ROCKLINC

Worth.Investing.

What Happened to Silicon Valley Bank?

A. Get Woke, Go Broke

How does the 16th largest bank in the U.S. quickly become the second largest bank failure in U.S. history? What causes the stock price of a bank to drop over 60% in six hours and drive depositors to pull $42 billion in deposits in a matter of days, leaving the bank with a negative cash value of $958 million?

Interestingly enough, the name of the bank gives us a hint of what went wrong, and acting as the lender of choice to "woke" technology startups was not the best strategy in the world. Silicon Valley Bank (SVB) claims to have banked nearly half of all U.S. venture-backed technology and healthcare startups in recent years. According to their website, the bank has worked with more than 1,550 companies in the "climate technology and sustainable sector."

Unfortunately, many of these companies had very weak business models. Without zero-cost money offered by the Federal Reserve Bank (Fed) and "welfare" cheques from various government programs, many of these businesses would have never been viable. According to the Wall Street Journal, SVB was known for its willingness to offer banking services to unprofitable startups. SVB was also known for its lack of attention to financial risk management and for its lack of depth in banking talent! None of this seemed to matter until the Fed started to raise interest rates in an effort to tackle the growing inflation problem. With rates increasing dramatically, unprofitable companies found it harder to raise capital to support their burn rates. They began to draw down some of their deposits and looked to move remaining deposits to short-term investments that would provide them with higher investment returns.

During the pandemic, from March 2020 to March 2021, SVB's deposits doubled, going from $62 billion to $124 billion. With the lockdowns, many of the technology companies that were clients of SVB were sitting on large swaths of cash. Private equity and venture capital firms, along with their portfolio companies, parked their newly raised funds in SVB deposits.

The problem is that deposits are "liabilities" and not assets for a bank. Deposits can run out the door even quicker than they came in. In the short-term, deposits are used to finance or buy "assets" that will help generate a return on the deposits while they sit in the bank. In the case of SVB, most of the assets the bank purchased were safe assets with no credit risk, such as US Treasuries, but they had to be held to maturity to realize the full value of the bond. While credit risk was controlled, duration risk, which is the risk that changes in interest rates will either increase or decrease the market value of the bonds, was not adequately addressed.

At the time the deposits were rushing into SVB, there was virtually no yield being paid on short-term bonds and other interest-bearing securities. This is because the Fed, along with other central banks, had been holding interest rates close to zero for over 15 years in order to prop up indebted nations and support massive budget deficits from the major countries around the world. In response to this, SVB bought longer-dated bonds, including 5 and 10-year Treasuries. Why? Because the only "reasonable" yield (if you call 1% to 2% reasonable) the bank could get were on longer duration bonds. So, that's what they bought. The problem was they had a serious mismatch in their assets and liabilities. They took very short-term deposit money and invested it in long-term securities believing that the deposits were going to stick around for a long period of time.

After the pandemic ended, the global economy was faced with a serious increase in inflation. To combat the escalating inflation, the Fed (along with other central banks) started in March of 2022 to aggressively raise interest rates. In less than twelve months, the Fed lifted the Fed funds rate from zero to a range of 4.75% to 5.00%, where it sits today.

As interest rates rose, the assets on SVB's balance sheet (its 1% and 2% yielding bonds) fell in price. While theoretically SVB parked those assets in an accounting bucket labelled "held-to-maturity" (meaning they planned on keeping them), as depositors withdrew money, partly because start-ups were burning through cash and VC firms weren't raising more money, the deposits SVB was holding became real liabilities. As more deposits left SVB, deposits which financed all those low-yielding assets on the bank's balance sheet had to be sold at a loss, while the treasuries they continued to hold had to be marked down in value and were being carried at a loss.

What was happening to SVB's balance sheet surfaced at fiscal year-end 2022 when the bank revealed an almost $15 billion mark-to-market loss on its held-to-maturity portfolio, meanwhile its equity wasn't much more than $16 billion. The Federal Reserve Bank of San Francisco, which is supposed to oversee SVB, didn't even see these problems developing. So much for the regulators! Even if SVB was subject to the Fed's stress tests for systemically important banks, (which given SVB's size it wasn't considered systemically important), the bank would have passed since the tests applied never contemplated such a large increase in interest rates. One has to ask what good are the stress tests when they don't even reflect market realities?

When Goldman Sachs entered into the situation to help SVB raise $2.25 billion in new equity to cover realized portfolio losses of approximately $2.50 billion (to pay for the deposits leaving the bank), the game was over! Equity investors panicked when they realized that they were going to be diluted by a new issue and started selling their shares while at the same time, depositors started furiously withdrawing money from the bank! The vicious cycle took over and SVB was consigned to the history books as the regulators stepped in and closed the bank, handing the keys over to the Federal Deposit Insurance Corporation (FDIC).

But is there more to this saga? How could such a large bank find itself in such a position? How could the management of the bank so flagrantly disregard basic risk management strategies? Let's consider three answers to these questions. **First,** easy money and poor regulations. The Fed's almost two decade-long zero interest rate policy had flushed too many dollars into the economy, helping to prop up businesses that should never have seen the light of day. With all this easy money washing through the economy, many of SVB's clients (technology start-ups) had large amounts of cash they deposited with SVB. The thought that interest rates would have to go back up again was rejected as nonsense.

Second, the corrupt policies coming out of Washington DC lured SVB into loaning money to more speculative businesses. The financial handouts spewing from Washington, designed to create a new climate industry out of nothing, with little to no economic reality, enticed SVB to cast aside risk-based underwriting and fall headlong into the "endless" government gravy train. Congress's $1.2 trillion 2021 "infrastructure" bill was a starting pistol for a clean-tech frenzy. The bill made available hundreds of billions for new "technologies" for electrical grid modification, solar, carbon capture, battery storage, electric-vehicle charging infrastructure, geothermal, "smart community" widgets, microgrids, CO_2 transport, hydro, wind, fuel cells, waste management and efficiency gains. In 2022, the misnamed "Inflation Reduction Act" threw even more dollars at so-called green innovators, while extending billions in household tax credits in an attempt to lure Americans to buy these government-fueled fantasies.

The **third** reason why SVB collapsed was due to its woke ideology. Easy money from the Fed, boondoggle projects supported by governments around the world, all wrapped in the religions of ESG and wokeism turned out to be a fatal combination, since all reject the laws of God and His created order.

Instead of auditing its own books and focusing on matching their assets and liabilities, SVB used the largesse made off customers' funds to conduct an "equity audit" to gauge its effectiveness in "advancing women and Black and Latinx individuals to positions of influence in the innovation economy." What did this have to do with banking and risk management? You guessed it, nothing. Sadly, woke institutions inevitably suffer from a distortion of purpose, which leads them into a fantasy world of their own making and out of created reality. This distortion of purpose helps explain SVB's inability to perform the most basic function of a bank: to secure the deposits of clients and manage duration and credit risk.

In September 2022, SVB boasted that they had joined a group called CEO Action for Diversity & Inclusion. In November, they bragged about subsidizing Diversity VC's report "The Equity Record", lamenting that less than 2 percent of industry assets under management go toward diversity, equity, and inclusion investments. In December, they padded themselves on the back for investing $17.5 million in "Black-, LatinX-, and Women-led Community Development Financial Institutions." SVB dedicated significant corporate assets to promoting leftist causes, while ignoring their most important responsibility of protecting their shareholders' capital.

Leftist ideology is blinding to those who embrace it. They literally could not see the utter foolishness of a Bank devoting such an enormous amount of its resources to promoting the latest woke agenda while placing the future of the entire business at risk, along with many of their depositors, who had entrusted precious resources with them.

In SVB's 2022 "Environmental, Social and Governance Report", management talked about everything but banking. In the report, they claimed that "4,653,500 tons of annual CO2 avoided across 18 deals completed by SVB's Project Finance team." They boasted that "45 percent of our board of directors are women, including our new Chair" and pointed to the "6 Employee Resource Groups established, fueling a culture of belonging." They also bragged about their "52% reduction in GHG (greenhouse gas) emissions from 2019 baseline in alignment with our Carbon Neutral Operations goal." If you needed proof, there were photographs of smiling people representing the classic intersectionality charts breaking people into social categorizations such as race, class, gender, religion, sexuality, weight etc.

While SVB was winning all sorts of awards for client service, garnering ESG awards, scoring high on Bloomberg's Gender-Equity Index and being honoured for its Corporate Responsibility, they weren't focusing on loan underwriting and protecting client deposits.

In its 2022 ESG report, SVB management said, "we are committed to following all laws and regulations pertaining to anti-money laundering." While that might be true, allocating client resources to the latest ESG fad, to Diversity, Inclusion and Equity and other race-based investments and not focusing on hiring the most competent and talented bankers is just another form of money-laundering. In the end, they all lead to a form of wealth redistribution and eventual capital destruction. Substituting ESG parameters rather than focusing on well-established risk management strategies and hiring professionals based on gender ideology and not merit and competence is a blatant rejection of reality and God's created order. When placed in the real world of risk and competition, it can only lead to the eventual collapse of an institution.

B. North American Equity Market Statistics

During the first quarter, the Canadian equity market as measured by the S&P/TSX increased by 4.34%. Year-over-year, the index decreased by 5.93%, including dividends. The recent performance of the index has been largely driven by commodity stocks and the inflation trade. After a sharp selloff in 2020, due to the COVID-19 lockdowns, Central Banks decided to recklessly print money in order to fund massive government deficits. To no one's surprise, except our government leaders, inflation took off and with it, many of the commodities. This has helped bolster the S&P/TSX which is heavily weighted with energy (oil and gas) and materials (precious and base metals) securities. The S&P 500, heavily influenced by technology companies, increased by 7.5% during the first quarter and was down by 7.7% over the last 12 months (period ending March 31, 2023).

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 securities or sectors. As the old investment adage goes, it's time in the market, not market timing. Perhaps more accurately we would say, it's time in the market, *in the right businesses*, not market timing! Our job is to find the right businesses!

Canadian Equities

Year-to-date (YTD), our basket of Canadian companies (after all expenses) increased by 8.13% and over the past 5 and 10 years, compounded annually at 11.57% and 8.96%, outperforming the index by approximately 3.79% (YTD), and by 3.6% and 1.91% annually over the past 5 and 10 years. Our weighting in the precious metals royalty companies, along with our large weighting in infrastructure businesses, added significant value over the last five years. 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, nine of the ten sectors generated positive returns during the first quarter. Their returns from best to worst: Information Technology (+26.5%), Materials (+7.5%), Consumer Staples (+7.5%), Industrials (+6.2%), Utilities (+5.6%), Consumer Discretionary (+4.0%), Telecommunications (+1.9%), Financials (+.6%), Health Care (+.4%), and Energy (-3.6%).

US Equities

Year-to-date our portfolio of U.S. based companies (after all expenses) increased by 5.95% and over the past 5 and 10 years, compounded annually at 10.73% and 13.46%. YTD, we have underperformed the index by approximately 1.55%. Over the past 5 years we have kept pace with the index and over the past 10 years outperformed the index by 1.22% annually. Major contributors to our long-term performance include businesses operating in the following four sectors; consumer staples, industrial, manufacturing and technology. Given the size of the U.S. market, most of the new holdings we have added to our portfolios over the past 2-3 years have come from the U.S. We would expect this trend to continue.

Pertinent market action during the first quarter of 2023 and during the last 12 months is captured in the following table.

	March 31, 2022	Dec. 31, 2022	March 31, 2023	3 Month Return	1 Year Return
CAD/USD	$.7996	$0.7378	$.7399	+.28%	-7.47%
Oil WTI (US $)	$100.28	$80.26	$75.57	-5.8%	-24.6%
Gold (US $)	$1,936.78	$1,830.10	$1,969.80	+7.6%	+1.7%
Silver (US $)	$24.80	$24.18	$24.04	-.58%	-3.06%
S&P/TSX (TR)	21,890	19,385	20,099	+4.34%	-5.93%
S&P 500 (TR)	4,602	3,840	4,109	+7.5%	-7.73%
Cdn 10 yr.	2.40%	3.30%	2.91%	-39 bps	+51 bps
US 10 yr.	2.33%	3.87%	3.47%	-40 bps	+114 bps

Source: Bloomberg

During the first quarter, the Canadian dollar increased by .28% against the USD and was down 7.47% over the last twelve months. Over the past two years, the USD has advanced against every major currency in the world. But this trend could be coming to an end. As more and more countries around the world seek to de-dollarize, that is, avoid the U.S. dollar when trading goods in the international markets, we believe the U.S. dollar will come under pressure and weaken relative to other major currencies and hard assets such as copper, nickel, oil, gas, gold and silver. Consider the five following global de-dollarization developments that have taken place in the last 12 months.

1. The BRICS[1] nations account for over 40 percent of the total global population and close to one-fourth of global GDP. The fact that they are working to develop a "new currency" to avoid the U.S. will have an impact on the value of the dollar.
2. Two of the BRICS nations, China and Brazil, have just "reached a deal to trade in their own currencies".
3. In a move that has enormous implications for the "petrodollar", Saudi Arabia just agreed to sell their oil in other global currencies, including the Chinese yuan.
4. The Chinese just completed their very first trade of liquefied natural gas that was settled in Chinese currency instead of U.S. dollars.
5. The government of India is offering their currency as an "alternative" to the U.S. dollar in international trade.

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, which we have held for the past 13 years, is that all fiat currencies will continue to lose value against tangible, or real, assets. This is because governments around the world, through their central banks, continue to print record amounts of money to support their feeble and indebted economies.

During the quarter, gold increased by 7.6% and was up 1.7% over the past twelve months. It finished the quarter at $1,969.80, having reached a peak of $2,070.44 on March 8 2022, very close to its all-time intraday high of $2,075 (August 7, 2020). As this report is being written in early April, the price of gold has shot above $2,000 per oz with the potential to go much higher. Silver was weaker during the quarter and decreased by .58% over the last three months and was down by 3.06% over the past

[1] BRICS – stands for Brazil, Russia, India, China and South Africa.

year. We believe the long-term trends for both of these precious metals are to the upside and we continue to build positions in this sector.

During the quarter, oil continued to fall and was down by 5.8%, and was down by a whopping 24.6% year-over-year. The significant jump in the price of oil, due to the Russian invasion of Ukraine and government policies that have restricted capital investments in the oil and gas sector have settled down for the moment as the global economy stares down an impending recession. Unfortunately, many of the political decisions being made in Western countries will have long-term impacts on the production of oil and gas. These decisions have throttled production and hindered new exploration in favour of the green agenda, which is attempting to phase out fossil fuels on an unreasonable timeframe. In early April, OPEC decided to cut oil production by over 1 million barrels a day and oil prices shot back up above $80.00.

We do not have any issues investing in well-managed oil and gas companies and continue to add to our positions in this critical sector. Our direct investments in the oil and gas sector remain 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. We maintain a large indirect exposure to the sector through a number of infrastructure firms.

During the first half of the first quarter, interest rates continued to rise as inflation settled in at stubbornly high levels. As the quarter progressed and the U.S. and Europe faced a growing banking crisis, interest rates backed off substantially by the time we reached the end of the quarter. The 10-year Canadian bond decreased 39 bps and the US 10-year treasury decreased by 40 bps in the first quarter. Year over year, the yields were up 51 bps and 114 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. At this point, interest rates are expected to remain at current levels and even decrease as the year progresses. **As we have pointed out to our investors for many years, global debt is far too high and has reached levels never seen before in world history, the global economy cannot sustain and absorb a sharp rise in interest rates without a significant slowdown in economic growth.**

C. ROCKLINC Investment Update

1. Private Client Assets – Separately Managed Accounts

In terms of our ROCKLINC separately managed accounts, they increased by 5.01% during the first quarter and decreased by 5.55% during the last 12 months (period ending March 31, 2023). More importantly, our average annual compound rate of return over the past 3, 5 and 10 years is clocking in at approximately 8.34%, 7.78% and 7.22%, respectively. Returns are after all fees, and are based on an asset mix of approximately 67% 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 (Canadian and U.S.) increased by 6.78% during the first quarter and decreased by approximately 7.80% during the past 12 months. Our equities have been compounding by approximately 12.44% per year over the past 3 years, by 11.03% over the past 5 years and by 10.36% over the past 10 years.

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 existing positions 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. **Altius Minerals,** which we discuss later in this report, is one of the companies we added to our buy list during the first quarter of 2023.

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 26.4% in cash and short-term money market instruments and 73.6% equities. After all expenses and fees, the Rocklinc Partners Fund has since inception been compounding at approximately 7.3% per year. When you look through to the equities in the portfolio, the Canadian stocks have been compounding at 12.8% and the U.S. equities have been compounding at 8.8% over the past five years.

Our top 10 holdings represent 40% of the total portfolio and 54% of the equity weighting in the portfolio. The top 5 holdings are Apple (5.3%), Franco-Nevada (4.6%), Suncor Energy (4.0%), Wheaton Precious Metals (4.0%), Brookfield Infrastructure Fund (4.0%), Amazon (3.8%), Brookfield Renewable (3.8%), MEG Energy (3.6%), Autodesk (3.5%) and Linde PLC (3.3%).

As at March 31, 2023

	1 mo.	3 mos.	6 mos.	1 yr.	3 yr.	5 yr.
RL Partners**	+2.99%	+5.33%	+5.16%	-7.94%	+8.12%	+7.29%

** Inception September 29, 2017 (NBN1212)

3. Rocklinc Kokomo Fund

In order to assist some of our clients and provide them with an investment product that is regulated and registered outside of Canada, we launched our Rocklinc Kokomo Fund in November. Our Kokomo Fund is registered in the Cayman Islands and all funds will be held in custody in Cayman. It is important to point out that the Cayman Islands are a British Overseas Territory and the world's number one offshore market for investment funds.

The Fund Custodian for the Rocklinc Kokomo Fund is DMS Bank, the Fund Administrator is SGGG Fund Services (Cayman) Inc., the Fund's legal counsel is Carey Olsen, and Fund's Auditor is Grant Thornton (Cayman). The minimum investment is $100,000 USD. The Net Asset Value (NAV) of the Fund will be priced monthly starting at $100.00 per unit. We are managing the portfolio in a similar manner to how we manage all our discretionary accounts. This will include 20-30 stocks, low turnover, a competitive management fee, no performance fees and monthly pricing and liquidity. Offering documents are available on our website or by calling us at Rocklinc.

We starting making investments in the portfolio in February and continue to add slowly to our core positions. At the end of the first quarter, the Fund had a total value of $1.326 million USD. The units closed at $101.989 at the end of March giving them a year-to-date return of 2.0%. There has been a consistent flow of assets into the Fund and client interest continues to grow.

As of April 13th, we have 14 equity positions in the portfolio representing approximately 50% of the total value of the assets. The remaining 50% is invested in a money market fund currently earning approximately 5% per year. Our objective is to slowly increase both the number of equities in the portfolio (up to 20-25 securities) and also take the equity weighting up to 80-90% based on buying opportunities and valuations. We will not chase stocks.

Our top 5 companies in the portfolio are: Suncor (5.0%), Wheaton Precious Metals (4.8%), Roper Technologies (4.7%), Glencore PLC (4.2%) and Osisko Royalties (4.1%).

A. Company Update – Altius Minerals

The Opportunity

The bandwagon effect is a cognitive bias that can lead one to follow or act upon a prevailing belief. This phenomenon can influence public policy by creating political alignment among political powers – even at the detriment of its own people. Over the past number of years, countries have made a number of commitments to reduce emissions in order to align with the 2015 Paris Climate Accords. This international treaty aims to limit global warming by under 2%. The European Parliament approved a law banning the sale of petrol and diesel cars by 2035 to combat climate change[2]. It has also proposed having 45% of its energy come from renewable sources by 2030[3]. In China, which is the largest consumer of electrical vehicles (EVs), the government's goal is to have EVs make up 40% of all vehicles sold by 2030. In the U.S., the federal government has set a goal to have emission-

[2]Euronews. (2023). EU to ban Petrol and Diesel Cars by 2035. https://www.euronews.com/green/2023/02/23/eu-to-ban-petrol-and-diesel-cars-by-2035-heres-why-some-countries-are-pushing-back

[3] European Commission. Renewable Energy Directive. https://energy.ec.europa.eu/topics/renewable-energy/renewable-energy-directive-targets-and-rules/renewable-energy-directive_en

free vehicles make up 50% of all vehicles sold by 2030[4,5,6]. On November 15, 2021, President Joe Biden signed the Bipartisan Infrastructure Law, which allocated $7.5B in funding for EV charging stations and infrastructure[7]. In Canada, the federal government has committed to achieving net-zero emissions by 2050[8].

In order to reach these lofty goals, a substantial number of critical metals are required to produce EVs and develop renewable energy infrastructure. For instance, lithium, cobalt and nickel are required to make EV batteries, while copper is needed in creating electrical connectivity. In fact, EVs may require up to 4X as much copper as gasoline vehicles. In the transition to renewable energy, such as wind and solar energy, copper is a critical metal used in creating wires, transistors, cables, inverters and transformers. In fact, renewable energy networks may require up to 12X as much copper than traditional energy networks.[9,10] A report from the S&P Global noted that copper demand will nearly double to 50M metric tons by 2035, while copper demand will reach to >53M metric tons by 2050. For perspective, the S&P Global cited that this amount of copper is "more than all the copper consumption in the world between 1900 and 2021." With such high demand, supply shortages are very likely. According to CRU Group, which is a British business intelligence company, the copper industry will likely need to spend up to $100B in order reduce the annual copper supply deficit of 4.7 million metric tons by 2030.[11] A new mine is not something that can be just be turned on or printed. It can take many years to build before an ounce of metal can be produced. Some automakers have made direct investments and took equity positions in mining companies to ensure they have adequate supply. We believe that high demand and limited supply of these key metals creates an attractive investment opportunity.

Overview

Over the past 25 years, Altius has built a world-class portfolio of royalty and streaming interests in copper, lithium, cobalt, nickel, potash, iron ore, zinc and uranium projects. Altius will acquire and manage production and development stage royalty and streaming interests, while also acquiring and selling early-stage exploration mineral properties to third parties for early-stage royalties and/or minority equity interests. Under a royalty model, a royalty company will pay an upfront payment in

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[4] U.S. Department of Transportation. Electric Vehicles and Rural Transportation. https://www.transportation.gov/rural/ev

[5] Bloomberg. (2022). Tesla Confirms Vale Nickel Deal, Lifts Veil on U.S. Race Data. https://www.bloomberg.com/news/articles/2022-05-06/tesla-confirms-deal-with-brazil-s-vale-details-u-s-race-data?sref=kJOpq5SI

[6] Mining Technology. (2022). Ford Signs Deal with Mining Majors to Drive EV Shift. https://www.mining-technology.com/news/ford-deals-mining-ev/

[7] Center for Automotive Research. (2022). Automakers invest billions in North American EV and Battery Manufacturing Facilities. https://www.cargroup.org/automakers-invest-billions-in-north-american-ev-and-battery-manufacturing-facilities/

[8] Government of Canada. Net-Zero Emissions by 2050. https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan/net-zero-emissions-2050.html

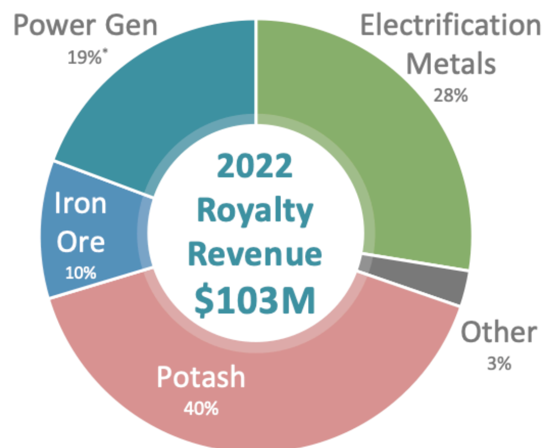
[9] Teck Resources. Visualizing Copper's Role in an Low-Carbon Economy. https://www.teck.com/media/Teck-Resources-Visualizing-Coppers-Role-in-a-Low-Carbon-Economy.pdf

[10] CNBC. (2022). A coming copper shortage could deraile the energy transition, report finds. https://www.cnbc.com/2022/07/14/copper-is-key-to-electric-vehicles-wind-and-solar-power-were-short-supply.html

[11] Bloomberg. (2021). The World Will Need 10 Million Tons More Copper to Meet Demand. https://www.bloomberg.com/news/articles/2021-03-19/the-world-will-need-10-million-tons-more-copper-to-meet-demand?sref=kJOpq5SI

exchange for the right to receive a percentage of production or revenue. Under a streaming model, a streaming company will enter into an agreement to purchase a percentage of production at a pre-determined price (discounted to market price) in exchange for an upfront payment. We prefer to invest in a royalty company rather than a miner for a number of reasons. Royalty and streaming companies benefit from commodity exposure without operating or capital cost exposure. This enables the company to generate high margins and free cash flow generation over time. Royalty and streaming deals also benefit from increasing commodity prices (inflation beneficiary) and mine life extensions and production expansions.

Since 2016, Altius has converted over 55 projects to royalties and equity stakes. It has a founding equity stake in publicly traded companies, such as Adventus Mining (CVE: ADZN) and recently listed Lithium Royalty Corp (TSE: LIRC). Altius has also created value by spinning off Altius Renewable Royalties (TSE: ARR), which is a renewable energy royalty company that creates royalties from renewable energy projects, such as wind, solar and battery storage projects. Altius Renewable Royalties has partnered with Apollo Global Management, which is a major alternative asset management company, to invest in new renewable energy royalty deals. Altius Renewable Royalties has established royalty counterparties, such as Enbridge and NextEra Energy and power offtake customers, such as American Electric Power and Zimmer Biomet. Altius Minerals still holds a 58% equity position in Altius Renewable Royalties.



Source: Altius Minerals

Investment Rationale

Altius Minerals has a high-quality portfolio of royalties across a diversified set of commodities (including high demand copper) in relatively safe jurisdictions. It currently has 11 royalties that generate revenue and a long pipeline of royalties on mines that are currently in development (6), advanced exploration (5) and exploration (>30) stages. Altius is well-positioned to benefit from the high demand for critical metals required for EVs and renewable energy infrastructure, while also having exposure to other important commodities, such as potash and high-grade iron ore. Its production royalties have long mining life that benefit from multiple commodity pricing cycles. For example, Altius' Potash royalties have a mining life that range from 29 years to over 170 years.

Altius Minerals owns royalties from reputable counter-parties, such as Lundin Mining, Hudbay Minerals, Capital Power Corp, Nutrien, Mosaic and Vale.

Disciplined capital allocation is a critical part of creating shareholder value. We applaud Altius Minerals' CEO, Brian Dalton, for his prudent management of shareholder capital. Rather than chasing new deals, he is very careful in ensuring that new investment opportunities generate a return equal or greater than existing royalties. He does not believe in issuing new shares, which dilutes existing shareholders, but rather repurchases shares when he believes the company's shares are under-valued. In fact, Altius Minerals has lower number of shares outstanding (47.6 million) relative to other companies that are smaller in size. This has all translated to attractive returns to investors. Over Altius' 25- year history, investors have enjoyed a compound annual growth rate of over 20%. If you had invested $10,000 at the start of the company, you would have over $950K today. With a value hovering around its net asset value, we believe Altius Minerals is attractively valued. As more development and exploration projects become producing royalties, we believe Altius Minerals is an excellent position to benefit from the high demand for critical commodities for many years to come!

E. 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 last year, we are finding more buying opportunities as we slowly deploy new capital. As investors, volatility and turbulence are our friends. We will do our best to 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 started to add several new companies to our mix. These include, Altius Minerals (initiated February 2023), Autodesk, Inc., Canadian Natural Resources, Glencore (initiated January 2023), Intercontinental Exchange, Linde PLC, MEG Energy, Osisko Gold Royalties (initiated February 2023) and Progressive Corporation.

During the same period, we eliminated/reduced several positions including Algonquin Power and Utilities and First Majestic Silver Corp. We continue to add to our weightings in a number of sectors with our largest additions in the areas of the market most impacted by the negative returns in 2022 and trading at the most attractive valuations.

Within the current environment our basic strategy is as follows:

1. Patience – we need to wait for well-priced opportunities. Our patience and cash positions give us the flexibility to buy low. Weak markets in 2022 have opened up a number of new opportunities for our clients.

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 2023 unfolds. Increased rates have started to slow down the global economy and we are preparing for a recession. As we enter the second quarter, it looks like Central Banks will not be increasing rates further and we might even see interest rate decreases in the later part of 2023.

3. Pay attention to the irresponsible decisions of governments around the world. Governments continue to run 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 seriously about balancing its budget?

4. Diversify across asset classes, sectors and geographic regions. While we are careful to run focused portfolios (20-30 securities), we are also careful to maintain an appropriate level of diversification.

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 **Altius Minerals Corporation** 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! We have been sounding the alarm on banks long before the latest bank failures. In fact, we have been very concerned with the solvency of most banks around the world. Why? If we are in a global debt bubble and the liabilities of consumers, corporations and governments are the assets of the banks, those are assets we do not want to own! We would prefer to avoid the banks as much as Pfizer's latest mRNA vaccine!

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 failed 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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ROCKLINC INVESTMENT PARTNERS INC.

Contact Information

ROCKLINC INVESTMENT PARTNERS INC.

4200 South Service Road, Suite 102

Burlington, Ontario

L7L 4X5

Tel: 905-631-LINC (5462)

www.rocklinc.com

Doretta Amaral	damaral@rocklinc.com	(ext. 1)
Jonathan Wellum	jwellum@rocklinc.com	(ext. 2)
Jesse van de Merwe	jvandemerwe@rocklinc.com	(ext. 3)
Braden Van Dyk	bvandyk@rocklinc.com	(ext. 4)
Andrew Cheng	acheng@rocklinc.com	(ext. 5)
Jonathan Wellum Jr.	jwellumjr@rocklinc.com	
Jacob Martignago	jmartignago@rocklinc.com	

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