policies are a thinly veiled attempt to radically transform all our institutions into godless "social justice warriors" under the increasing tyranny of the State.

When it comes to economics and the market, pro-ESG businesses support the Left's "woke" culture war to redefine gender, promote critical race theory, and cancel all opposing views. Several examples of woke corporations include Netflix, Disney and Nike. Traditionally, it's been the role of business to focus on generating a high return for investors. In the process of generating profits and maximizing the use of their capital, they create jobs, develop innovative new products, and provide services that are demanded in the market. Companies that adopt ESG policies risk failing their stockholders who have invested their savings in these businesses. Companies under the ESG spell are creating social credit scores based on Marxist ideology, demanding investment decisions based on pro-abortion and pro-transgender policies, and electing boards of directors and executives based on discriminatory critical race theories and quotas, rather than on competence and merit. The result is lower economic returns, less innovation and creativity and decreasing levels of wealth and prosperity. If you think your standard of living is under pressure now, just wait until these social justice warriors are finished destroying our institutions and way of life, which they detest.

ESG is a losing proposition for everyone except the few that are pushing the agenda, who gain ever more power over the masses. Within the new ESG framework, everyone suffers. From customers to employees and from employers to investors—everyone loses. Under ESG, traditional energy resources like oil and gas are vilified and punished as part of the Left's climate alarmism, resulting in lower production and higher costs for energy that spill over and cause the price of every product and service to increase. As a result, inflation rises and in turn lowers the standard of living for

everyone. When it comes to the advancement of "social justice", customers will pay even higher prices and receive inferior goods and services as companies become more focused on "inclusion" "gender ideology", "equity", "abortion rights", "transgenderism" and the list goes on. This is all achieved at the expense of meeting the customer's needs and companies from being stewards of capital. Rather than being exposed to the virtues of hard work, integrity, creativity, entrepreneurship, family values and traditional morality rooted in our Christian heritage and Western civilization, employees are now subjected to everything that tears down the past and ushers in destructive, divisive and hate-based theories, like critical race theory and training sessions in gender identity theories that fill our boardrooms and filter down to the factory floors.

As this woke culture spreads, it is fomenting and fostering divisive institutions such as our schools, which are destroying our children intellectually and spiritually. Employers who aren't supportive of ESG receive low ESG credit scores; scores used by "social justice warriors" to cancel companies that don't follow their agenda. Over time, these social credit scores could lead to businesses being financially cut-off—losing access to loans, banking services, and even stock exchanges. In fact, we are already starting to witness this concerning trend in countries like the U.S. High-profile individuals and some companies have lost their banking privileges for simply speaking out against the Left, for supporting pro-life causes or rejecting the transgender narrative.

As businesses suffer and underperform, focusing less on running their business and are increasingly sidetracked and pulled into every social justice cause, investors will lose out and profits will decline. Enterprise, creativity and the long-term deployment of capital will not take place at the levels that built our Western economies. Inevitably, standards of living will continue to collapse. Worst of all, governments will continue to grow like a malignancy—deficits and debts will grow, more money will be printed, and regulations will expand, strangling productive enterprises. More people will live in poverty and under government tyranny. The religion of ESG will hurt everyone because it has little to do with helping the environment and its social and governance goals are immoral, having nothing to do with true justice. ESG in its current form is pure injustice. True justice must be impartial, focus on equality of opportunity (not outcome), and rewards must be based on merit and personal effort. Justice must also be rooted in fixed and unchanging moral standards. Those standards are God's law as revealed in the Holy Scriptures of the Old and New Testament—not the ever-changing, relativistic and subjective standards of the "woke" crowd.

The picture below summarizes the key elements of ESG courtesy of Heritage Action.

As we survey this situation from an investment perspective, we continue to look for ways to profit from this growing insanity. More specifically, we are looking at the situation from two perspectives. **First,** from the perspective of investing in the oil and gas industry and **second,** from the perspective of investing in the transition to the new green economy and the growing demand for renewable energy and electric vehicles. Let's begin with the latter.

If we are to meet the objectives of the ESG mob, it will mean substantial investment opportunities in a number of critical commodities. We don't believe that most people understand the magnitude of change that the politicians are foisting on the world and the dramatic increase in mining that will have to take place to meet the goals that are being advanced. Let's take a moment to look at the mineral requirements needed to make the clean energy transition that governments, the United Nations and the World Economic Forum are demanding.

1. Mineral Requirements for Clean Energy Transition

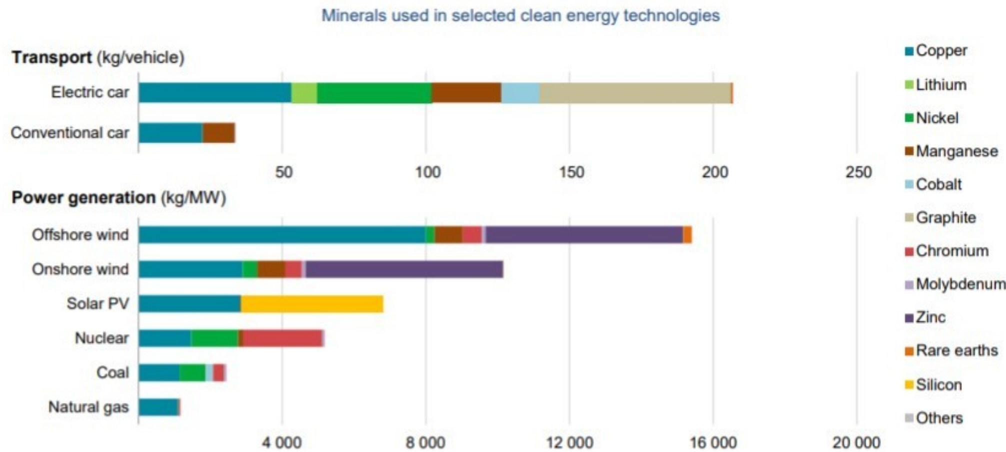
As the world seeks to transition to what they refer to as "clean energy", the demand for certain key minerals such as copper, lithium, nickel, cobalt and rare-earths will rise dramatically. In fact, given the massive increase in minerals required to make this transition, it behooves us as investors to be highly skeptical of companies' ability to access and produce the minerals necessary to make this transition on the timetable currently being put forward by our global elites.

A significant mismatch between the world's climate ambitions and the availability of critical minerals mean that this transition could lead to a much slower and more expensive energy transition, according to a report from the International Energy Agency (IEA). Making progress on the various climate actions are so ambitious that there will definitely be shortages of many of the critical minerals used in clean-energy technologies including wind turbines, solar farms and electric vehicles (EVs), according to recent studies and commonsense.

Not addressing the supply/demand mismatches in a timely fashion could significantly increase the risks of mineral price volatility and supply disruptions. Demand outlooks and supply vulnerabilities vary widely by mineral, but the energy sector's overall hunger for critical minerals could grow **six-fold by 2040**, according to the IEA.

In IEA's *World Energy Outlook* report, it stated that an onshore wind plant needs **"nine times more mineral resources than a similarly sized gas-fired power plant"**, while EVs requires **six times the quantities of minerals used in internal combustion engine-driven car** as shown in **Figure 1**, along with similar data for power generation. These increases are huge and the supply for many of these minerals will require investments in the trillions of dollars and years to find and produce these minerals at much higher prices.

Figure 1 - Minerals used for transport and power generation for clean energy technologies



In the green transition scenarios, mineral demand for use in batteries for EVs and grid storage is a "major force", according to the IEA report, growing **"at least thirty times"** by the end of the next decade. The reader needs to stop and read that last sentence over again. Mineral demand needs to grow by at least thirty times! Really! Who thinks that will go smoothly! Does anyone really believe we can produce these minerals at the levels required without large price increases, disruptions to needed supplies and increased energy costs?

Wind is expected to "take the lead, bolstered by material-intensive offshore projects", followed by Solar PV (PhotoVoltaic) energy. With the massive increase of energy needed from our electrical grids, the demand for copper and aluminum will skyrocket all around the world and there will be inevitable shortages coupled with significant price increases. Anyone who believes that policy makers can mitigate these inevitable bottlenecks will be sadly disappointed. Since 2010, the average amount of minerals needed for a new unit of power generation capacity has increased by 50% as the share of renewables in new investments has risen.

Minerals used in clean energy technologies compared to other power generation sources are the following: copper, nickel, manganese, cobalt, chromium, molybdenum, zinc, rare earths, and silicon. Lithium, nickel, cobalt, manganese and graphite are crucial to battery performance, longevity and energy density. Rare earth elements are essential for permanent magnets that are vital for wind turbines and EV motors. Electricity networks need a huge amount of copper and aluminum, with copper being a cornerstone for all electricity-related technologies.

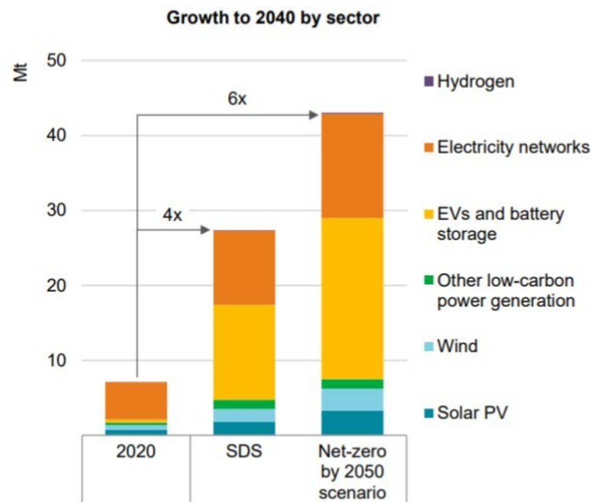
The shift to a clean energy system is set to drive a massive increase in the requirements for these key minerals, meaning that the energy sector is emerging as a major force in mineral markets. In a scenario that meets the Paris Agreement goals (as in the IEA Sustainable Development Scenario [SDS]), clean energy technology mineral's share of total demand rises significantly over the next two decades to over 40% for copper and rare earth elements, 60-70% for nickel and cobalt, and almost 90% for lithium. EVs and battery storage have already displaced consumer electronics to

become the largest consumer of lithium and are set to take over from stainless steel as the largest end user of nickel by 2040.

To reach the goals of the Paris Agreement, it would mean a **quadrupling of mineral requirements for clean energy technologies by 2040.** An even faster transition, to hit net-zero globally by 2050, would require six times more mineral inputs in 2040 than today. Likewise, rare earth elements may see three to seven times higher demand in 2040 than today.

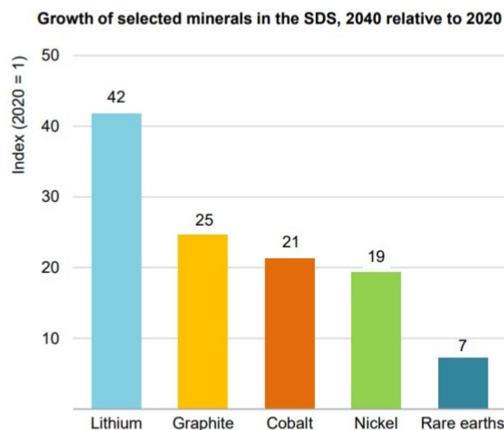
Mineral demand for clean energy technologies would rise by at least four times by 2040 to meet climate goals, with particularly high growth for EV-related mineral as shown in Figure 2, and six times to meet the net-zero by 2050 goal.

Figure 2 – Clean energy mineral demand growth to 2040 (Source IEA)



The demand growth of key minerals by 2040 such as lithium, graphite, cobalt, nickel, and rare earths will see huge multiples compared to 2020 demand numbers as shown in Figure 3. The index for 2020 is 1 compared to the high 2040 mineral demand growth numbers.

Figure 3 – Selected mineral growth 2040 vs. 2020 (Source IEA)



Which sectors do these increases come from? In climate-driven scenarios, mineral demand for use in EVs and battery storage is a major force, growing at least thirty times to 2040. Lithium sees the fastest growth, with demand growing by over 40 times in the SDS (Sustainable Development Scenario) by 2040, followed by graphite, cobalt and nickel (around 20-25 times). The expansion of electricity networks means that copper demand for grid lines more than doubles over the same period.

For example, cobalt demand could be anything from 6 to 30 times higher than today's levels depending on assumptions about the evolution of battery chemistry and climate policies.

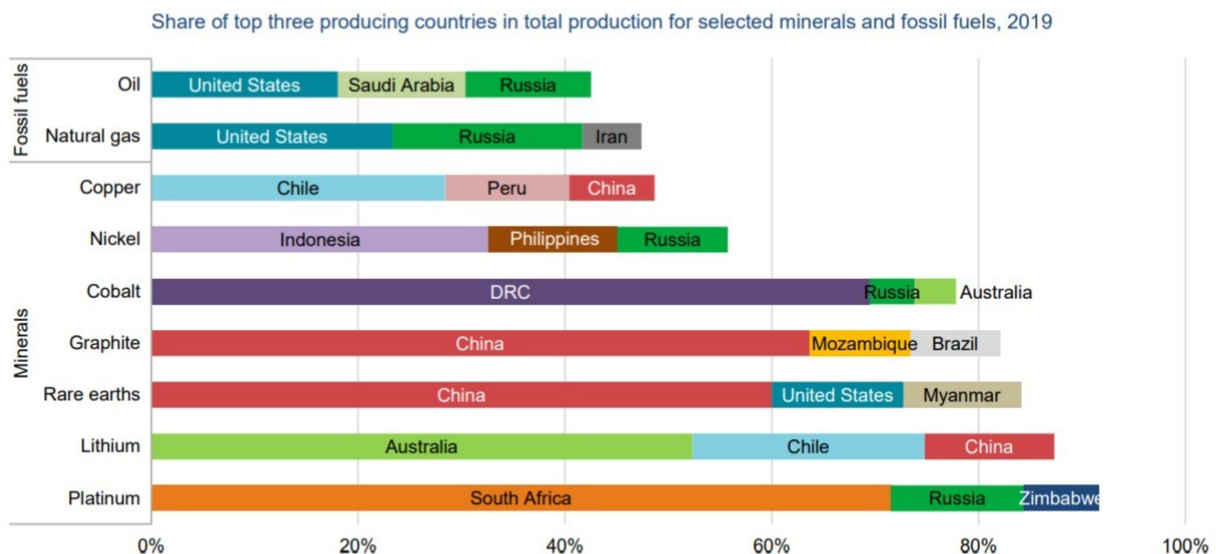
The World Bank Group reports that minerals such as graphite, lithium and cobalt could increase by nearly 500% by 2050, with over 3 billion tons of minerals and metals that will be needed to deploy wind, solar, geothermal power and energy storage required for achieving a below 2°C future. Aluminum is used widely for both energy generation and storage technologies, with roughly 103 million tons of aluminum needed to supply 87% of solar PV to achieve "climate goals".

The prospect of a rapid rise in demand for critical minerals, well above anything seen previously, poses huge questions about the availability, reliability, and pricing of supply. **It also means there could be some wonderful investment opportunities for us to seize upon.**

Mineral Supply & Political Risk

Mining and processing of minerals such as lithium, cobalt and some rare earth elements, are highly concentrated in a small number of countries, bringing with it geopolitical risk of supply security. Production of many energy transition minerals today is more geographically concentrated than that of oil or natural gas, as shown in Figure 4.

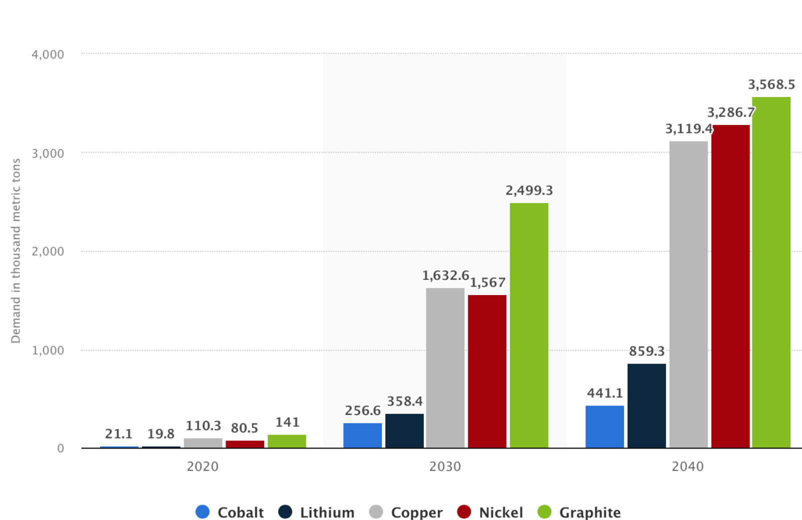
Figure 4 - Oil & gas vs. renewable mineral supply source diversity (Source IEA)



For lithium, cobalt and rare earth elements, the world's top three producing nations control well over three-quarters of global output. The Democratic Republic of the Congo (DRC) and People's Republic of China (China) were responsible for some 70% and 60% of global production of cobalt and rare earth elements respectively in 2019. Raw materials are a significant element in the cost structure of many technologies required in energy transitions.

God has provided the world with a bounty of resources so there is no question that there are more than enough mineral resources to make these transitions work but it will take time and trillions of dollars. But even so, that does not guarantee that the supplies needed will be available nor does it mean that they will be affordable when needed. The more the ambitious climate targets, the more minerals needed for a clean energy transition.

Figure 5 –Mineral Resources to meet EV forecasted demand (Source IEA)



Perhaps the best statement I have seen on this subject is that "the road to hell is paved with green intentions." As a company, we will be focusing on finding investments that will benefit from the massive increase in demand for these critical minerals and the significant upgrades that will have to take place on our critical electrical infrastructure. Stay tuned!

2. Importance and Demand for Oil[1]

While the ESG religion is pushing for decarbonization and is demonizing all fossil fuels, the long-term investment opportunities in this sector are significant. Any energy transition plan must be credible and supported by realistic assumptions and scenarios. Unfortunately, most of the transition scenarios are naïve, unrealistic and unattainable. Given this disconnect, we have an opportunity to profit from the cult of ESG and go against the crowd by investing in select oil and gas businesses.

[1] Ninepoint Partners – Energy Update – August 2022

We have listed nine reasons why we continue to invest in the fossil fuels industry and why we are currently increasing our exposure to this "hated" sector.

a. Global Oil inventories are at a significant deficit to normal levels. This is due to higher than forecast demand coming out of COVID restrictions, lower production levels and the war in Ukraine which has limited Russian oil into Europe. The US Strategic Petroleum Reserve is currently at its lowest level since 1984, sitting at approximately 440 million barrels at the time of writing this report.

b. U.S Oil and product inventory levels are at multi-year lows, given normalized demand and lower production growth.

c. The end of the rapid rise in U.S shale production. Higher interest rates have led to an increased cost of capital and less money being invested in this important sector. This area has also been plagued by increasing government regulations that have curtailed growth.

d. OPEC countries are running at peak levels and are not willing (or incapable) to increase their level of production. It is in their interest to restrict production and sell at higher prices as they deplete their reserves.

e. Chronic underinvestment by global supermajors means less production in future years. Oil companies will not commit to long-term capital projects in the face of political and regulatory uncertainty driven by utopian ideologies like ESG and climate change. In fact, oil and gas investments crashed by more than 50% between 2014 and 2021 from $700 billion to a little over $300 billion. Increases in 2022 are too little too late.[2]

f. Non-OPEC countries are continuing to produce less oil, driven by politics and global agendas. Canada is an excellent example of an oil rich country that is not investing adequately for the future in the oil and gas sector under the current regime.

g. Oil demand is expected to increase slowly through 2030, **not decrease!** It is critical that policy makers and other leaders recognize that supplies of ample and affordable conventional energy are still required over the long-term.

h. World population will continue to grow slowly for the next two decades. Most of this growth is in emerging economies focused on energy reliability and affordability and not ESG virtue signaling.

i. Energy securities are very inexpensive. They trade at depressed levels. At an average price of $100.00 per barrel, the average Canadian energy company could buy back all of their outstanding shares in 3-4 years! Another way to state this is that the free cash flow yields on many of the major oil and gas producers are greater than 20% and as high as 30%!

Later in this update we highlight one of our oil and gas investments, Suncor Energy Inc., and lay out our investment thesis in this company. We are also building new positions in Canadian Natural Resources and MEG Energy Corp and will have more to say about them in future reports.

[2] Remarks by CEO Amin H. Nasser at Schlumberger Digital Forum 2022. Switzerland, September 20, 2022.

B. Third Quarter Review

US Market

US equities fell during the third quarter. Telecommunications, media and real estate stocks, were among the weakest sectors during the quarter. This was no surprise given the rapid increase in interest rates. The consumer discretionary and energy sectors proved the most resilient. In July, the market rebounded from June lows as it started to focus on the possibility of interest rate cuts from the US Federal Reserve (Fed) in 2023. Those hopes seemed to be premature when the Fed, at its annual meeting at Jackson Hole, reaffirmed its commitment to fighting inflation and therefore more interest rate hikes well into 2023. This sent stocks lower in the second half of the quarter and has continued to plague stocks well into the fourth quarter. The Fed raised the federal funds rate by 75 basis points (bps) to 3.25% in September; the third consecutive 75bps increase.

The Fed's preferred measure of inflation (the core personal consumption expenditure index) edged up again in August on a year over year basis - from 4.7% to 4.9%. GDP data confirmed that the US economy is in a recession with GDP falling by -0.6% year over year in the second quarter after a -1.6% contraction in the first quarter. However, the August non-farm payrolls report remained fairly robust as 315,000 new jobs were added that month.

Eurozone

Eurozone shares continued falling in the third quarter amid the ongoing energy crisis, rising inflation, and fears about the worsening economic outlook. Every sector posted negative returns, with the steepest falls for communication services, real estate and healthcare. The real estate sector continued to be pressured by rising bond yields.

The European Central Bank raised interest rates in July and September, taking the deposit rate to 0.75% and refinancing rate to 1.25%. Annual inflation for the eurozone was estimated at 10.0% in September, up from 9.1% in August. Energy costs continued to be the largest contributor to inflation. Nord Stream 1, the main pipeline supplying gas to Europe from Russia, was closed for maintenance in July. It came back onstream temporarily before Russia shut it down again in early September. This put further pressure on power generators, many of whom need to buy natural gas from higher cost sources, and intensified worries over potential energy shortages this winter. The news also sent the euro to a 20-year low versus the US dollar.

GDP figures showed the eurozone economy grew by 0.7% quarter over quarter in in the second quarter. However, forward-looking indicators point to a weakening economy. The flash composite purchasing managers' index (PMI) for September came in at 48.2, representing a third consecutive month below 50, indicating an economic contraction in the manufacturing and services sectors. The winter season looks like a bleak one for much of Europe. We have tried to minimize our overall equity exposure to the Eurozone at this time.

United Kingdom

UK equities also fell in the third quarter. A key event in the quarter was the election of Liz Truss as the new Conservative Party leader and British prime minister. The new government announced a fiscal package in September which was poorly received by markets and sent the sterling to an all-time low versus the US dollar.

Large multi-national consumer staples and energy companies outperformed. These areas are seen as better placed to cope with a 'stagflation' economic environment, where growth is anemic while inflation continues to be hot. The strong US dollar was positive for companies based in the UK but who derive a large portion of their revenues from overseas.

In contrast, fears concerning the impact of rising energy bills on consumer discretionary spending weighed heavily on retailers, travel and leisure, home construction and other domestically focused companies.

Japan

After rising through July and August, the Japanese stock market followed global equity markets lower in September to end the quarter down 0.8%. The yen has been weakening almost continuously against the US dollar throughout 2022. During the quarter, the yen easily broke through the 140 level for the first time since 1998.

Early in the quarter, market events were overshadowed by the appalling assassination of former prime minister Shinzo Abe on July 8th. Mr. Abe, who resigned in August 2020 was shot while delivering a campaign speech two days ahead of Japan's national elections. Meanwhile, the first estimate of GDP showed a quarter over quarter annualized growth rate of 2.2%, which was slightly below consensus expectations but viewed positively given resilience in consumption and in capital expenditures.

The Bank of Japan left monetary policy unchanged and as a result the interest rate differential with the US widened sharply as the Fed continued to raise rates. This differential has been a significant factor in the consistent weakening of the yen so far in 2022. On September 22nd the Ministry of Finance did intervene directly in currency markets when the yen was seen depreciating rapidly intra-day, towards 146 against the US dollar. This was the first such direct intervention in support of the yen since 1998. By the end of September, the yen had weakened again, closing the month at 144.6 to the dollar.

Asia (ex-Japan)

Asia ex-Japan equities were weaker in the third quarter on investor concerns over rising inflation, higher interest rates and fears over a global slowdown. The war in Ukraine and ongoing tensions between China and Taiwan also weighed on sentiment during the quarter. China was the weakest index market in the quarter on concerns over rising interest rates, as countries around the world battle soaring inflation. This was despite data released in September which showed that Chinese factory activity unexpectedly expanded during August.

The alarming spread of Covid-19 throughout China also weakened sentiment, prompting fears of further lockdowns as the country continues to pursue a policy of zero-Covid. Share prices in Taiwan and South Korea were also weaker. In Hong Kong, share prices were sharply lower as investors continued to sell riskier assets, such as shares, for the safety of government bonds amid the threat of more interest rate hikes and economic recession. India ended the quarter in positive territory, although concerns over the pace of interest rate hikes by the US Federal Reserve weakened sentiment towards the end of the quarter. Share prices in Thailand, Singapore and Malaysia were weaker in the third quarter, while Indonesia ended the period in positive territory.

Commodities

The S&P GSCI Index recorded a negative performance in the third quarter, driven lower by weaker prices for energy, industrial metals and precious metals. Energy was the worst performing component of the index in the quarter, with sharply lower prices for crude oil, Brent crude and unleaded gasoline offsetting higher prices for natural gas. It should be noted that most of these same commodities are up year over year. It is healthy and normal to have prices take a breather after a period of rapid price increases. We would expect many of these commodities to be trading at significantly higher prices over the next 3-5 years.

In terms of the industrial metals, prices for aluminum, copper and nickel were all lower after significant price increases earlier. Price declines for zinc were more muted in the quarter, while lead achieved a small price gain. Within the precious metals' component, the price of both gold and silver declined in the quarter. Within agriculture, higher prices for wheat and corn helped to offset price falls for cotton, sugar, coffee and cocoa.

C. North American Equity Market Statistics

During the third quarter, the Canadian equity market as measured by the S&P/TSX decreased by 1.6%. Year-over-year, the index decreased by 6.1%, including dividends. Although the S&P/TSX index has lagged many of the world's major stock markets over the past 15 years, it has performed better over the past 12-18 months and is ahead of US stock indexes over the past 18 months. The recent performance of the index has been largely driven by commodity stocks (especially oil and gas securities) and the inflation trade, after a sharp selloff due to the lockdowns in 2020/2021. Some of these relative gains are under pressure as we enter the fourth quarter with the global economy staring down a recession. At Rocklinc, we continue to focus on an evolving portfolio of great businesses that can successfully navigate the challenges facing the global economy. We do not try to market time or attempt to profit from short term moves in any particular sectors.

During the last three and five years, our basket of Canadian companies outperformed the index by approximately 3.9% and 4.1%, respectively. Our weighting in the precious metal's royalty companies, along with our large weighting in infrastructure businesses, added significant value over the last three to five years. Year-to-date, our Canadian equities fell by 7.3% compared to the index which dropped by 11.6%. Regardless of the short-term noise, our focus is on the long-term economic fundamentals of the companies we own and we are pleased with our core positions and their favourable long-term fundamentals.

In terms of the S&P/TSX, four of the eleven sectors generated positive returns during the third quarter. You might recall that all eleven sectors were negative during the second quarter! Here are their returns from best to worst: Industrials (+3.9%), Consumer Discretionary (+3.6%), Consumer Staples (+2.2%), Industrials (+1.9%), Financials (-2.2%), Information Technology (-4.8%), Utilities (-5.5%), Energy (-6.4%), Health Care (-6.9%), Real Estate (-7.3%) and Telecom (-8.7%).

Pertinent market action during the third quarter of 2022 and during the last 12 months is captured in the following table.

	Sept. 30, 2021	June 30, 2022	Sept 30, 2022	3 Month Return	1 Year Return
CAD/USD	$.7886	$0.7768	$.7231	-6.9%	-8.3 %
Oil WTI (US $)	$75.03	$105.93	$79.49	-25.0%	+5.9%
Gold (US $)	$1,756.92	$1,806.60	$1,660.61	-8.1%	-5.5%
Silver (US $)	$22.17	$20.26	$19.03	-6.1%	-14.2%
S&P/TSX	20,070	18,845	18,444	-2.1%	-8.1%
S&P 500	4,307	3,785	3,585	-5.3%	-16.8%
Cdn 10 yr.	1.51%	3.22%	3.17%	-5 bps	+166 bps
US 10 yr.	1.49%	3.02%	3.83%	+81 bps	+234 bps

Source: Bloomberg

During the third quarter, the Canadian dollar decreased by 6.9% against the USD and was down 8.3% over the last twelve months. Year-to-date the USD has steamrolled every major currency in the world. So far this year (first nine months) the British Pound, the Japanese Yen and the Euro are down 18.5%, 20.2% and 13% respectively against the USD. These types of declines are extraordinary and unsustainable. They highlight for investors the financial pressure the global economy is currently experiencing.

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 33 months, we have witnessed the largest expansion of fiat money in the history of the world. During the quarter, gold decreased by 8.1% and was down 5.5% over the past twelve months, having reached a peak of $2,070.44 on March 8, very close to its all-time intraday high of $2,075 (August 7, 2020). Silver, on the other hand, was more volatile and decreased by 6.1% over the last three months and was down by 14.2% over the past year. Despite the small negative returns in gold and the larger swings in silver, we believe the long-term trends for both precious metals are to the upside and we continue to build positions in this sector. It is important to point out that for anyone valuing gold in non-US dollars, for example the Euro, Yen, British Pound and yes even the Canadian dollar (over the past 12 months), they were significantly hedged against the rise in the USD!

During the quarter, oil decreased by 25%, but is still up 5.9% year-over-year. Most of the gains over the past 12-18 months are due to poor policy decisions on the part of world leaders that have throttled production and new exploration. As world leaders increasingly bow to the god of climate change and increase the cost of exploration and development of oil and gas reserves, the cost of energy will remain very high. The attempt to phase out fossil fuels on an unrealistic time line will continue to fuel inflation and decrease the average standard of living throughout the world. Our direct investments in the oil and gas sector **(see company report on Suncor later in this update)** remains relatively small but we continue to look at ways to profit from the missteps of our political class. During the quarter, we did add to some of our direct oil and gas positions. It is our indirect exposure through a number of infrastructure firms that remains quite large. We are very comfortable gaining our 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 third quarter, interest rates jumped sharply as inflation rose to levels not seen in over 40 years! The 10-year Canadian bond decreased 5 bps and the US 10-year treasury increased by 81 bps in the third quarter. Year over year the yields were up 166 bps and 234 bps on the 10-year Canadian bond and the 10-year US bond respectively. Despite the extreme volatility in interest rates, we believe that real interest rates will remain negative and therefore below the true levels of inflation. **While interest rates are expected to increase in the year ahead, we believe a sharp rise will lead to a recession by the fourth quarter of this year. In fact, as the data continues to come in, we are already might be in recession! A recession has historically been defined as two consecutive quarters of negative economic growth. In the US, both the first and second quarters experienced a small decrease in GDP. With global debt reaching levels never seen before in world history, the global economy cannot absorb a further increase of 150-225 bps without the risk of a serious and prolonged recession. We are at this point now.**

D. ROCKLINC Investment Update

1. Private Client Assets

In terms of our ROCKLINC portfolios, with 69% invested in equities and 31% in a short-term bond mix, they decreased by .48% during the third quarter and decreased by 4.4% during the last 12 months (period ending September 30, 2022). More importantly, our average annual compound rate of return over the past 3, 5 and 10 years is clocking in at approximately 5.2%, 7.1% and 6.9%, respectively. Returns are after all fees, and are based on an asset mix of approximately 69% invested in equities, with the remainder invested in short-term deposit accounts, bonds and preferred shares. 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 by 1.1% during the third quarter and decreased by approximately 6.4% during the past 12 months—substantially outperforming their benchmarks, the S&P/TSX and the S&P 500. Our equities have been compounding by approximately 7.8% per year over the past 3 years and by 10.0% over the past 5 years. Over the past five years, our Canadian equities have been compounding at 9.8% per year (compared to the index at 6.4%), while our US equities have been growing at 10.4% per year (compared to S&P 500 index at 9.2%).

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. Given the recent downturn in markets, the number of buying opportunities continues to increase. Expect to see new additions along with some deletions from your portfolios over the next few months.

2. Rocklinc Partners Fund

We launched our Rocklinc Partners Fund in September 2017. Our goal was to offer our clients a low cost and efficient way to purchase our top 20-30 companies in one portfolio. It is an effective way to gain access to a global 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. As Rocklinc continues to grow, our number one objective is to create portfolios of excellent companies that produce strong long-term performance.

Quarterly, we provide a performance update to our clients. All performance numbers are after all fees and rates of return beyond one year are annual compound rates of return. Currently, the Fund is approximately 12% in cash and short-term money market instruments and 88% equities. After all expenses and fees, the Rocklinc Partners Fund has since inception been compounding at approximately 6% per year. When compared against the MSCI World Index over the past 1- and 5-year periods, the Fund has outperformed its benchmark by 7.2% and 0.35%, respectively. The Fund has also outperformed the S&P/TSX Composite Index over the past 1- and 5-years by 0.78% and 0.17%, respectively.

As at September 30, 2022

	1 mo.	3 mos.	6 mos.	1 yr.	3 yr.	5 yr.**
RL Partners	-3.7%	+1.2%	-12.4%	-5.3%	+5.7%	5.9%

** Inception September 29, 2017 (NBN1212)

E. Company Update – Suncor Energy Inc.

What do Aspirin, iPhones, shampoo, paint and fertilizers all have in common? Their existence would not be possible without oil. In fact, much of our everyday 21st century life would not be possible without the wonderful carbon-based compound known as 'black gold'. Take the internet, for example. The Internet is a global network of servers using standardized communication protocols. To power these servers, it requires energy—and lots of it. According to the U.S Department of Energy, data centres are one of the most energy-intensive buildings, as they suck up ten to fifteen times more energy per floor space than a typical commercial office building. Beyond the energy to power these vast data centres, the hardware technology to enable network connectivity requires critical plastics and components, such as cables, disks and circuits. From the Industrial Age to the Digital Age, advancement in technology and increases in the standard of living can be directly linked to the harnessing of cheap energy, specifically that of oil and gas.

It's remarkable to consider that Canada is the sixth largest producer of natural gas and the fourth largest producer of oil in the world. The country's oil sands contain 170 billion barrels of oil, representing the third largest oil reserves globally. Our naturally endowed resources in this country have created substantial wealth, long-supporting many of the biggest government expenditures such as healthcare and public education. Though the oil deposits are located in northern Alberta, their development requires the procurement of supplies and services from across the country—vehicles

to transport people and products, steel to build plants and pipelines and professional services such as environmental consulting. As a whole, Canadian energy companies procure supplies and services from 2,711 companies in the 9 provinces and 3 territories outside of Alberta. The sector has contributed well in excess of $100 billion annually to Canada's GDP and supports 400,000 jobs across the country; the energy industry directly provides $10 billion in average annual revenue to the various levels of governments in the form of royalties.[3] Since the early 1960s, Alberta has sent over $600 billion in transfer payments to other provinces in the country (an even more impressive figure if you consider the contribution per capita).[4] Undoubtedly, Canada's prosperity since the very foundation of the country has been inextricably linked to the development of her natural resources, whether it be oil and gas reserves, mineral deposits, abundant oceans or vast tracts of arable land.

Suncor Energy boasts one of the richest and longest legacies in Canadian oil production. The company is the largest integrated energy business in the oil sands with operations spanning from the mining and exploration of oil to the selling of refined products at their wholly owned Petro-Canada branded gas stations. Suncor holds the title as Canada's pioneer in the region, having first developed the method of processing the heavy bitumen of northern Alberta into valuable crude oil. Founded in 1919 in Montreal as the Sun Company of Canada, the company initially sold lubricating oil and kerosene but soon began to open Sunoco-branded service stations in major Canadian cities. It was after this foray into the retail gas business that Sun Company moved upstream and added exploration and refining operations, eventually changing its name to Suncor to reflect its newly formed mining enterprise. Over the coming decades, Suncor would continue to expand its production in the Athabasca basin near Fort McMurray, investing billions into various expansion projects.

An integrated business model enables Suncor to generate superior returns across the entire commodity value chain, mitigating profit volatility by controlling exploration and production via its established mining capabilities and by owning in-house refining capacity. Suncor's refinery operations are among North America's most profitable on a per barrel basis and is subsequently sold through Suncor's 1,900 retail gas stations across the country. The company produces over 700,000 barrels per day, accounting for approximately a fifth of total oil sands production, or 40% of Canada's total daily consumption. Assuming $100 WTI on average throughout this year, Suncor will produce nearly $13 billion in free cash flow (the amount of cash a business generates for its owners after necessary investments have been made), or approximately 25% of its current market value. Put otherwise, a business generating 25% in free cash flow for each of the next four years will produce enough cash to buy back the *entire* company! Such considerable cash generation and a short-time horizon for the payback of investment capital affords our timing of purchase or valuation work to be less precise, otherwise known as a margin of safety—a key foundational investment principle embodied by conservatism and humility.

Rarely is energy consumed where it is produced. ROCKLINC has long-owned infrastructure businesses that are key enablers of the global economy, including in the critical areas of energy production, transmission, transportation and storage. For example, our top holding is Brookfield Infrastructure Partners, a skilled developer, owner and operator of infrastructure assets across the globe. Brookfield owns 15,000 kilometres of oil and gas transmission pipelines, 17 natural gas processing plants, 600 billion cubic feet of natural gas storage and 1 petrochemical complex, in addition to several utility businesses. Two other businesses we own are Enbridge and TC Energy (formerly known as 'TransCanada Pipeline'). These two businesses operate thousands of kilometres of oil, gas and refined product pipelines that move energy across the continent, to be consumed in local

[3] https://www.capp.ca/economy/canadian-economic-contribution/
[4] https://thehub.ca/2021-07-26/hub-explainer-albertas-600-billion-federal-contribution-leaves-fairness-in-the-eye-of-the-beholder/

geographies or exported to world markets. In fact, Enbridge and TC Energy own more than 218,000 kilometres of natural gas pipelines, enough to circle the Earth five times over. Due to increased environmental scrutiny of pipeline projects, these businesses are becoming de facto monopolies. Undue regulatory hurdles are a burden to the overall economy, though it can produce fantastic returns on capital on the businesses that stand to benefit, such as these two pipeline businesses. Inefficient capital markets and senseless policies can be our friend and we continue to look forward to great returns from owning these high-quality, essential infrastructure assets.

Vilified by many institutional investors, oil and gas has been shunned from the portfolios of the some of the largest pools of capital in the world. This nihilistic exercise does not negate the fact that carbon-based fuels continue to power the vast majority of the global economy each and every day. An underdevelopment of these resources does not make the world 'greener'; on the contrary, it has proven to make the global economy more vulnerable to supply shocks and increasingly dependent on the fuels. Rather than letting the free market naturally develop renewables at an appropriate pace that ensures grid reliability and energy affordability, policymakers beholden to the new climate change gospel are sowing the seeds of global economic regression, as much of our current standard of living can be tied to inexpensive energy prices where human ingenuity and technological advancement have lowered the cost curve in both nominal and real terms. At ROCKLINC, we have exposure to a variety of energy production means, including renewable energy. However, we continue to own wonderful, well-run and responsible fossil-fuel based businesses that will have excellent returns for years and decades to come, as the increased scrutiny of their business models only provide a support to long-term commodity prices. Suncor Energy remains a core position within our stable of businesses and we are currently looking to add another oil and gas producer to our list of investments in the next few months.

G. 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 immersed in debt. **We will do our best to take advantage of sharp moves in the market!** Given the negative markets this year, we are finding more buying opportunities but are being slow to deploy new capital. 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.

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. We continue to add to our weightings in a number of sectors including precious metals, financial and technology. We maintain a large weighting in the infrastructure sector which continues to perform strongly and produce a steady stream of dividends for our investors.

Within the current environment our basic strategy is unchanged. We are positioned strongly in order to deal with the extraordinary times. Here is a summary of our thoughts.

1. Patience – we need to wait for well-priced opportunities. Our patience and cash positions give us the flexibility to buy low.

2. Watch the world's leading Central Banks. The level of money printing has been historic and we do not believe it will be easy to turn off the spigot as 2022 unfolds. As rates continue to rise, the global economy will face a recession and by early 2023 cause Central Banks to ease off on further interest rate increases.

3. Pay attention to the irresponsible decisions of governments around the world. Governments are running massive deficits. Sadly, there does not seem to be any end in sight for this madness. When is the last time you heard a government talk about balancing its budget?

4. Diversify across asset classes, sectors and geographic regions.

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 **Suncor Energy Inc.,** is an excellent example. Despite the ESG agenda, the world will need fossil fuels for as long as the eye can see!

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 adequate 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!

9. Remain optimistic and opportunistic, seasoned with a dose of reality. Do not succumb to fear mongering nor believe that you cannot survive without the "help" of an intrusive State that has proven to be completely inept.

10. Place your faith and hope in God and not the State. Remember the words of the psalmist King David in Psalm 20:7; "Some trust in chariots and some in horses, but we trust in the name of the LORD our God."

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

ROCKLINC

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