ROCKLINC

Worth. Investing.

Fourth Quarter Update

A. Franco-Nevada and the Climate Activists

Franco-Nevada (Franco) has been one of our favourite precious metals royalty businesses for a long time. Back in 1998, Jonathan Wellum, who was the former CEO of AIC Mutual Funds and a portfolio manager, accumulated the largest institutional position in Franco. Jonathan had the privilege of spending many hours with the co-founder of Franco, Seymour Schulich, one of Canada's most successful investors. Jonathan, along with a handful of other investors, travelled with Mr. Schulich to the famous Goldstrike mine in Nevada in the Fall of 1997. Franco was ***the*** pioneer of the precious metal royalty industry, which later spawned the streaming business of which Franco-Nevada is apart of today. Needless to say, when Rocklinc commenced operations in January 2010, we started building positions in the company. During this period, Franco has provided our clients with excellent returns and has proved to be one of the very best ways to gain exposure to precious metals.

As Franco grew in size, they did not shy away from moving outside the traditional sphere of precious metals. In recent years, the Company has gained exposure to several base metals along with oil and gas. While we prefer that Franco and other royalty firms (Wheaton Precious Metals, Osisko Royalties, Royal Gold, and Sandstorm Gold) focus primarily on precious metals, we appreciate the power of diversification and the profitability of striking royalty and streaming deals for non-precious metals. Assuming that the Company is underwriting these deals with internal rate of returns that are similar or better vis-à-vis similar deals struck in the traditional precious metals space, they can be a wonderful place to invest their capital. In that vein, Franco's deal with First Quantum on Cobre Panama and its extensive copper-gold-silver mine in Panama was an opportunity to deploy capital at size ($1.2 billion+) in a high-quality asset with underlying exposure to gold/silver and copper – three metals that we are bullish on over a long-term time horizon. If governments want to get anywhere close to their aggressive climate goals (net zero by 2050), the amount of copper that will be needed to electrify and reinforce a weak and vulnerable power grid, manufacture batteries for the plethora of electric vehicles, and other general industrial uses will far outstrip supply over the coming decade, as new mine supply remains constrained. These factors made the Cobre Panama investment on the part of Franco an excellent opportunity to diversify their revenue stream and grow the value of their company for the next three to four decades.

Unfortunately, a small but very vocal group of climate activists started to target the Cobre Panama mine and demanded that it be shut down immediately. A weak Panamanian government coupled with a less-than-just legal system surprised the investment community when they sided with the activists and the mine was closed in the fourth quarter of 2023. At the time of closure, the value of the royalty to Franco was worth approximately 18% of their Net Asset Value. While all this was unfolding, Franco's stock price dropped from $200.00 to $150.00 or 25%. Their mining partner First Quantum's stock dropped 60% given the mine represented about 50% of the value of their firm at the time! This is one of the reasons we prefer to own royalty companies over a mining business given the greater diversity of revenue streams, which acts as a natural hedge against political risk. As a side note, it's interesting and very hypocritical of the climate activists to go after an extremely well-run copper mine. Given the massive deficiency in copper that is emerging due to the demand for copper to rebuild the electrical grid and for batteries in electic cars, how do these activists think we can reduce fossile fuel consumption without massive investments in copper mines?

We are very skeptical of the grounds for protest undertaken by the protesters within the Panamanian populace and not to mention a few Hollywood actors who know even less about reality and live in their own false bubbles. We see the opposition to the mine as ill-conceived and certainly not grounded in reality. The value of minerals in the ground, in addition to the billions of investment dollars sunk into the project (over $10 billion USD), make it too large to ignore and it is far too important to the Panamanian economy and ultimately, its people. Cobre-Panama represents approximately 5% of Panama's GDP, 1.5% of the world's supply of copper, 75% of the country's goods exports and directly and indirectly employs nearly 1 in 10 Panamanians. Additionally, GDP growth in Panama, post closure of the mine is projected to be slashed from 5% to a paltry 1-2% in 2024 and could go lower. There will be an extreme amount of pressure on the government by businesses, the general public and also capital markets to grant the license to the mine to operate, particularly as the country is projected to lose its investment grade credit rating this year if things don't turn around. According to Reuters, some experts estimate that Panama could be ordered to pay up to $50 billion USD if it loses the international arbitration case that First Quantum has brought against the country. Let's put that amount in context. $50 billion USD is approximately 70% of the country's total GDP. This is an astounding amount of money for the country of Panama.

The bottomline: it is hard to see how the government can afford to economically, politically and socially keep the mine shut. As 2024 progresses some of the protesters will realize the devastation wrought on the country by these Marxist policies of expropriation. The standard of living and the wellbeing of the citizens will be negatively impacted as capital flees the country and Panama's cost of borrowing increases. What makes this even more ludicrous is that according to First Quantum's 2022 ESG report, "[i]n recognition of the site's high biodiversity and biological sensitivity, Cobre Panama has implemented a Biodiversity Action Plan that meets ESIA commitments and follows both national regulations and international best practices, such as the International Finance Corporation's Performance Standard 6 (PS6), the Business and Biodiversity Offset Program's (BBOP) Standard on Biodiversity Offsets, and the International Council on Mining and Metals (ICMM) Good Practice for Mining and Biodiversity". This was an extremely well managed mine with very close attention paid to protecting the environment.

Regardless of one's own opinions as to the opposition of the mine (good people will have different opionions), we believe that a potential opportunity has emerged. While we are of the opinion that the mine will be operational at some point in the future, for valuation purposes we are assuming the mine will never reopen. Going into this dispute, Cobre Panama represented approximately 18% of Franco's NAV (Net Asset Value). We look at NAV rather than revenues since NAV more accurately reflects the mine's value to the company (discounting future cash flows). FNV has sold off around 25% since the news broke and is off more than 33% from its 2023 high set back in May. The stock is now discounting the loss of the mine and more! This represents an interesting opportunity for investors. We now have a call option that an investor can pick up 'for free' if Cobre Panama comes back online. Should the mine reopen, Franco's valuation would increase substantially and all of the recent drop in the stock price could be regained quickly. The current valuation looks attractive for some dollar-cost averaging. We will be nibbling away at the stock and adding to our client portfolios. Another important event will be taking place this spring when a new government will be elected. It is quite possible that the existing government will be voted out of office and a more rational and business friendly government will be elected. We are watching these developments closely. In the interim, Franco continues to deploy capital, grow its royalty revenue streams and pay a nice little dividend to patient investors.

B. North American Equity Market Statistics

During the fourth quarter, the Canadian equity market as measured by the S&P/TSX increased by 7.9%. Year-over-year, the index increased 10.8%, including dividends. The substantial increase in interest rates which reached a high at the end of October began to fall during the last two months of the year, supporting both bond and equity markets as the year ended. Central Banks continue to focus on inflation with the goal of bringing it down to "acceptable levels". The large rise in interest rates throughout most of 2023 weighed heavily on capital intensive businesses that typically utilize higher levels of debt on their balance sheets. This included banks, real estate businesses along with utilities/infrastructure companies. As we discussed in our third quarter report, some of the businesses we own in our portfolios, including infrastructure and precious metals businesses, struggled throughout much of 2023 with some significant rebounds in November and December. Market volatility does not deter us from owning great companies providing they continue to grow steadily, maintain fortress-like balance sheets and are trading at attractive prices.

As we mentioned in our third quarter report, several of our favourite businesses continue to trade at substantial discounts to what we believe is their intrinsic value. This is providing us with unique opportunities to slowly increase our weightings in these companies. Here are ten businesses that we believe are trading at greater than 25% discounts, with several trading at greater than 40% discounts to intrinsic value: Agnico Eagle Mines, Altius Minerals, Brookfield Infrastructure, Brookfield Renewable, Danaher Corporation, Franco-Nevada Corporation, MEG Energy, Sandstorm Gold Ltd, Trisura Group and Wheaton Precious Metals. Expect to see us judiciously add to some of these businesses along with others in the current quarter.

At Rocklinc, our focus is on building portfolios of great businesses that can successfully navigate the challenges facing the global economy. We do not 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 timing the market. Perhaps more accurately we would say, it's time in the market, *in the right businesses*, not timing the market! Our mandate is to find the right businesses and be patient. If we keep our eyes firmly fixed on the playing field, the scoreboard will take care of itself.

Canadian Equities

During the fourth quarter, our basket of Canadian companies (after all expenses) increased by 5.6% and over the past 5 and 10 years, compounded annually at 11.0% and 8.7%, respectively. While underperforming the index by 2.3% during the fourth quarter, we have outperformed the index by approximately 0.6% and 1.9% annually over the past 5 and 10 years, respectively. Our weighting in the precious metals royalty companies, along with our large weighting in infrastructure businesses, added significant value over the last five and ten years, but held us back in 2023 given the large rise in interest rates and the stronger US dollar. This trend started to reverse during the fourth quarter as interest rates started to back off recent highs. Regardless of the short-term noise, our focus is on the long-term economic fundamentals of the companies we own. We are pleased with our core positions and their favourable long-term fundamentals and continue to finetune our positions month-by-month.

In terms of the S&P/TSX index, eight of the eleven sectors generated positive returns during the calendar year. Their returns from best to worst: Information Technology (+68.8%), Health Care (+15.6%), Consumer Staples (+10.5%), Industrials (+10.5%), Financials (+9.1%), Consumer Discretionary (+8.5%), Real Estate (+2.9%), Energy (+1.0%), Materials (-3.3%), Utilities (-4.3%) and

Communication Services (-9.2%). It is important to note that by weighting in the actual S&P/TSX index the top four sectors make up approximately 74% of the index. The four top sectors are: Financials (32%), Energy (17.1%), Industrials (13.7%) and Materials (11%).

US Equities

During 2023, our portfolio of U.S.-based companies (after all expenses) increased by 17.0% and over the past 5 and 10 years, compounded annually at 11.6% and 13.0%, respectively. During 2023 we underperformed the S&P 500 index by approximately 9.7% but outperformed the Dow Jones Industrial Average (DJIA) by 3.3%. The challenge with the S&P 500 index is that it is dominated by a handful (7-10 companies) that had an inordinate impact on the index. We refuse to chase stocks and we will not buy stocks based on momentum. The basket of companies we own represent reasonable value and possess the characteristics to outperform other businsesses in the coming years.

Over the past 5 years, we have trailed the S&P 500 index by 4.1% and over the past 10 years, outperformed the index by 1.0% annually. When compared to the DJIA we outperformed the index by 1.5% and 4.4% over the past 5 and 10 years, respectively.

Most recently, the returns in the U.S. markets have been dominated by a handful of businesses. Most of them are trading at extremely high valuations, propelled by the excitement surrounding artificial intelligence (AI). There is no question that AI will have a massive influence on our society and many businesses, but that does not give us license to chase overvalued securities. It is our long-term discipline that will produce the consistent returns demanded by our investors.

Major contributors to our long-term performance include businesses operating in the following five sectors: consumer staples, healthcare, 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 been global businesses domiciled in the U.S. But we continue to scour the world for opportunities. Recently we added Schneider Electric (see investment overview of this company later in this report) to our portfolio, which is headquartered in Rueil-Malmaison, France.

Market Statistics

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

	Dec. 31, 2022	Sept.30, 2023	Dec. 31, 2023	3 Month Return	1 Year Return
CAD/USD	$.7378	$0.7365	$.7547	+2.47%	+2.29%
Oil WTI (US $)	$76.58	$90.79	$71.29	-21.48%	-6.91%
Gold (US $)	$ 1,797.55	$1,848.63	$2,062.98	+11.60%	+14.77%
Silver (US $)	$23.33	$22.18	$23.79	+7.26%	+1.97%
S&P/TSX (TR)	19,385	19,541	20,958	+7.25%	+8.11%
S&P 500 (TR)	3,840	4,288	4,770	+11.24%	+24.22%
Cdn 10 yr.	3.30%	4.02%	3.10%	-92 bps	-20 bps
US 10 yr.	3.87%	4.57%	3.88%	-69 bps	+1 bps

Source: Bloomberg

During the fourth quarter, the Canadian dollar increased by 2.47% against the USD and was up 2.29% over the last twelve months. The USD has been quite strong and has advanced against every major currency in the world over the past three years. As we have often pointed out when it comes to currencies, it's not that the US dollar is a great currency, it's only an indication of how weak the other currencies around the world are performing! 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, the U.S. dollar will come under pressure and may weaken relative to other major currencies. This does not mean that the U.S. dollar will lose its reserve currency status any time soon. Given the ugly alternatives, the U.S. dollar still looks relatively attractive. What is more important for investors is that the U.S. dollar, and other fiat currencies, like the Canadian dollar, will weaken relative to hard assets such as copper, nickel, oil, gas, gold and silver.

Over time, the best way to minimize currency risk is to buy strong and growing businesses that generate revenue in numerous currencies and are backed by hard tangible assets. 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 14 years, is that all fiat currencies will continue to lose value against tangible, or real, assets. This is because governments around the world are fiscally irresponsible (run large budget deficits and accumulate large debts), and through their central banks, continue to print record amounts (through the whole business cycle) of money to support their indebted economies.

During the quarter, gold jumped by 11.6% and was up 14.8% over the past twelve months. It finished the year at $2,062.98, having reached a new high of $2,135 on December 3, 2023. Silver was also stronger during the quarter and increased by 7.3% but was up by only 2.0% over the past 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. Our major positions continue to be royalty companies Franco-Nevada, Gold Royalty Corp., Osisko Royalties, Royal Gold, Sandstorm Gold, Wheaton Precious Metals and leading miner Agnico Eagle Mines. While these companies, with the exception of Franco-Nevada (discussed earlier in this report) increased during the fourth quarter, they have underperformed the broader market indexes for the past three years due to the rapid rise in interest rates and US dollar strength. This underperformance will not continue and these businesses all beautifully positioned to benefit from global turmoil, overindulgent governments and rising precious metals prices. Currently, they are trading at substantial discounts to intrinsic value with several trading at massive discounts. Expect us to nibble away and add to your positions.

During the quarter, oil plummeted by 21.5%. Year-over-year oil was down by 6.9%. Currently, oil prices have settled in around $70-$85 per barrel, which is very profitable for the industry and the companies we own in your portfolios. Any geopolitical shocks will only increase the price of each barrel of oil and drive up the value of our oil investments. Our direct investments in the oil and gas sector remain relatively small, but we continue to look at ways to profit from the "green agenda."

During the fourth quarter, interest rates sharply reversed course and dropped as the rate of inflation started to decrease. The 10-year Canadian bond dropped by 92 bps and the US 10-year treasury dropped by 69 bps during the quarter. Year over year, the yields were down 20 bps and up 1 bps on the 10-year Canadian bond and the 10-year US bond, respectively. During the first few weeks in January, yields have edged back up as inflation remains stubbornly high. At this point, it appears that interest rates are settling in at these levels. At some point, the financial system will buckle under the weight of these interest rates due to the massive amount of global debt. **While we have been surprised by the resiliency of the global economy, largely supported by the fiscal**

irresponsibility of national governments, the deficits cannot continue at the current levels and indebted consumers will have to slow down their spending. When this happens, we will see a meaningful slowdown in our economy and a retrenchment in the level of interest rates which should benefit your investment portfolios.

C. ROCKLINC Investment Update

1. Private Client Assets - Separately Managed Accounts

In terms of our ROCKLINC separately managed accounts, they increased by 4.8% during the fourth quarter and increased by 7.0% during the last 12 months (period ending December 31, 2023). More importantly, our average annual compound rate of return over the past 3, 5 and 10 years is clocking in at approximately 1.7%, 8.1% and 7.3%, respectively. Returns are after all fees, and are based on an asset mix of approximately 60% invested in equities, with the remainder invested in short-term deposit accounts and short-term bonds. 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.) were up by approximately 7.6% during the fourth quarter and increased by approximately 8.3% during the past 12 months. Our equities have been compounding by approximately 11.3% over the past 5 years and by 10.4% 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. With the large increase in interest rates this year slashing the value of utilities, infrastructure business, and precious metals royalty companies, we have been adding to our positions. Expect to see new additions, along with some deletions, from your portfolios over the next few months. **Altius Minerals, Schneider Electric, Trisura Group and Danaher Corporation** are four of the companies we added to our buy list in 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 modest amounts of investment capital. 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 30% in cash and short-term money market instruments (yielding 4.5-5%) and 70% equities. We expect our cash weighting to slowly trend lower during 2024 providing valuations of stocks become more attractive.

During the past year we added five new companies to the portfolio and sold three companies from the portfolio. We added Altius Minerals, Danaher Corporation, Glencore PLC, Linde PLC and Trisura Group. During the year we sold our positions in Becton Dickenson, First Majestic Silver and Northland Power Inc. Our top performing companies, that were up more than 20% during 2023, were almost all US-based companies: Amazon (+81%), Alphabet (+58%), Apple (+48%), Autodesk (+30%), Roper (+26%), Intercontinental Exchange (+25%), and Progressive Corp. (+23%). Two Canadian based companies were up by more than 20%; they were MEG Energy (+23.5%) and Wheaton Precious Metals (+53%). Our infrastructure businesses, along with several of our precious metals royalty companies, underperformed when it came to stock market returns. Fortunately, these same businesses continued to grow and manage their businesses for the long-term. We expect many of them will be our best performing companies in 2024.

After all expenses and fees, the Rocklinc Partners Fund has been compounding at approximately 6.5% per year since inception (six years) and 8.2% over the past five years.

When you look through to the equities in the portfolio, the Canadian stocks have been compounding at 12.4% and the U.S. equities have been compounding at 12.2% over the past five years. During the same five-year period, the S&P/TSX total return index compounded at 10.4% and the S&P 500 compounded at 15.7%.

Our top 12 holdings represent approximately 47% of the total portfolio and 68% of the equity weighting in the portfolio. The top 12 holdings are Trisura (8.3%), Apple (4.7%), Amazon (4.5%), Brookfield Infrastructure Partners (4.5%), Wheaton Precious Metals (3.7%), Roper Technologies (3.4%), Franco-Nevada (3.4%), Danaher Corporation (3.1%), Autodesk (3.0%), American Tower (2.8%), and MEG Energy (2.7%).

As at December 31, 2023

	1 mo.	3 mos.	YTD	1 yr.	3 yr.	5 yr.
RL Partners**	+.4%	+4.4%	+9.1%	9.1%	0.0%	+8.2%

** 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 2022. Our Kokomo Fund is registered in the Cayman Islands and all funds are held in custody in Grand 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 FundBank (formerly 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 is priced monthly and started 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 20-25 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 started making investments in the portfolio in February and continue to add slowly to our core positions. At the end of the 2023, the Fund had a total value of approximately $3.76 million USD. The units closed at $103.26 at the end of December. The units have increased by 3.26% in 2023. There has been a consistent flow of assets into the Fund which provides us with terrific opportunities to slowly add to our existing positions, while adding new positions to the portfolio. The rapidly rising interest rates throughout most of 2023 discounted the value of some of the companies in our portfolio to levels that we can add to and secure outsized returns over the next 3-5 years. Client interest is very strong and we are continuing to add 2-3 new clients into the portfolio each month.

As of December 31, we have 19 equity positions in the portfolio representing approximately 72% of the total value of the assets. The remaining 28% 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 are being very patient and slowly adding to our equity weightings while keeping cash on the sidelines.

Our top 10 companies in the portfolio by portfolio weighting are Trisura Group Ltd, Brookfield Infrastructure, Brookfield Renewable, Danaher Corp., Wheaton Precious Metals, Amazon Inc., CoStar Group, Osisko Royalties, Intercontinental Exchange, Apple Inc., These businesses represent approximately 48% of the total portfolio and 67% of the active equity weighting in the portfolio.

D. Company Update –

Without this one critical component, it is debatable whether the iPhone, the PC or the internet would have ever been developed.[1] It is one of the core drivers of economic development and supports the living standards of billions across the world. Without it, we would not be able to complete the many every-day functions that we take for granted in North America. What is it? Electricity. According to the American National Academy of Engineering, "electrification" was voted as the greatest engineering achievement in the 20th century. The electrical grid provides the underlying infrastructure that transmits electricity to millions of households and businesses. After decades of use, the electrical grid is facing challenges from aging infrastructure and normal wear and tear. In the U.S., over 70% of the electrical grid is over 25 years old. The majority of the U.S. electrical grid was developed in the 1960s and 1970s and the average transmission age of large

[1] Sources:
https://www.reuters.com/business/energy/eu-plans-boost-power-grid-investment-2023-11-24/
https://www.spglobal.com/_assets/documents/ratings/research/101574780.pdf
https://www.reuters.com/investigates/special-report/usa-renewables-electric-grid/
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https://www.brattle.com/insights-events/publications/electric-power-sector-investments-of-75-125-billion-needed-to-support-projected-20-million-evs-by-2030-according-to-brattle-economists/

power transformers, which handle 90% of the U.S. electricity transmission, are over 40 years old. It is at this point that transformers begin to malfunction.

Over the next three decades, it is estimated that 140,000 miles of transmission lines will need to be replaced. American Electric Power, which owns 40,000 miles of transmission lines, estimates that it will need to replace 30% of its transmission lines in the next decade. Over the next few decades, a significant amount of investment will need to be made in order to modernize and harden the aging electrical infrastructure – over $700 billion according to McKinsey and Co. If the current investment remains at current levels, the American Society of Civil Engineers estimates that there will be funding gap of $200 billion by 2029. It is no longer an option to delay or kick the can on future electrical grid investments. The Department of Energy estimates that power outages cost the U.S. economy approximately $150 billion per year. Extreme weather events, such as Hurricane Ida and the 2021 Texas freeze, has also increased the vulnerability of the current infrastructure.

Under the U.S. Bipartisan Infrastructure Law, $13 billion has been allocated towards modernizing the electrical grid in the U.S. This budget allocation was part-and-parcel with the U.S.' goal of achieving 100% clean electricity by 2035, however the current electrical grid is a major limiting factor in achieving that target. The electrical grid was originally designed to transmit electricity produced from coal and fossil fuel plants rather than renewable energy. Many of the wind and solar farms are located far away from the existing grid, which would require new high-voltage transmission lines to be installed. Regions with high renewable energy production are unable to transmit to other areas in the U.S. due to limited transmission connection. In order to reach their clean energy electricity target by 2035, the U.S. transmission capacity would need to more than double. North America is not alone. European and Asian countries also face similar electrical grid challenges. For instance, Europe needs to spend an estimated EU 548 billion in order to upgrade its power grid, while China is estimated to invest over USD 8 trillion in power system upgrades from 2021 to 2060. In light of these current conditions and economic policies, we believe there is an attractive investment opportunity to benefit from the flow of capital to the electrical grid and related infrastructure.

With a rich history of over 185 years, Schneider Electric (Schneider) has become a leading provider of electrical grid management and infrastructure solutions that address complex electrical challenges. Power and utility companies count on Schneider to provide critical electrical equipment and components to modernize the electrical grid, extend distribution capacity and efficiently manage operations, while renewable power producers count on Schneider to add renewable energy capacities. Schneider does not only provide a full spectrum of specialized engineering solutions, but also offers a broad range of complementary smart grid software solutions that helps improve grid efficiency and prevent power disruptions. Complementing its electrical grid business, Schneider offers microgrid technology, which are independent electrical networks that generate electricity through renewable sources that do not need to be connected to the electrical grid. As the largest U.S. provider of microgrids, Schneider gives businesses and government facilities the option to reduce their reliance on the grid and generate their own electricity during peak pricing or power outages.

As the economy becomes more digital and data-centric, companies have to navigate their growing electrical power challenges. Schneider serves the electrification requirements of leading companies across a wide range of industries, such as life sciences, consumer packaged goods, food & beverage, industrial automation, semiconductors, metals & mining, retail, energy & chemical, technology and transportation. Schneider will design, develop and operate the energy solutions that power its

customer's every day operations. In tandem, it will incorporate building management solutions that increase energy efficiency, reduce operating costs and optimize energy consumption. Data centers are considered to be the backbone of digitization infrastructure. Each day, consumers and businesses are creating exponentially vast amounts of data. Companies are leveraging data analytics and business intelligence tools to mine, model and monetize their repository of data. More data centers will need to be developed or upgraded in order to manage their ever-expanding data. In addition, businesses are increasingly leveraging Artificial Intelligence (AI) to improve productivity, efficiency and customer service. This rise in demand for AI will further exacerbate the need for more data centers as existing data centers cannot accommodate current AI large language model workloads. Schneider provides the expertise and physical infrastructure solutions to design, build and manage data centers across its entire lifecycle. It offers a wide breadth of data center and network solutions from construction, power security, cooling and software. It creates new or retrofitted data centers that are customized and configured to its customers' IT infrastructure.

Schneider is not only positioned to benefit from major global macro trends, but it has also created a valuable ecosystem of interconnected systems and solutions that further grows and strengthens its business franchise. Since 2010, the company has dedicated significant investments in software, machine learning and data analytics across its portfolio of solutions. Schneider has centered its business around its cloud-based platform, EcoStruxure, which has been deployed across 500,000 sites. EcoStruxure operates an open ecosystem that receives support from a large network of over 45,000 integrators/developers, over 650,000 service providers/partners and over 20,000 production and direct procurement suppliers. It connects over 7.4M assets that allows company operators to monitor and control specific processes. This creates a flywheel effect in which the greater the number of connected devices results in a greater demand for software and digital services, which helps drive the company's financial performance. Over the past two and half years, Schneider has generated double digit organic revenue and over 15% operating margins. From a valuation perspective, Schneider is valued at a reasonable 3.5%-4% free cash flow yield. As part of our active management approach, we replaced our Honeywell position with Schneider during the 4th quarter of 2023 and expect to add to our Schneider position throughout 2024. In light of Schneider's strong leadership position across a number of major growth trends, we believe that Schneider offers more attractive growth opportunities than Honeywell for many years to come!

D. Moving Forward

We continue to keep our eyes focused on the fundamentals of the businesses we invest in, within the context of a struggling global economy absorbed in debt. **We will do our best to take advantage of sharp moves in the market!** Given the volatility of interest rates this year we are finding more buying opportunities in a number of sectors that have been hit hard by the rising cost of capital. As investors, volatility and turbulence while challenging in the short-term provide amazing opportunities for the disciplined and focused investor. We will do our best to use the current market challenges for your advantage.

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. Schneider Electric is an example of the kind of business we want to own for the next few years. Over the past year, we have started to add several new companies to our mix. These include Autodesk, Inc., Canadian Natural Resources, Glencore (initiated January 2023), Altius Minerals, Intercontinental Exchange, Linde PLC, MEG Energy, Osisko Gold Royalties (initiated February 2023), Progressive

Corporation (initiated March 2023), Trisura Group (initiated June 2023), Danaher Corp (initiated August 2023) and Schneider Electric (initiated in November 2023).

During the same period, we eliminated/reduced several positions including Algonquin Power, Becton Dickenson and Company, First Majestic Silver Corp., Honeywell International, Northland Power Inc., and TransAlta Renewable (bought out by parent company). We continue to add to businesses trading at the largest discounts to fair market value.

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.

2. Watch the world's leading Central Banks. Interest rates have peaked and Central Banks are now holding rates constant for the next few months. Any interest rate volatility will be used to buy our favourite companies at the best prices.

3. Pay attention to the irresponsible decisions of governments around the world. Governments continue to run massive deficits that are not sustainable. This means our purchasing power will remain under pressure.

4. Diversify across asset classes, sectors and geographic regions. While we 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 **Schneider Electric** 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 for the past decade and the situation only continues to get worse. We are very concerned with the solvency of many banks.

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! With the recent rise in rates, the cash (investment savings accounts) we hold in clients' accounts is earning approximately 5% per year.

9. Remain optimistic and opportunistic, seasoned with a dose of reality. The worse off the market is, the better the opportunities to profit. As Nathan Rothschild, the British financier once stated, "the time to buy is when there's blood in the street."

10. Place your faith and hope in God and not man or the State. We live in a world of lies, hype and spin and we must not look to this world for truth, meaning, purpose and value. As our

> Western civilization crumbles, because it has turned its back on God and all His blessings, we must do the opposite. We must humbly turn back to God our Creator, Sustainer and Redeemer and His precious Word. In Psalm 91:1-2 we read; "He who dwells in the shelter of the Most High will abide in the shadow of the Almighty. I will say to the LORD, "My refuge and my fortress, my God, in whom I trust.""

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

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