INVESTOR QUARTERLY

Financial Assets Rally on Vaccine Hopes

Despite Rising Covid-19 Hospitalizations and New Lockdowns, Asset Prices Rallied

Despite a rapidly growing second wave of Covid-19 cases and hospitalizations fueling more aggressive regional lockdowns, financial assets continued their multi-quarter rally. Expectations of continued easy money from central banks, another round of fiscal support from governments and generally strong corporate profits aided asset price appreciation.

Rockingstone Performance

We posted a very strong fourth quarter (+14.1%) as equities performed well and client portfolios continued to benefit from overweights in risk assets. We did, however, continue our rotation of selling select technology stocks and adding to small- and mid- cap stocks, cyclicals, value, international and emerging markets. Our historical annualized returns include: 1-yr +28.2%; 3-yr +13.5%; 5-yr +13.0%; and 10-yr +10.5%.

4Q20 in Review

Risk assets continued their rebound, fueled by a combination of loose money and additional fiscal support, with perhaps more on its way. The move was broad-based, with some of the market's laggards (small cap, value, international) outperforming prior leaders (US large-cap growth). Rates moved higher but remained historically low by any measure.

Still Planning for a Choppy Recovery

Given ongoing fears of infection from re-opening, we still expect the virus to impede a rapid return to normalcy. Yet we note the combination of a Fed back-stop, decent key sector economic performance and progress on an effective vaccine or therapeutic treatment is keeping us overweight risk assets for now (even with our recently reduced tech exposure).

S&P500 Forecast & Other Key Indicators

Our updated forecasts include: EPS (2020/2021: \$121/\$160), S&P500 (2021 year end = 3840), GDP (2020/2021: -2.0/+4.7%), Gold (\$2,100), Oil (\$50), 10-yr US Bond Yield (1.3%), Inflation (1.3%), 5-yr expected CAGR (US Large Cap +0%, US Mid Cap +4%, US Small Cap +14%, Developed +7%, Emerging +5%).

ABOUT US

Rockingstone Advisors LLC is a boutique asset management and corporate advisory firm co-managed by Brandt Sakakeeny and Eric Katzman, CFA.

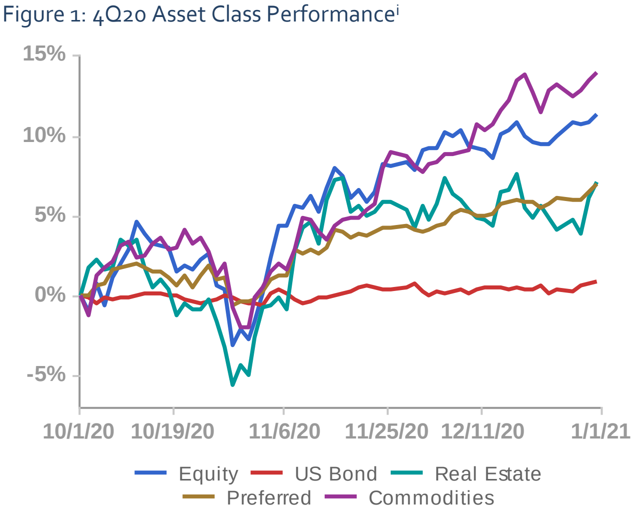
As an SEC-registered investment advisor, we provide multi-asset investment strategies to individuals, families and small institutions through separate accounts.

Our investment strategies attempt to capitalize on pricing inefficiencies across broad asset classes and then across individual securities, with a strong emphasis on fundamental research and analysis.

Thank you for your interest. You can find more information (and some interesting articles) at:

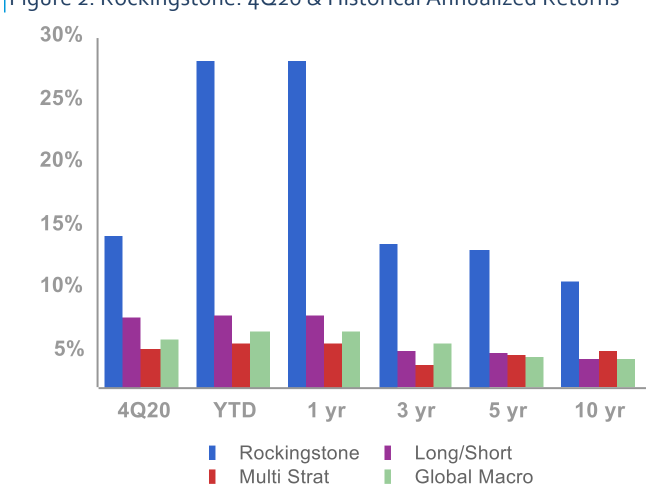
www.rockingstoneadvisors.com

Figure 1: 4Q20 Asset Class Performance[i]



Source: FactSet

Figure 2: Rockingstone: 4Q20 & Historical Annualized Returns[ii]



Source: Rockingstone Advisors, Morningstar, DJ Credit Suisse Indices

Please see our End Notes and Disclosures (pages 31-32 of this Investor Quarterly) for important information regarding performance measures. Form ADV available upon request.

Table of Contents

ROCKINGSTONE ADVISORS LLC

Asset Prices: Questions & Answers

Our answers to select important financial topics today

In this issue of our quarterly newsletter, we decided to address a number of financial topics that seem most relevant to the global investment outlook. We don't claim this is a complete list but the points addressed seem to be upper most on clients' minds.

What are the implications of fiscal stimulus and related debt issuance?

Even before the pandemic, US government debt totaled over $22 trillion and was close to 110% of GDP. In addition, the US government's annual budget deficit was running at over $1 trillion. As if those figures weren't sufficiently disconcerting, the global pandemic has required massive fiscal stimulus, with the incoming Biden administration proposing even more spending. We would also note that most other countries around the globe have pursued similar stimulus measures via debt issuance.

Meanwhile the thesis behind Modern Monetary Theory (MMT) has been put to the test. Economists that support MMT point to the limited impact of massive debt issued by countries with reserve currencies such as the US and Japan. We remain wary of this thesis and worry about rising interest rates, almost regardless of the reason behind future upward moves in yields. With interest rates dropping for the past two decades, the cost of increased debt has not really impacted annual budget decisions.

We recognize that higher debt levels can be solved successfully through economic growth that exceeds new debt issuance, thereby reducing leverage as a percentage of GDP. Higher debt levels become a problem when economic growth continues to be sluggish or inflation begins to rise, forcing interest rates higher, which raises the cost of servicing the debt, thereby reducing funds available for discretionary spending at the same time higher rates slow the economy. In response, the Fed can continue to purchase bonds under this scenario— as it has done in the past and is doing currently to keep rates lower than they would normally be— but whether there is a limit to quantitative easing is unclear. We are not sure it is prudent to test where that limit may lie.

What do the Fed's actions (low interest rates, expanded balance sheet) imply?

During the Global Financial Crisis (GFC) in 2008, the Fed rapidly expanded its balance sheet from what had been less than $1 trillion to over $4 trillion while lowering interest rates significantly. Before the pandemic hit and during the latter half of the last decade, the Fed had started to reduce its balance sheet holdings and raise interest rates. Yet with the onset of the pandemic, the Fed once again returned to dramatically expanding its balance sheet through bond purchases and reducing interest rates to essentially zero. We note that ECB policy almost mimicked the Fed with similar outcomes.

Equity markets today are discounting a reasonably quick end to the pandemic in our opinion. Assuming vaccines are effective and the global economy rebounds, it is reasonable to expect the Fed and other central banks to try to reduce their balance sheets while simultaneously raising interest rates sometime in 2022. However, the Fed has made clear they will be very patient in waiting for the recovery to gain steam before rate increases. As we noted previously, experts continue to disagree over whether the above policy decisions combined with a rapid economic recovery will lead to inflation. We remain concerned about how effective central banks will be in navigating the post-Covid landscape.

What should be made of global trade today including China's role?

Until the election of President Trump, the US had been a leader in promoting and fostering free trade for several decades. Indeed, many countries around the globe embraced free trade or at least easier trade, following the lead of the US. Yet one legacy of the Trump administration will be the questioning of free trade vs. domestic manufacturing. More specifically the Trump administration withdrew from the Trans Pacific Partnership (TPP) and raised tariffs for both European and Asian exporters.

While we assume President Biden will return to promoting free trade, it is unclear how quickly countries will embrace such an approach. In addition, it is not certain how the US and China, the #1 and #2 largest economies, will interact. Both countries have historically benefitted from bilateral trade but the path forward is less clear, including questions about military capabilities and intentions, individual rights and freedoms, intellectual property and questions about cyber espionage.

How should investors think about Europe's political and financial challenges?

Europe suffers from a fetid combination of poor demographics, under-investment, a patchwork of heavy regulation given multiple layers of government (local, state, federal and EU), a large and unsustainable welfare state, weak banks and financial institutions, and a paucity of innovative growth companies. Moreover, its member states vary from economic powerhouses like Germany to over-leveraged, anemic growers like Portugal, Italy, Greece and Spain, increasing the complexity of policy decisions given the stark disparity in economic outlook across the EU.

That said, Britain's departure (aka Brexit) was a warning shot on the risks of the Belgium-based EU's over-reach and anxiety related to the loss of local control; the ECB has stepped up its intervention, injecting liquidity, Brexit negotiations are complete and economies appear to be rebounding from Covid-19 lockdowns. Europe's export-oriented economy is even more exposed to global growth— especially with China— than is the US. As economies recover from the demand shock of shutdowns and travel and tourism resumes, Europe should benefit disproportionately. Valuations across public companies are reasonably attractive, and the Euro and GBP perhaps undervalued against the $US. We believe European equities should outperform US large cap equities over the next five years (see Figure 11 for more detail on our 5-Year Asset Value Forecast).

What impact will a US government controlled by Democrats have on investment decisions?

While Democrats control both houses of Congress and the White House, their control of Congress is particularly narrow, having lost at least 11 seats in the House (NY22 is expected to go Republican) and the Senate split 50/50 with VP Harris now the deciding vote. It is unlikely that Democrats will be able to pass legislation that does not have at least some bipartisan support. Where Democrats will have greater influence is with regulations, which in some ways exceeds the power vested in Congress to make laws. Regulatory interpretations from the executive branch on issues such as workplace rules, competition, net neutrality, environmental management, and the permitting and licensing of new projects will most likely witness a dramatic change relative to the prior administration.

While still very early, there are some promising signs out of the Biden Administration, and some areas of concern. In terms of actions that we believe are beneficial to investors, we would cite three key areas: (i) a more aggressive and coordinated nationwide response to the pandemic (than the prior administration's focus on leaving policy implementation to the states), (ii) senior level appointments that reflect deep experience in economic policy (Janet Yellen, Gina Raimondo and Marty Walsh to name a few) and a generally centrist policy outlook; and (iii) an improved civil tone of discourse and a sense that key policy decisions are taken after careful consideration and a weighing of the alternatives, rather than the more free-wheeling nature and ad-hoc process of the Trump administration, which tended to create more volatility than perhaps was necessary.

Of course, there are some areas of concern for investors. President Biden's proposed tax plan would increase corporate tax rates (making them the highest in the OECD) and tax capital gains and qualified dividends at ordinary income tax rates, bringing personal income tax rates, plus the prospect of higher state taxes to levels unseen since the 1970s. Other proposed actions detrimental to investors could include raising the minimum wage to $15 an hour. While we note many large companies have already moved toward that level, raising the cost of employing the least skilled in the workforce, rather than focusing on skills improvement, may lead to income inequality.

To the extent the more progressive wing of the Democratic party influences policy outcomes and ignores the reality of economic axioms (such as the Administration's recent announcement to provide aid to small businesses based on the race and gender of their owners), asset prices could be pressured. Investors need only look back over the last few years when the populist wing of the Republican party forced the abandonment of TPP as well as the party's willingness to increase fiscal deficits during periods of economic expansion.

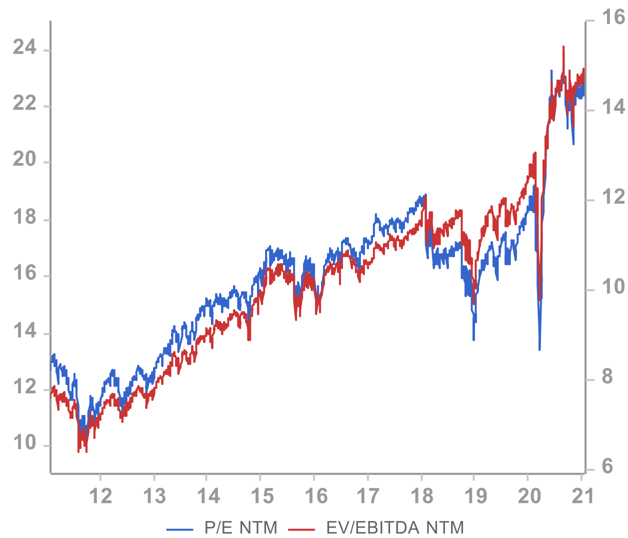
Net net, we are inclined to believe, at least for now, that the combination of a change in administrations plus a tighter Congressional balance should be a net positive for investors given increased stability and predictability of policy decisions, the pursuit of relatively centrist economic thought and the limiting of the influence of the progressive wing of the Democratic party. Notably, Americans have given neither party a strong mandate to govern.

How should investors think about corporate profits and the impact on valuation?

Corporate profit margins (in the S&P 500) have risen substantially since the GFC, aiding the rally in equity prices. From a low in 2008 of 4.6%, operating margins grew steadily through 2016, breaking above 10% in 2017 and peaking at 11.3% in 2018 (on a quarterly basis, operating margins peaked at 12.13% in 3Q18). Operating margins have continued to decline year over year each quarter, although the pace of declines is beginning to ebb.

As revenue growth accelerates, we expect operating margins to improve, driving corporate profitability higher. Net margins are driven by the cost of capital (interest line) and tax rates. Thus, while we expect operating margins to rise over 2021 and 2022, there is a risk that net margins remain subdued if we see higher interest rates and higher taxes, both of which would negatively impact net margins. We believe investors are likely to focus more on revenue and operating profit trends but recognize this could be a risk to portfolios if our view is misplaced.

Figure 3: S&P 500 P/E (LHS) & EV/EBITDA (RHS)



Source: Factset

Are stocks overvalued?

In general (and somewhat over simplified), financial assets are valued by the sum of their future cash flows discounted back to the present. Hence, two factors drive value: (i) the growth of future cash flows and (ii) the discount rate (or interest rate) that brings those future cash flows to present value. The rise in valuations across almost all financial assets is primarily a function of lower discount rates given the unprecedented decline in interest rates that has occurred.

In our view, therefore, financial asset values are inflated by historically low interest rates. Whether those interest rates truly reflect "market" rates or are influenced by the Fed's bond purchases, it is very difficult to say. What is clear is that historically low rates have led to historically high stock prices. If rates rise slowly and steadily, stocks could grow into their valuation overtime as the P/E multiple compresses. If, however, rates spike, in all likelihood shares would decline precipitously.

The problem is that rising interest rates present a clear and present danger to all financial assets, not just the equity market. Investors need not look back too far to see the evidence. When the Fed started to tighten and raise rates late last decade, almost all asset prices declined for a period (known as the "Taper Tantrum"). Recently several members of the Federal Reserve noted the concern about a change in policy and its impact on valuations. Despite such concerns we emphasize that shifting from equities to bonds to cash to limit potential damage exposes investors to another set of risks. Given high valuation multiples (i.e P/E, EV/EBITDA, FCF Yields, etc.), our approach has been to balance portfolios by adding more "value" oriented investments in preparation for higher rates.

Rockingstone's 2020 Performance

Year-end marks an appropriate time for a deeper dive into our strategies

We thought we would take advantage of the turn in the calendar (admittedly an arbitrary metric) to spend more time reviewing our individual portfolio strategies and their relative performance, especially in light of the aggregate performance numbers in our headline reports. As a reminder, we do not manage a fund where all of our investors are participating in a single portfolio. Rather, we manage "separate accounts," meaning each account is customized to the individual needs of the client. That said, we do manage around six distinct broader strategies:

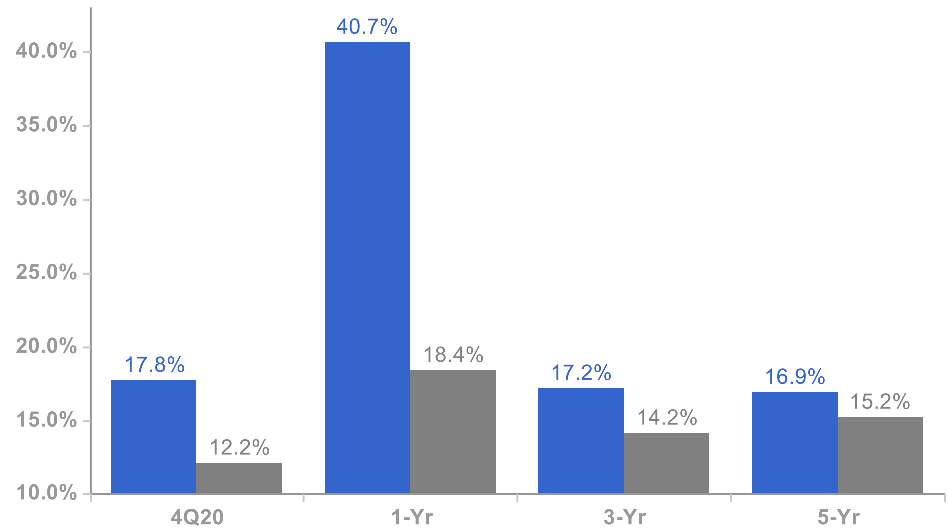
- **Best Ideas** (an all equity portfolio typically benchmarked against the S&P 500);
- **Global Equities** (a global equity portfolio typically benchmarked against the MSCI All-World index);
- **Absolute Return** (a portfolio where we will be more actively short -- albeit with a long bias -- in attempting to achieve 6-8% annual returns with less volatility than in our more aggressive strategies);
- **Balanced** (a broad-based portfolio comprised of equities, preferreds, real estate and debt, typically benchmarked against a retirement date fund or balanced mutual fund);
- **Yield** (a portfolio where we attempt to generate 4-6% annual income without material interest rate risk);
- **ESG** (portfolios constructed to meet environment, social and governance criteria benchmarked against a "balanced" Pax mutual fund).

Best Ideas

As noted above, our "Best Ideas" portfolios use the S&P500 as a benchmark. Until the last year or so, our portfolios were almost entirely comprised of US-based equities. However, our belief that a weaker $US would help non-US equities led us to go outside the benchmark such that 2020 ended with about 5% exposure to Europe, 7% exposure to Asia and the remainder to the Americas.

We also believed that small and mid-cap stocks were relatively more attractively valued than their large-cap counterparts, so we have added some exposure to those indices through individual stock selection and the addition of ETFs.

Figure 3: RSA Best Ideas vs. S&P500 Portfolio Performance



Source: Rockingstone Advisors, Morningstar Office.

In looking at our recent and long-term performance, we are pleased with Rockingstone's results. Importantly, using our Morningstar portfolio software, we emphasize the 3 and 5-year beta for our "Best Ideas" portfolio has been 0.90. In other words, we have materially outperformed the S&P500 yet with only 90% of the risk. This implies significant alpha generation of 4.72 over the last 3 years and 3.68 over the last 5 years. Alpha is used to measure the excess return generated by a portfolio manager above whatever return is generated by the market / benchmark.

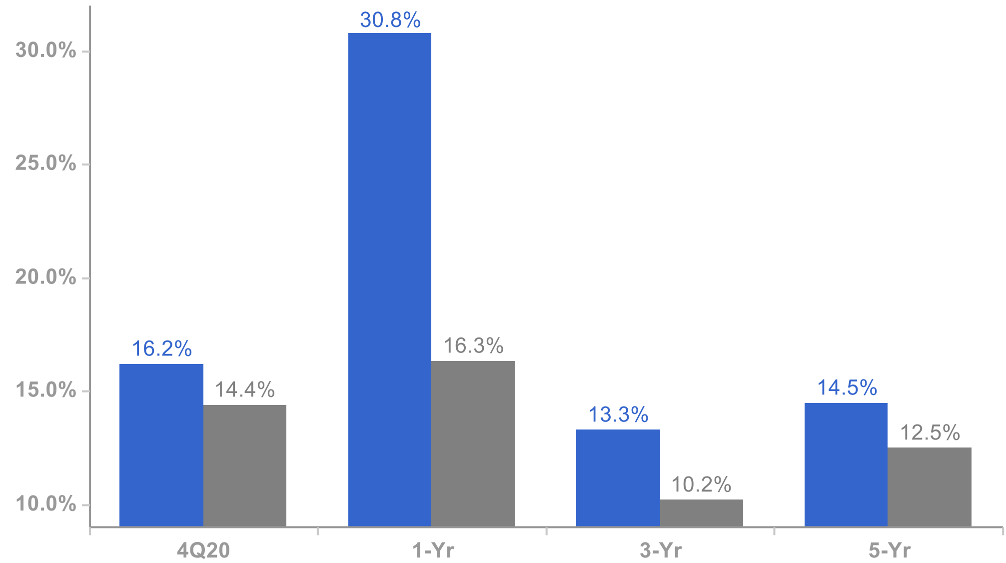
Although our approach is generally to hold a roughly equal weight of ETFs and individual stocks, our "Best Ideas" portfolios often have a greater exposure to the latter. At the end of 2020, our top 5 individual stock investments included: (1) Appian, (2) Amazon, (3) The Trade Desk, (4) Constellium, (5) TransDigm Group. Meanwhile our top 5 ETFs included: (1) XLV – Health Care, (2) VFVA – US Value Factor, (3) SPY – S&P500, (4) IWM – Russell 2000, (5) IGV – Tech Software.

Global Equities

Our "Global Equities" portfolios use the MSCI All-Country World Index (ACWI) as a benchmark. The MSCI includes a fairly aggressive non-US stock weighting of approximately 43%. Specifically, the geographic exposure includes 18% Europe, 21% Asia and 61% Americas. Historically we have under-weight non-US equities and that proved to be the right positioning.

However, as noted earlier in this report, during the 2H20 our view was that a weaker $US would lead to out-performance by non-US equities. We also believed that the resolution of the Brexit negotiations would at least remove an overhang to the shares of both Europe and the UK. Lastly, foreign developed equities have underperformed US equities for years due in part to slower earnings growth and in part to P/E multiple compression so that the valuation gap between the two is simply too large to ignore. As a result, we have been selectively rebalancing portfolios to increase the non-US exposure while also recognizing the need to be tax efficient while making such changes, given the large unrealized gains we have in the US positions.

Figure 4: RSA "Global Equity" vs. Benchmark MSCI-ACWI Portfolio Performance



Source: Rockingstone Advisors, Morningstar Office.

Again, using our Morningstar portfolio software, we note the 3- and 5-year beta for our "Global Equities" portfolio has been 0.87 and 0.89, respectively. This suggests our portfolios have about 85-90% of the risk of holding the MSCI-ACWI alone. As a result, our alpha generation over the last 3 years and 5 years has been 4.66 and 3.92, respectively.

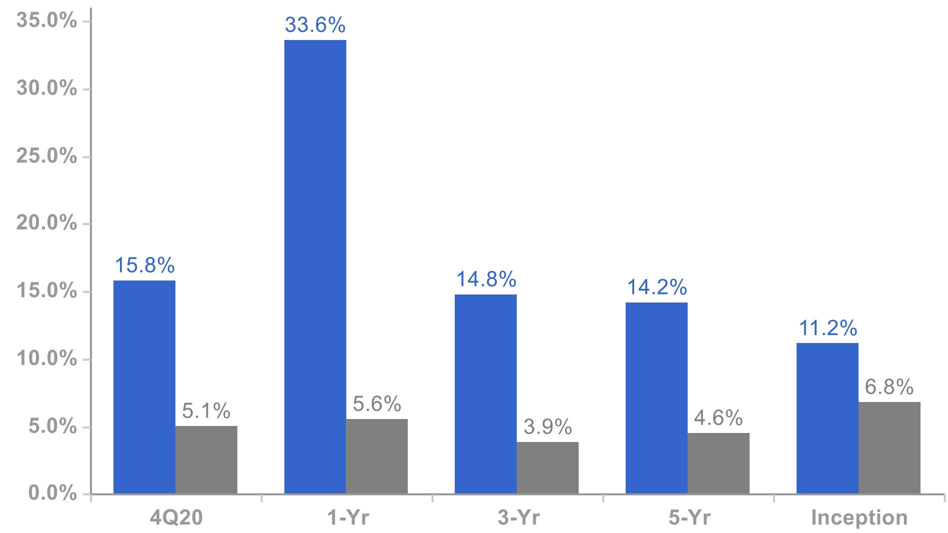
We tend to hold greater ETF exposure in our "global equity" portfolios. At the end of 2020, our top 5 individual stock investments included: (1) Constellium, (2) Walt Disney, (3) Apple (4) Shopify, (5) Appian. Meanwhile our top 5 ETFs included: (1) VWO – Emerging Markets, (2), VEA – Developed Markets, (3), IWM – Russell 2000, (4) VGK – Europe, (5) SCZ – EAFE Small cap.

Absolute Return

Our "Absolute Return" portfolios use the Credit Suisse Multi-Strategy Index as a benchmark. In these portfolios our objective is to use an unconstrained strategy to generate the highest, risk-adjusted return possible. For example, in the "Absolute Return" strategy we may short more aggressively or have greater exposure to commodities or potentially use options to enhance returns. That said, because we believe stocks markets generally go up, our bias is to be long and to use shorts selectively to manage through events we believe may lead to a sustained period of equity declines. Our portfolios may be as conservative as market neutral; we are very rarely net short.

At the moment our allocation reflects approximately 73% US stocks, 18% non-US stocks and 9% including cash, bonds and/or hybrids. Investors may note the strong recent returns generated by this strategy. A large short position taken in mid Feb 2020 and covered in late March 2020 combined with a significant overweight in technology in April 2020 are the reasons for the strong performance. In general, while we usually have one or two individual equity shorts in the portfolio at any given time, we will look to aggressively add to our short exposure when we believe the market is improperly pricing the risk of an adverse outcome.

Figure 5: RSA Absolute Return vs. CS Multi-Strategy



Source: Rockingstone Advisors, Morningstar Office.

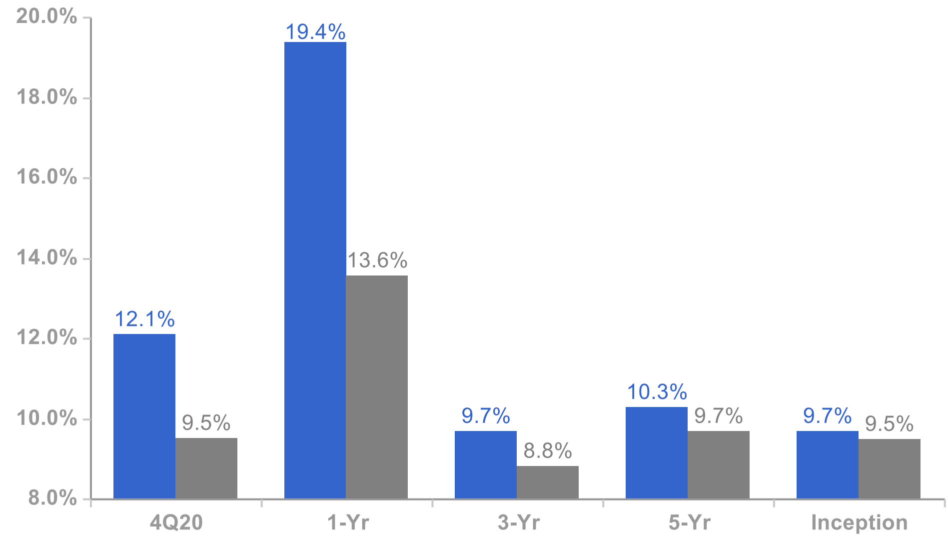
Based on our Morningstar portfolio software, we note the 3, 5 and 10-year beta for our "absolute return" portfolio has been 1.54, 1.47 and 1.57, respectively. Given we do not hedge nearly as much as the benchmark index, it isn't too surprising to see our volatility measure relatively high. Importantly, however, we emphasize that even with the high beta, our alpha generation has been solid: 3-year = 10.37, 5-year = 8.60, 10-year = 2.68. In other words, investors have been well rewarded for the risk taken in the portfolio.

At the end of 2020, our top 5 individual stock investments included: (1) Appian, (2) S&P Global, (3) Amazon (4) Apple, (5) Estee Lauder. Meanwhile our top 5 ETFs included: (1) SPY – S&P500, (2), VEA – Developed Markets, (3), VFVA – US Value Factor, (4) IWM – Russell 2000, (5) XLV – Health Care.

Balanced

Our "balanced" portfolios include a combination of global equities, fixed income and hybrids. For comparison purposes, the main benchmark we use for clients is the Vanguard LifeStrategy Moderate Growth Fund (VSMGX). VSMGX has an allocation of 26% US stocks, 25% non-US Stocks and 39% bonds.

Figure 6: RSA "Balanced" vs. Benchmark Vanguard Life Strategy Portfolio Performance



Source: Rockingstone Advisors, Morningstar Office.

We have historically been over-weight US stocks while under-weight bonds and non-US stocks. However, like our other portfolios in 2020, we started to change those weightings to emphasize more non-US stocks. At 2020-end, we note the average Rockingstone "balanced" portfolio had 55% US Stock, 20% non-US and just 13% bonds. Although bonds performed relatively well in 2020, we continue to see the asset class as generally expensive in both absolute and relative terms. Of course, we have had this view for several years; had we been more bullish on the subsequent decline in interest rates and overweight bonds, we could have enjoyed superior risk-adjusted performance.

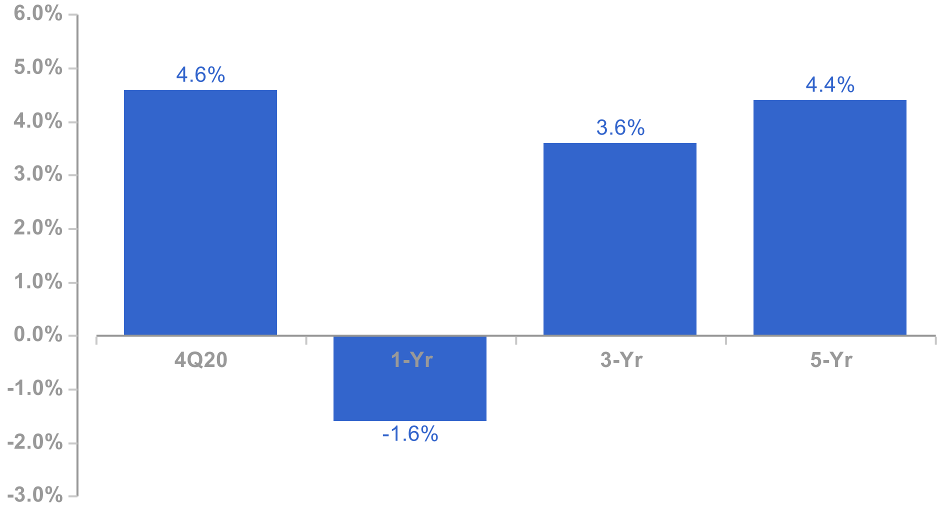
Similar to our other strategies, we note our relative out-performance was achieved with more limited portfolio risk during the last 3 and 5-year periods. During those periods the "balanced" portfolios had a beta of 0.89 and 0.91, respectively. However, over the 10-year period we point out that our beta was 1.06 which stems from being over-weight equities. In terms of alpha generation, we note the following solid results: 3-year = 2.21, 5-year = 1.97 and 10- year 1.58.

At the end of 2020, our top 5 individual stock investments included: (1) New Mountain Finance Corp, (2) Apple, (3) Estee Lauder, (4) Verizon, (5) Facebook. Meanwhile our top 5 ETFs included: (1) JPST – Ultra Short Income, (2), VEA – Developed Markets, (3), PFF – Preferreds, (4) VWO – Emerging Markets, (5) SPY – S&P500.

Yield

For retirement accounts and those investors interested in generating income, we construct portfolios using a combination of high dividend yielding stocks and ETFs, select bond ETFs as well as hybrid ETFs. Our goal with these portfolios is to generate an absolute annual return of 4-6% with the bulk of that return coming from dividends / income. As most investors recognize, the record low interest rates across the globe make a goal of 4-6% income-derived returns somewhat challenging, particularly if interest rates rise from current levels.

Figure 7: RSA Yield Portfolio Performance



Source: Rockingstone Advisors, Morningstar Office.

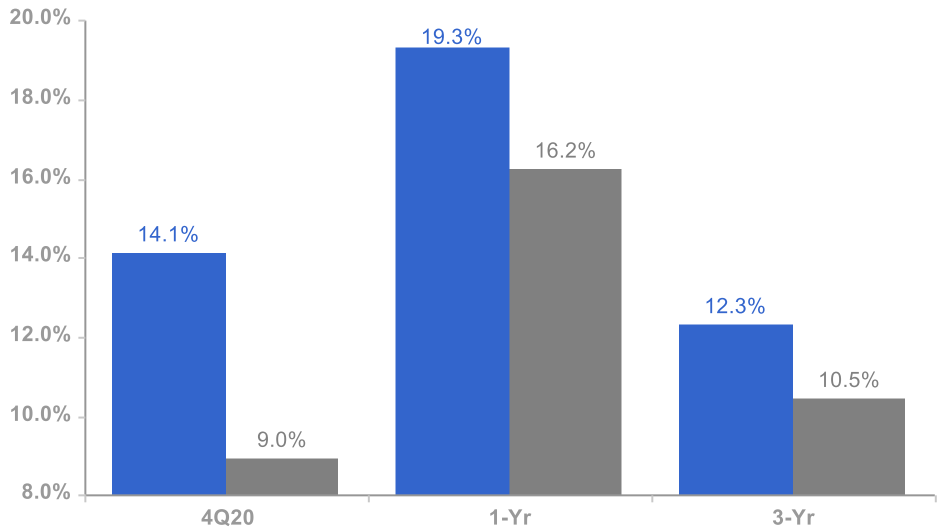
Over the last 3 and 5-year periods, we have largely reached the goals behind the "yield" portfolio with 3.8% and 4.6% returns, respectively. Our top 5 holdings at the end of 2020 included: (1) JPST – Ultra Short Income, (2) NMFC – New Mountain Finance Corp, (3) HYEM – EM High Yield Bonds US Dollar Denominated, (4) IEF – Treasury Bond 7-10 Year, and (5) FLOT – Floating Rate Investment Grade.

ESG

For those interested in directing their investments with an Environmental, Social and Corporate Governance (ESG) screen, we construct portfolios that use the Pax Sustainable Allocation Fund (PAXWX) as a benchmark. The benchmark is a balanced fund, i.e. it includes US stocks (50% weighting), non-US stocks (10%) as well as bonds (34%) and cash (6%). Similar to our other portfolios, we use a combination of ETFs and individual stocks.

ESG investing has jumped over the last few years with most experts acknowledging that screening criteria can vary among portfolio managers and different conclusions can be reached about select industries and companies. We acknowledge that it is difficult to dissect ETFs. ETFs can often hold 100+ individual stocks and thus our bias is to use more ESG-oriented ETFs but will use non-ESG ranked ETFs if necessary, for sufficient asset allocation and portfolio diversification.

Figure 8: RSA "ESG" vs. Benchmark PAX Sustainable Allocation Portfolio Performance



Source: Rockingstone Advisors, Morningstar Office.

Using our Morningstar portfolio software, we note the 3-year beta for our "ESG" portfolio has been 1.29. This is a function of holding significantly less bond exposure than the benchmark which is in part related to the limited availability of ESG-oriented ETF bond funds as well as our general belief that bonds are an expensive asset class. While our performance has exceeded the benchmark, we acknowledge alpha generation has been a negative 0.46.

Our top 5 individual stock investments included: (1) Appian, (2) Estee Lauder, (3) McCormick, (4) Berkshire Hathaway, (5) Costco. Meanwhile our top 5 ETFs included: (1) SPYX – S&P500 excluding Fossil Fuels, (2) KLD – MSCI Social 400, (3) XLK – Technology, (4) VEA – Developed Markets, (5) QQQ - Nasdaq.

NB: We note portfolio analytics generated by our Morningstar software, specifically alpha and beta referenced in the above section, are based off of gross return calculations.

ROCKINGSTONE ADVISORS LLC

Forecast: 2021

Rockingstone Advisors: Our Latest Forecasts

As usual we have updated our forecasts to reflect Rockingstone's outlook for 2021. Whether 2021 experiences a rebound in economic activity clearly has many swing factors from the pandemic to monetary policy to fiscal stimulus. While these swing factors are important, it is worthwhile noting that since the 2Q20 "bottom" most economic forecasts have been significantly revised upward.

Figure 9: Key Metric Forecast

Metric	Year End December	
	Band	Point
US Real GDP (2020)	-1.0% to -3.0%	-2.0%
US Real GDP (2021)	+3.5% to +5.5%	4.7%
S&P 500 2020 EPS (RSA/Street)	NA	\$121 / \$121
S&P 500 2021 EPS (RSA/Street)	NA	\$160 / \$164
S&P 500 2021 Index	3850-4250	3840
10-Yr US Treasury Yield	1.0% - 1.5%	1.3%
Oil (WTI-2021 End)	\$45 - \$55	\$50
Gold (2021 End)	\$1,900 - \$2,300	\$2,100
Inflation (NTM)	+1.0% to +1.5%	1.3%

Source: Rockingstone Advisors, The Economist, Standard and Poor's, NYSE Arca, St. Louis Federal Reserve

A few observations and comments:

1. Gross Domestic Product (GDP). We now forecast a -2.0% decline (vs. prior -5.0% in US Real GDP for 2020 and a 4.7% rebound (unchanged) in 2021. For reference, early in the 2H20 the Fed was looking for a full year 2020 GDP of -8.0% and it now appears it will come in closer to -2.0%! With stimulus funds and select sectors of the economy performing well, our outlook points to less contraction in 2020 and a decent rebound in 2021.

2. S&P 500 EPS. Full year 2020 EPS estimates for 2020 bottomed in the second quarter at \$109. Due to surprisingly strong 3Q20 earnings (419 issuers beat, 64 missed and 16 met their estimates), fourth quarter EPS have risen from \$35.74 in June to \$36.60 today. This brings the Street's 2020 EPS forecast to \$120.79. Given the early announcements from companies reporting fourth quarter (albeit a small sample set of just 26 companies), 24 have beat with one company meeting and one company missing their estimates. For this reason, we are raising our 2020 S&P 500 earnings forecast to \$121 per share, and raising our 2021 EPS forecast to \$160, up from \$150, but below the Street's current \$164 estimate. Clearly 1H21 comparisons will be relatively easy but we note it will likely take a cyclical recovery (financials, energy) to help boost 2021 S&P500 EPS.

3. S&P500 2021 Index. Looking to 2021, we believe the S&P500 is likely to end the year at 3840. Given the current level, this suggests minimal growth. Mathematically, taking our \$160 EPS estimate and using a 24x forward P/E multiple is how we derive our target. We also note our long-term return analysis (see the next section) also supports a muted outlook for large cap US returns. We emphasize the interplay between an earnings rebound and record low interest rates makes deriving a S&P price target as more challenging than usual.

Five Year Asset Value Forecast[iii]

For large caps, our analysis points to muted long-term equity returns

The pandemic, combined with the unusual fiscal and monetary responses, continue to make us question our forecast conviction, but our main assumptions regarding capital markets is that asset values mean-revert (with respect to margins and P/E multiples) over time. We see no reason to question this axiom. We note it currently makes for more volatility in expected returns, particularly when low profitability is factored into our calculus.

Our latest calculation for long term returns suggests that asset allocation across geographies and capitalization is very important right now. As evidenced in the table below, there is a significant disparity. It shouldn't come as a surprise to investors that US large cap stocks appear to offer the lowest long term returns from current levels. Valuation for the S&P500 is well above its historical mean, arguing muted returns should be expected. On the flip side, we note that US small caps (using the S&P 600) appear to offer significant returns given low current operating margins and more modest headwinds from valuation.

Outside of the US, both Foreign Developed and Emerging Market shares seem to offer decent return potential in the mid-single digits. We note that these returns assume a constant dollar; if we see additional material $US depreciation, foreign markets could offer double digit returns.

Figure 10: Five-Year Total Equity Return Calculations (Incremental Contribution)

Asset	Index	LT Exp. Return		Sales		Profit Margin		Div.Yield		Valuation
US Large Cap Stock	S&P500	0.2%	=	4.9%	+	1.0%	+	1.6%	-	7.2%
US Mid Cap Stock	S&P400	4.3%	=	4.3%	+	2.9%	+	1.4%	-	4.3%
US Small Cap Stock	S&P600	14.3%	=	6.7%	+	11.6%	+	1.5%	-	5.4%
Foreign DM Stock	MSCI-EAFE	7.0%	=	2.5%	+	3.3%	+	3.1%	-	1.9%
Foreign EM Stock	MSCI-EM	5.1%	=	5.4%	+	3.7%	+	2.2%	-	6.2%

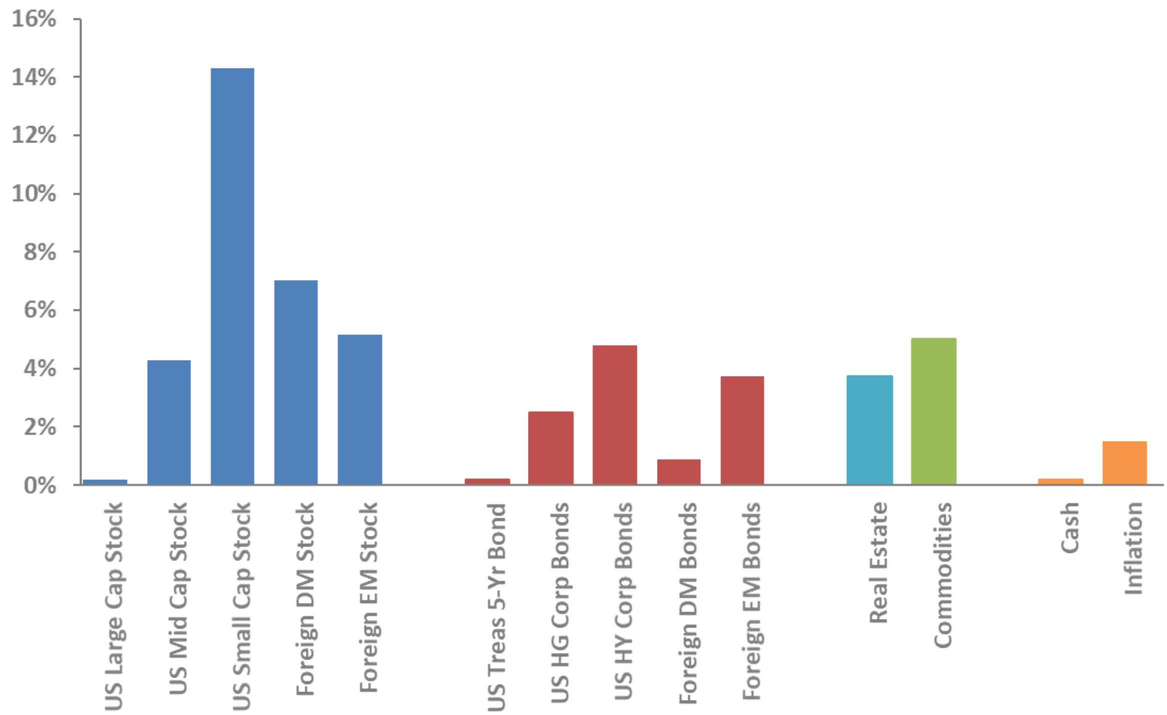
Source: Rockingstone Advisors

We analyze equities using four variables such as (1) historical sales growth, (2) corporate profit margins, (3) dividend yields, and (4) valuation to determine potential long-term returns. Using valuation as an example, P/Es should theoretically decline (if currently above the historical mean) or expand (if currently below the historical mean) over the long term.

As usual based on our outlook for total returns, we expect the "give" of sales growth, valuation and dividends to be partly offset by the "take" of mean-reverting margins. We expect sales growth to be relatively close to long term average performance although presently the economy suggests lowered expectations are likely prudent. Profit margins are now below their recent history, so they are now additive to valuation.

In fixed income (see the next page for various assumptions), we expect the "give" of coupons will be exceeded by the "take" of mean-reverting inflation and real rates, both of which are below their historical mean. Indeed, rates have moved up materially in the last quarter as markets start to factor in a recovery and inflation up tick. Of course, short-term returns may not necessarily match our longer-term return predictions; markets are significantly more random over the short-run than the long-run.

Figure 11: Five-Year Asset Class Total Return Forecast



Source: Rockingstone Advisors

.

ROCKINGSTONE ADVISORS LLC

Equity Performance Review

Stocks shrug off SARS-CoV-2 case numbers

After a wild ride down in the first quarter, global equities staged a remarkable recovery in the second half of 2020 despite rising Covid-19 cases and hospitalizations during the fourth quarter. Stocks started off the quarter strong, rallying into mid-October before concerns over rising cases and a lack of progress in passing a stimulus package led to profit taking and declines in share prices through the end of October. In early November stocks resumed their upward trend rising through the month and then through to year end. Most notable, it was a quarter in which the "laggards" – indices that had underperformed the secular bull market in large cap growth shares for many years, recorded substantial gains, re-couping some of their underperformance.

During the fourth quarter, equity returns were driven by US small-cap stocks, which recorded gains of nearly 30% in the quarter after lagging large-cap names for several years. US mid-cap shares followed, up nearly 17% in the quarter.

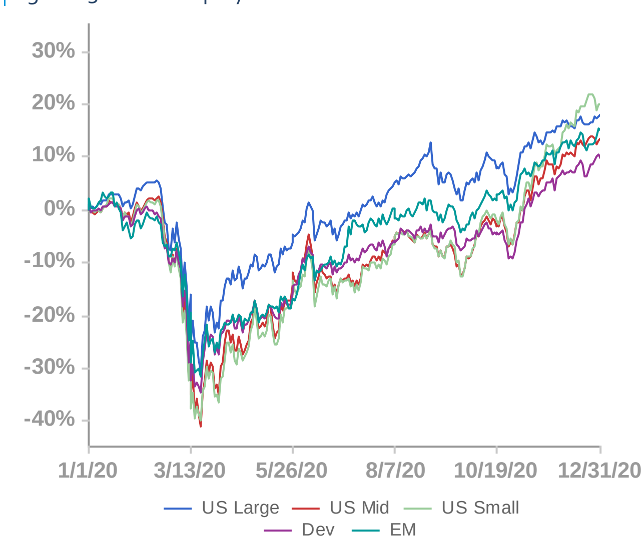
Both Emerging Markets (EM) and Foreign Developed outpaced US large-cap. Foreign Developed rose 15.8% in the quarter, followed by Emerging markets shares, which rose 15.6% in the fourth quarter. EM stocks in particular are viewed more favorably by investors in an inflationary environment as EM equities and currencies tend to outperform, given the resource-driven nature of their economies. US large-cap recorded gains of "just" 11.6% as investors rotated into companies that would benefit from a cyclical recovery and rising interest rates and out of secular growth names.

We highlight the following performance metrics regarding 4Q20 and 12M20, respectively, results: US large-cap (+11.6% and +18.4%), US mid-cap (+16.8% and +17.7%), US small-cap (+29.2% and +19.6%), Developed (+15.8% and +9.3%), Emerging (+15.6% and 14.8%).

Figure 12: 4Q20 Equity Performance [iv]

Source: FactSet

Figure 13: 12M20 Equity Performance



Source: FactSet

ROCKINGSTONE ADVISORS LLC

Fixed Income Performance Review

Spread products and international outperform US treasuries

Preferred stocks and high yield bonds (junk) posted exceptionally strong performance while safe haven Treasuries declined as fixed income investors rotated out of safety and into "risk-on" or "spread" portions of the fixed income and hybrid market.

Preferreds rose 6.4% while high yield bonds jumped 5.9% as spreads tightened. Emerging market bonds also rallied, posting gains of 5.8% for many of the same reasons emerging equities rose. Corporate bonds posted solid returns, up 3.1%, while foreign developed bonds rose slightly and mortgage backed bonds were roughly flat.

Given the Fed's bond-buying, new issuance activity in 2020 set all-time records: data from S&P Global indicate that through November 19, 2020 high yield bond issuance surpassed $400 billion, compared to $273 billion in 2019 and $169 billion in 2018!

High grade bonds also witnessed record new issuance: according to Dow Jones, $1.860 trillion of new investment grade bonds were issued in 2020, a 54% increase from 2019.

We note the following performance figures for 4Q20 and 12M20, respectively: US High Grades (+3.1% and +10.8%), US Governments (-1.3% and +10%), US High Yield (+5.9% and +4.5%), International developed (+1.0% and +4.6%), Emerging Markets (+5.8% and +5.1%). Outside of the bonds depicted below, mortgage-backed bonds were up +0.3% in the quarter and +4% for the twelve-month period.

Figure 14: 4Q20 Fixed Income Performance[v]

Source: FactSet

Figure 15: 12M20 Fixed Income Performance

Source: FactSet

Commodity Performance Review

Base (industrial) metals and oil rally on re-opening trade

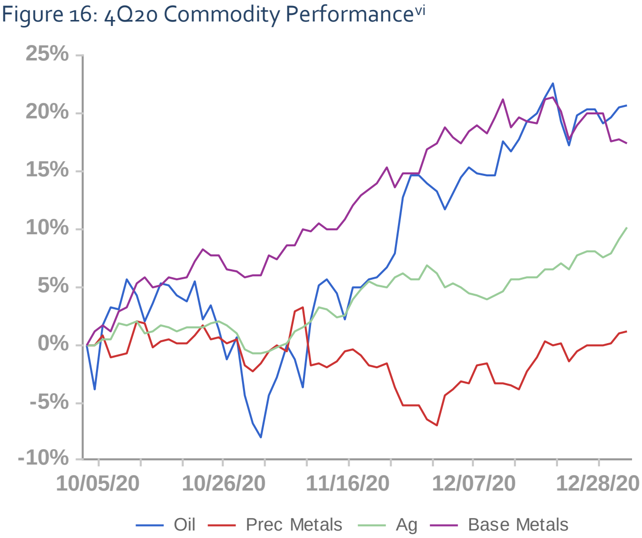
Investors should normally expect greater volatility in commodity prices relative to equities or bonds. This is because unlike stocks and bonds, commodities do not generate a stream of free cash flows that can be discounted back to present value. Commodities are also frequently susceptible to sudden supply and demand shocks impacting their price. But because commodities are priced in $US and traded globally, they are considered a store of value, especially if the dollar declines.

For the first three quarters of 2020, oil (indeed the entire energy complex) had sustained a slew of negative developments. As governments closed transportation networks, demand for jet and auto fuel collapsed. Lower electricity from shuttered factories reduced demand for natural gas. Combined, these factors helped to reduce demand for oil by about 25-30 million barrels a day (mb/d). However, on April 12, 2020, major oil producing countries settled on a new agreement to cut production by about 7.7 mb/d a day; this agreement was extended in early June and then again in September. It appears that these measures have led to stabilization in the oil market and a firming of prices, especially as investors begin to contemplate increased air traffic. Oil rose in the fourth quarter nearly 21%, although it remains down 21% YTD.

Base metals posted exceptional gains as well, rising 17.4%, ahead of the rise in precious metals of just 1.1%. Gold actually declined in the quarter (as real rates rose) while silver rallied 11.2%. Agriculture commodities rose 10%.

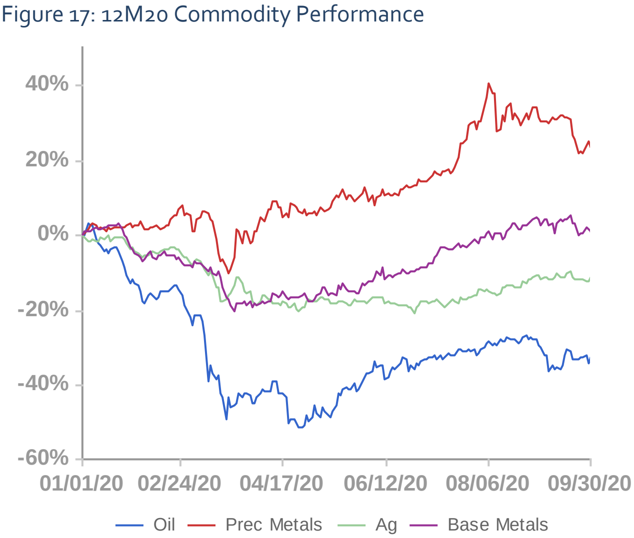
As a reminder, Rockingstone will typically invest in commodities via ETFs and the below graphs display what we view as representative performance for the underlying commodities. We point to the following returns during the 4Q20 and 12M20, respectively: Oil +20.8% and -21%), Precious Metals (+1.1% and +26.8%), Agriculture (+10.2% and –2.5%), Base Metals (+17.4% and +15.5%).

Figure 16: 4Q20 Commodity Performance[vi]



Source: FactSet

Figure 17: 12M20 Commodity Performance

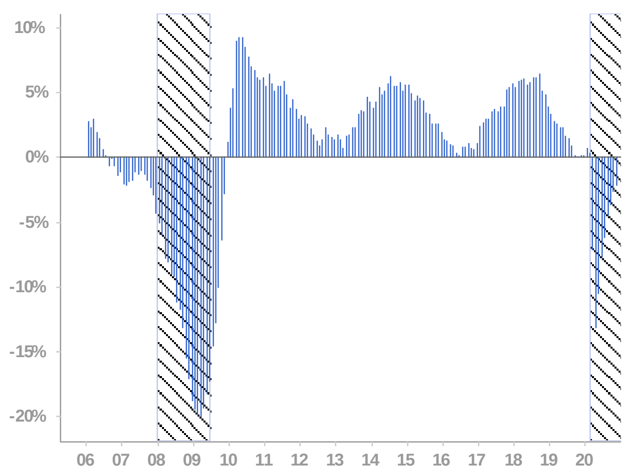


Source: FactSet

Chart Book

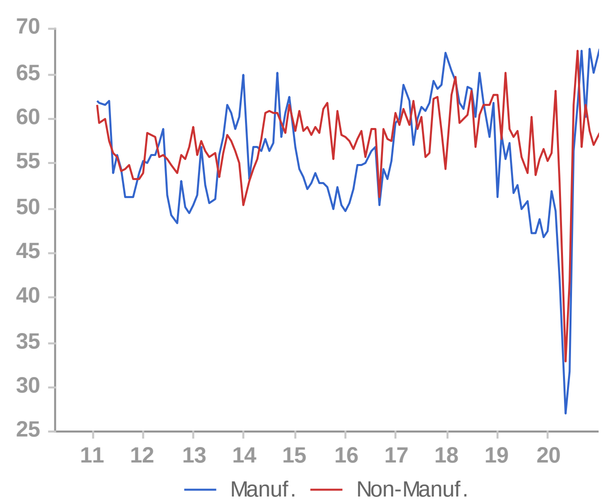
Leading Indicators

Figure 18: Index of Leading Economic Indicators



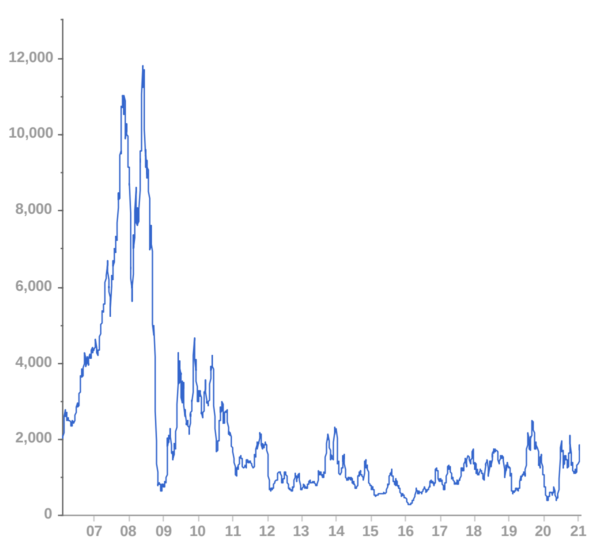
Source: FactSet

Figure 19: ISM New Orders



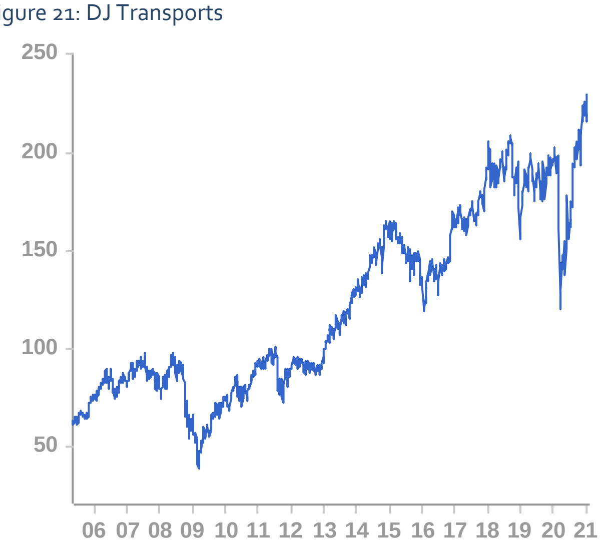
Source: St. Louis Federal Reserve, FRED Database

Figure 20: Baltic Freight Index



Source: FactSet

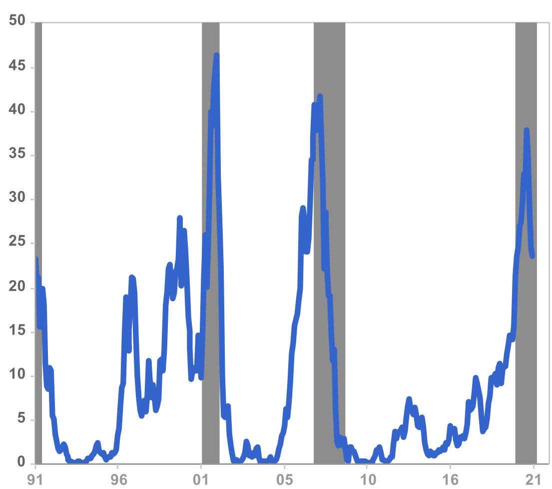
Figure 21: DJ Transports



Source: FactSet

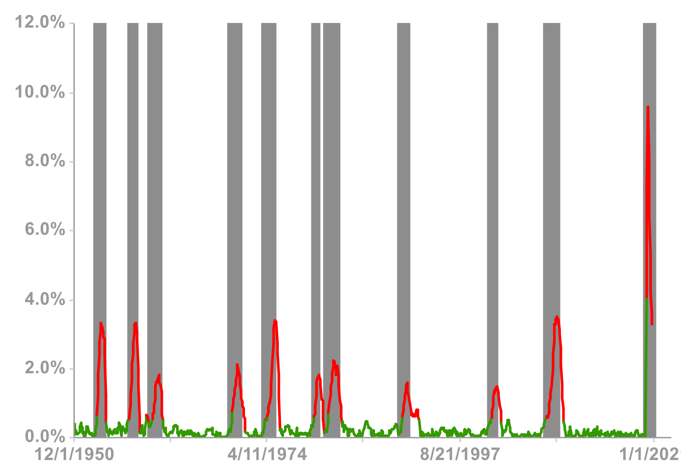
Real-time Recession Risk Indicators

Figure 22: Treasury Spread Recession Predictor



Source: FactSet, FRED Database

Figure 23: Sahm Real-time Recession Predictor

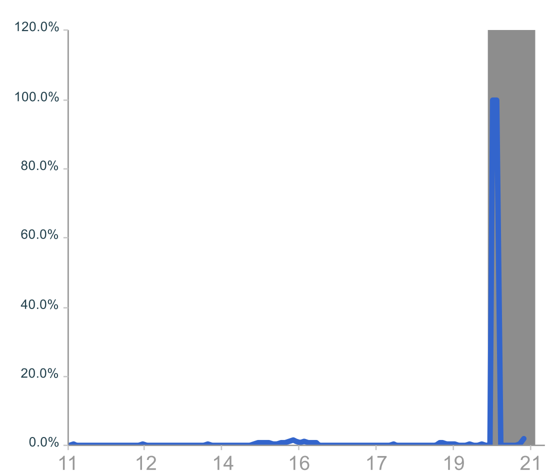


Source: St. Louis Federal Reserve, FRED Database

Figure 24: GDP Now (Atlanta Fed)

Source: FactSet; FRED Database

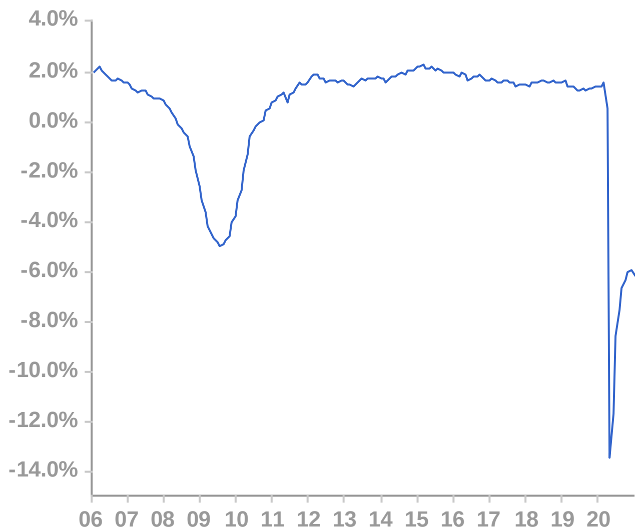
Figure 25: Smoothed US Recession Probabilities



Source: FactSet; FRED Database

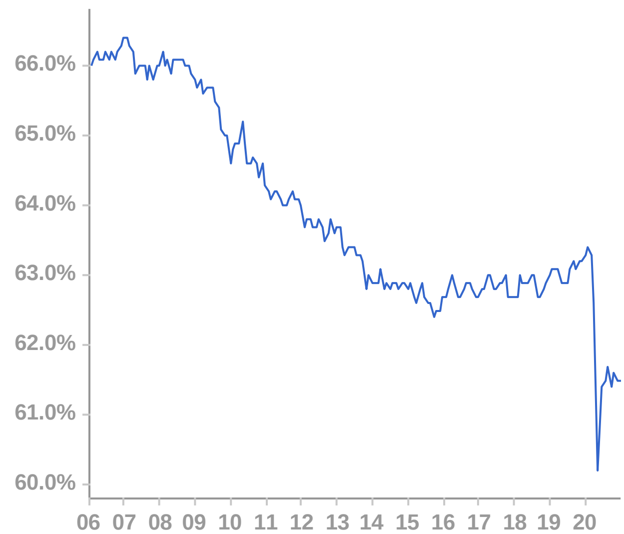
Labor Market Indicators

Figure 26: Payroll Growth (Establishment Survey, % Chg YoY)



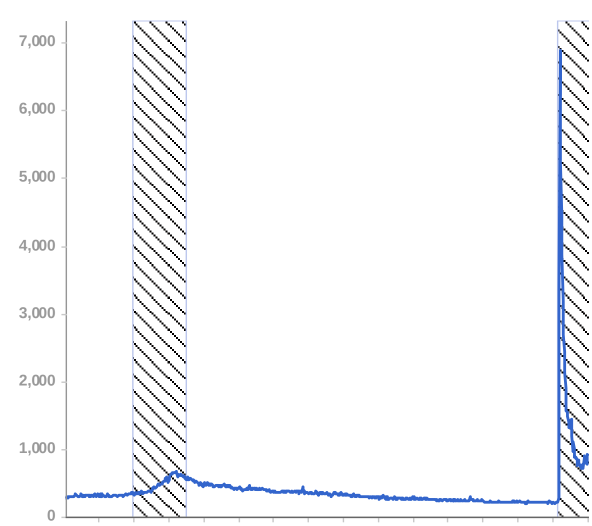
Source: FactSet

Figure 27: Labor Participation Rate (% of Workforce)



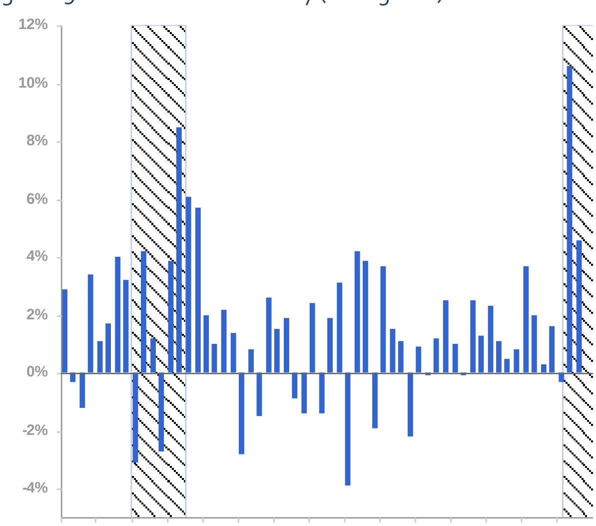
Source: FactSet

Figure 28: Initial Unemployment Claims



Source: FactSet

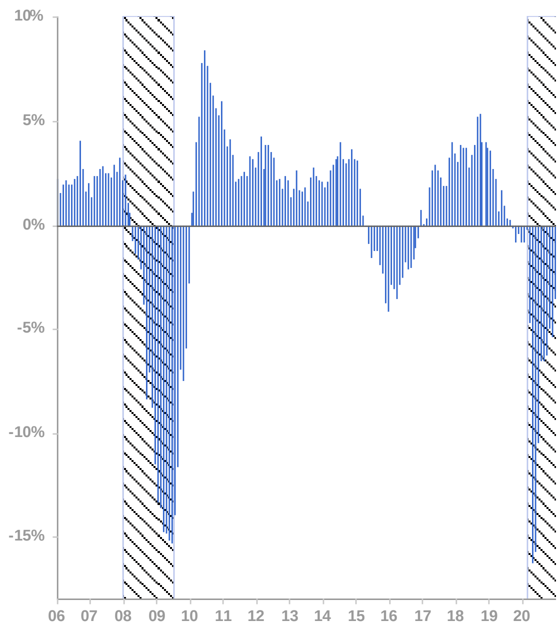
Figure 29: Non-Farm Productivity (% Chg YoY)



Source: FactSet

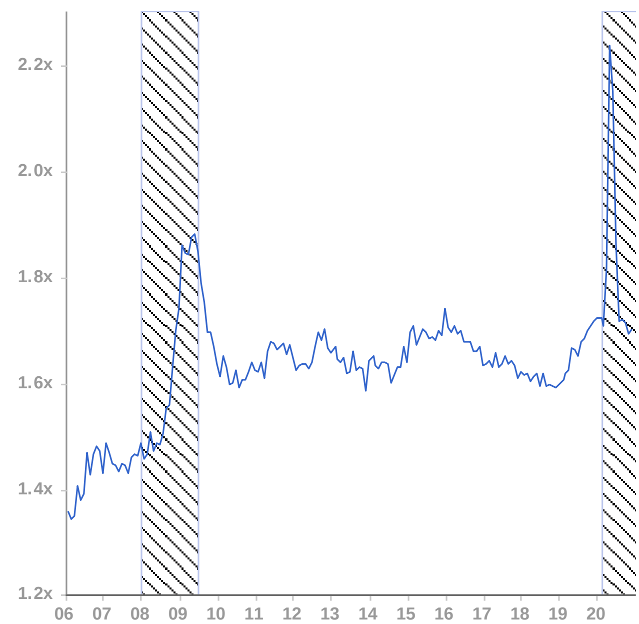
Production and Business Activity Indicators

Figure 30: Industrial Production (% Chg YoY)



Source: FactSet

Figure 31: US Inventory to Shipment Ratio



Source: FactSet

Figure 32: Unfilled Orders (% Chg. YoY)

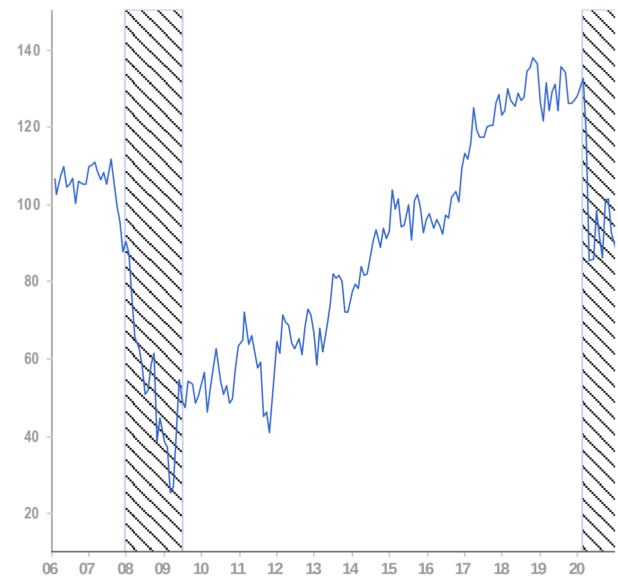
Source: FactSet

Figure 33: Business Sales (% Chg. YoY)

Source: FactSet

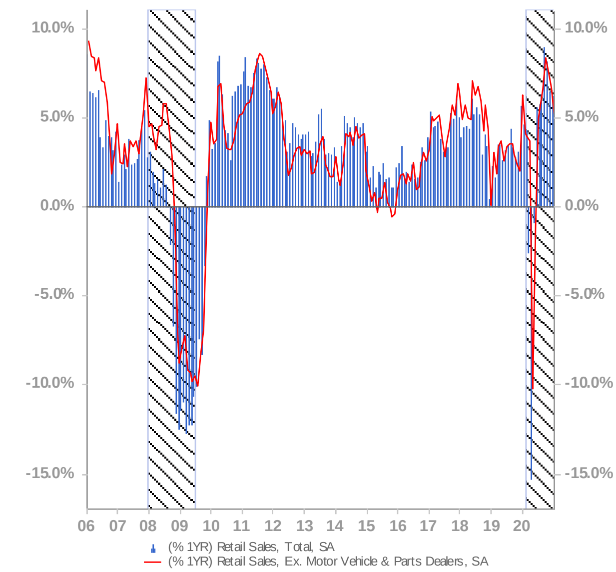
Consumer and Household Activity Indicators

Figure 34: University of Michigan Consumer Sentiment



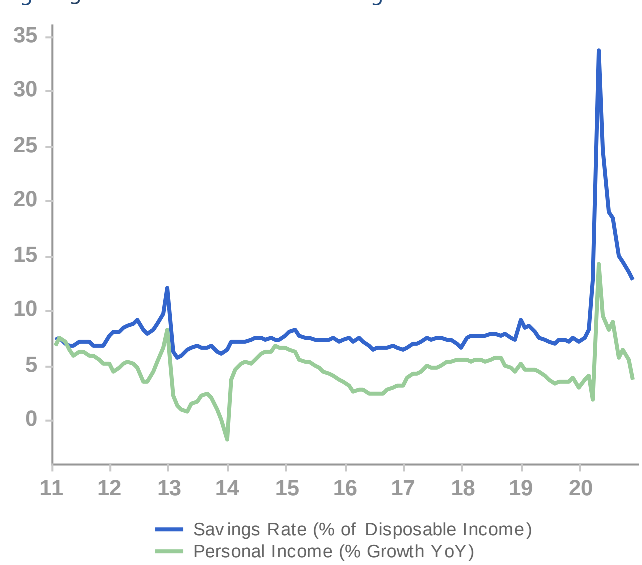
Source: FactSet

Figure 35: Retail Sales



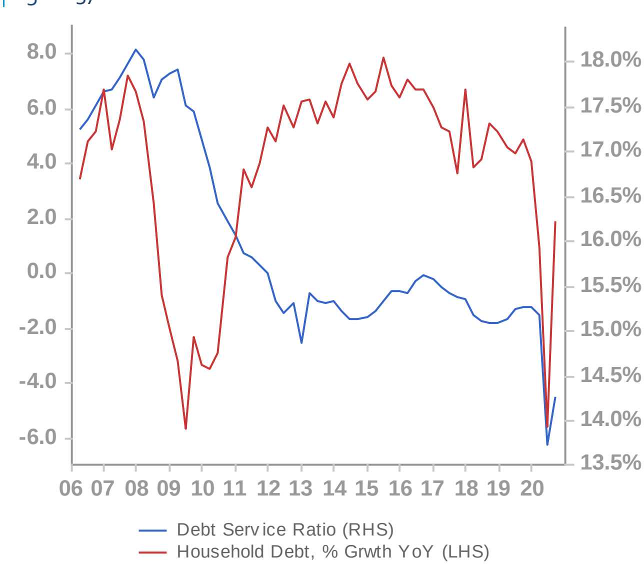
Source: FactSet

Figure 36: Personal Income and Savings Rate



Source: FactSet

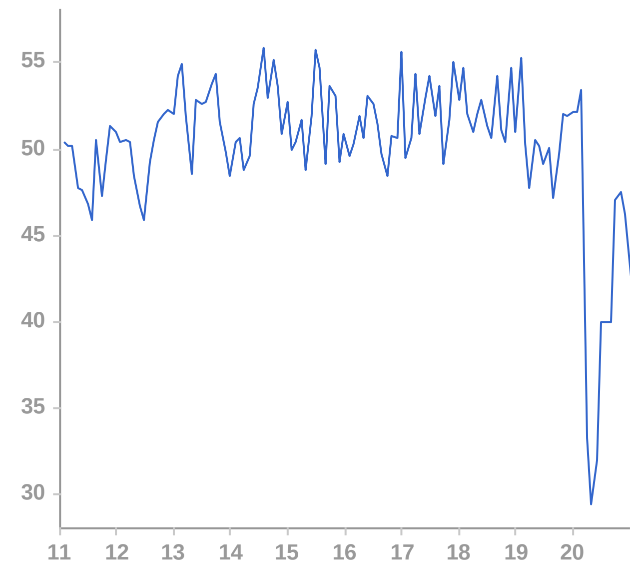
Figure 37: Household Debt



Source: FactSet

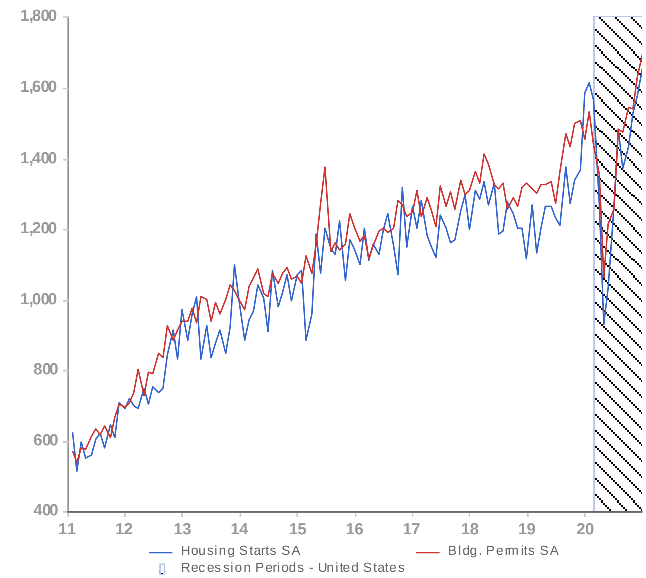
Housing and Construction Indicators

Figure 38: Architecture Billings Index



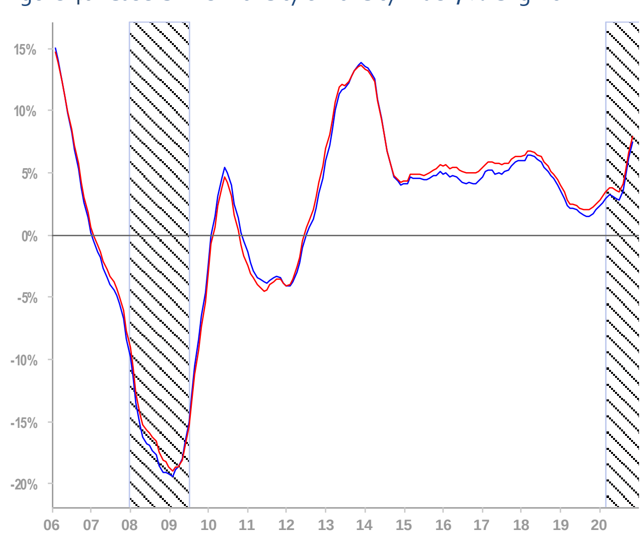
Source: FactSet

Figure 39: Housing Starts and Building Permits



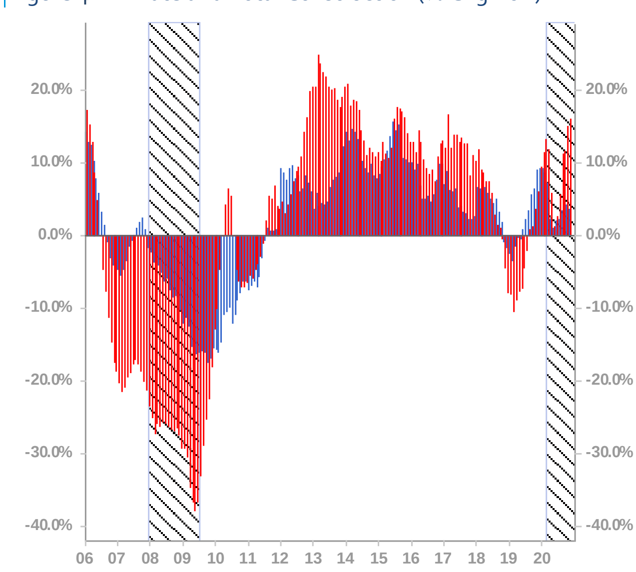
Source: FactSet

Figure 40: Case-Shiller 20-City & 10-City Index, % Chg YoY



Source: FactSet

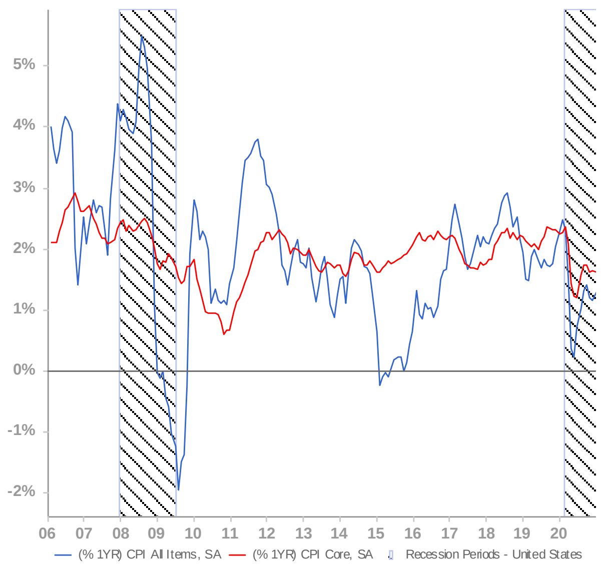
Figure 41: Private and Total Construction (% Chg YoY)



Source: FactSet

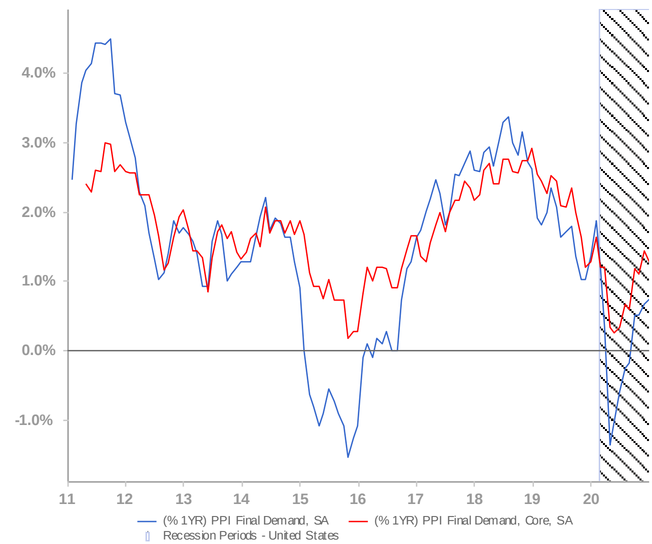
Price Indicators

Figure 42: Consumer Price Index



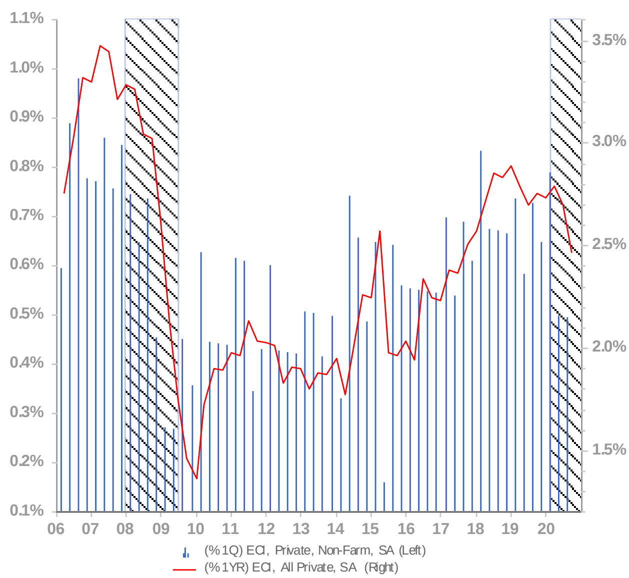
Source: FactSet

Figure 43: Producer Price Index



Source: FactSet

Figure 44: Employment Cost Index



Source: FactSet

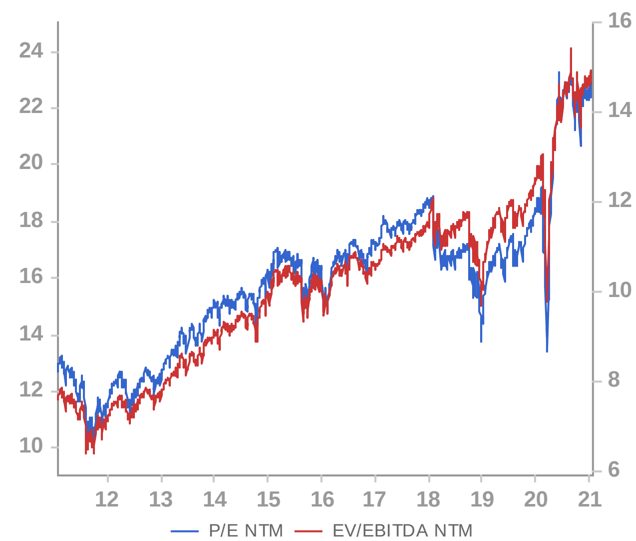
Figure 45: 10-Year, 5-Year Forward Inflation Expectations

Source: FactSet

ROCKINGSTONE ADVISORS LLC

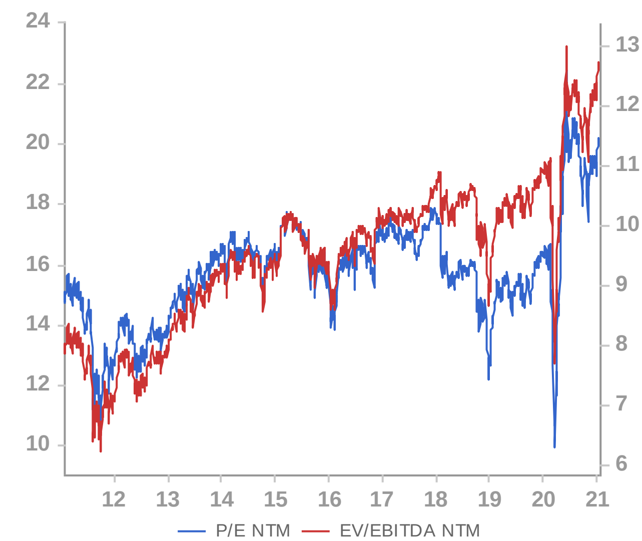
Valuation Indicators

Figure 46: S&P 500 P/E (LHS) & EV/EBITDA (RHS)



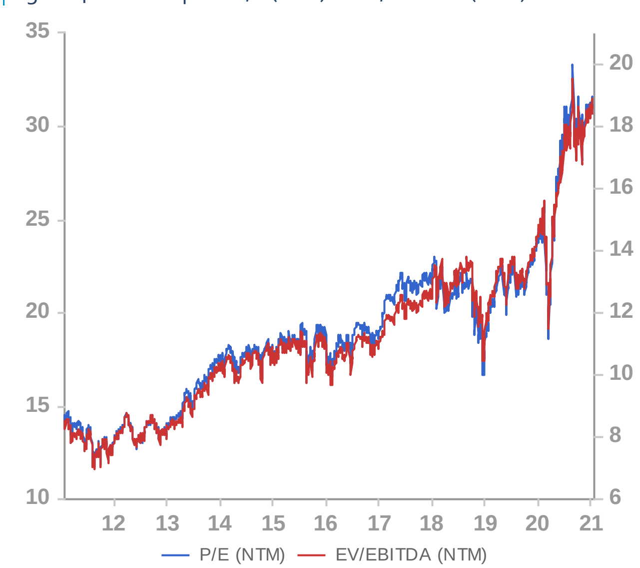
Source: FactSet

Figure 47: S&P Midcap 400 P/E (LHS) & EV/EBITDA (RHS)



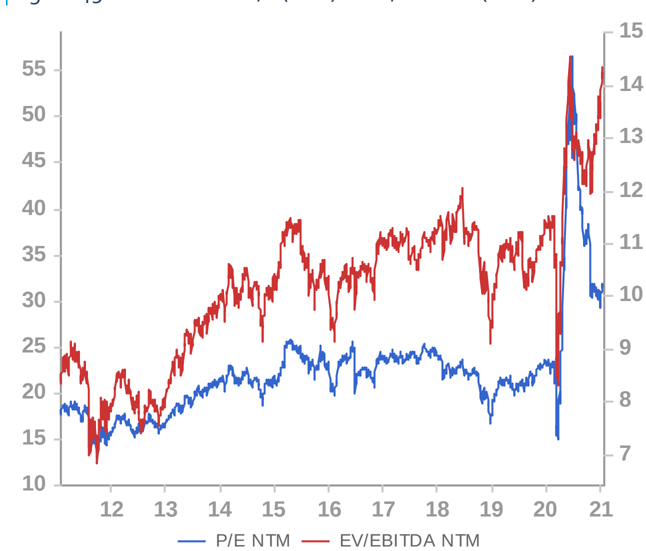
Source: FactSet

Figure 48: Nasdaq 100 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

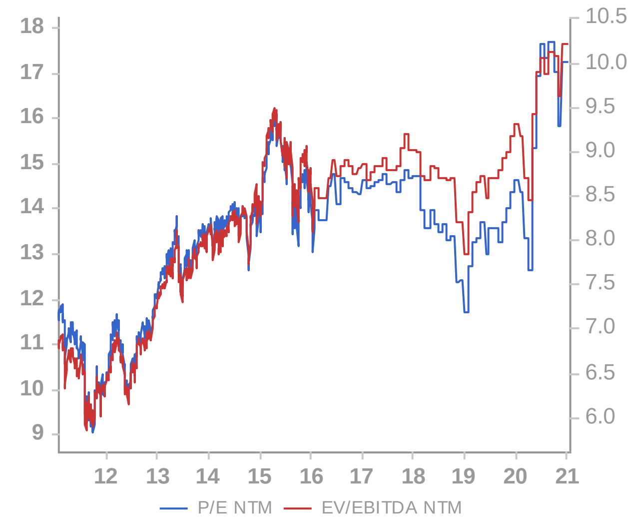
Figure 49: Russell 2000 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

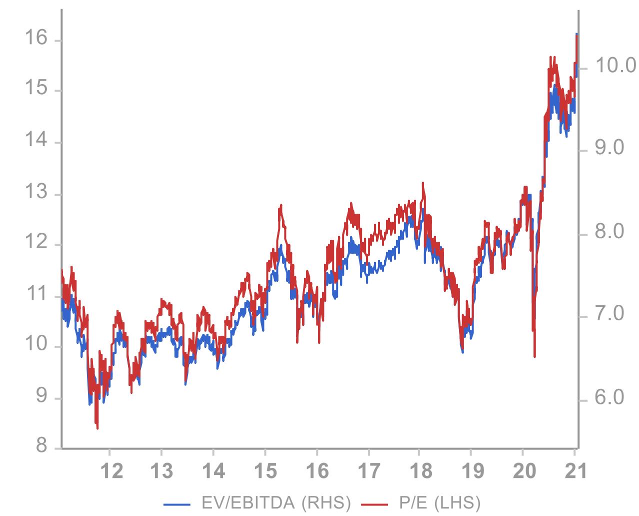
Valuation and Volatility Indicators

Figure 50: Intl Developed P/E (LHS) & EV/EBITDA (RHS)



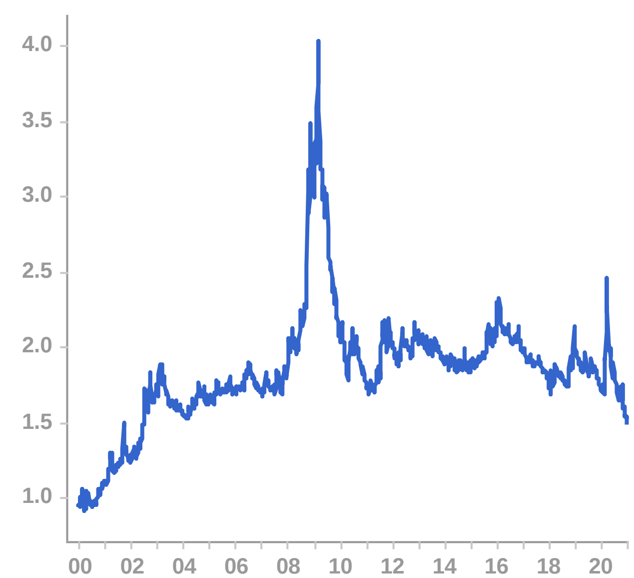
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 51: Emerging Markets P/E (LHS) & EV/EBITDA (RHS)



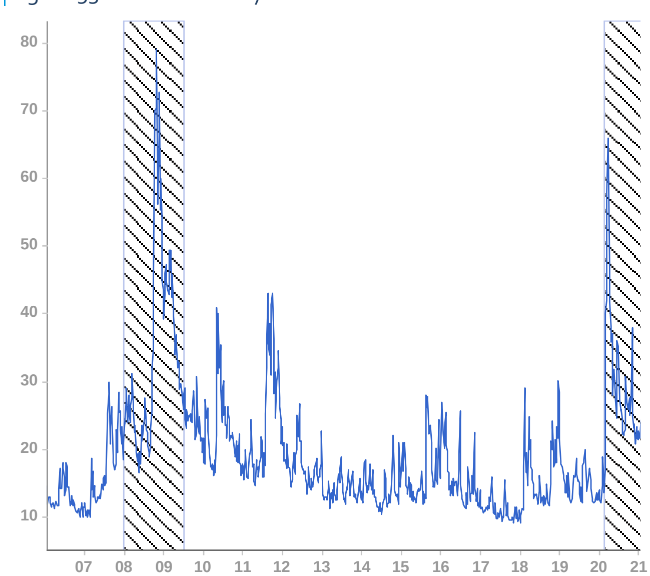
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 52: S&P 500 Dividend Yield



Source: FactSet

Figure 53: CBOE Volatility Index



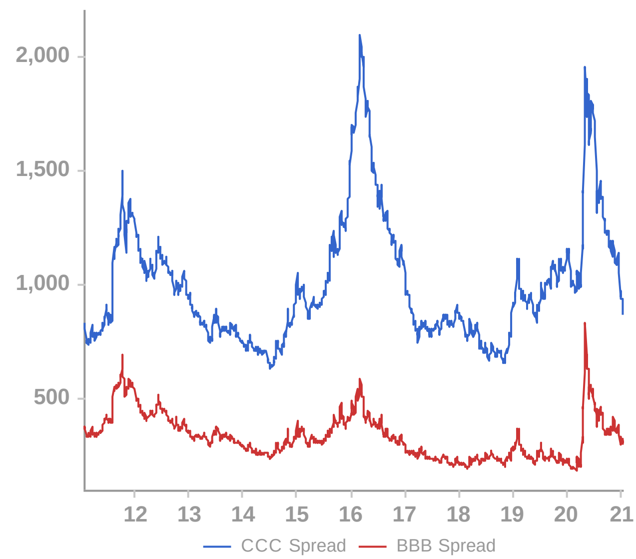
Source: FactSet

Bond Market Indicators

Figure 54: 10-Year Global Bond Yields

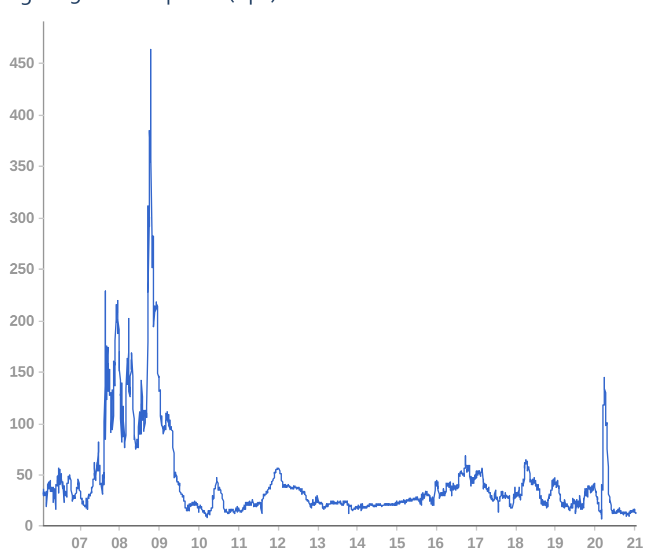
Source: FactSet

Figure 55: CCC and BBB Spreads (Option Adjusted)



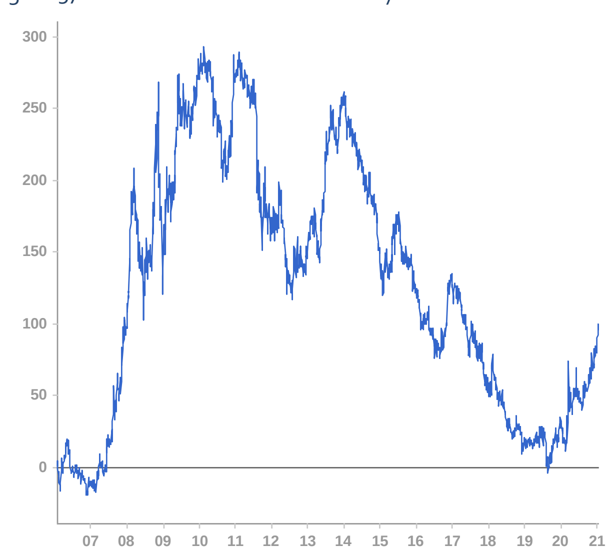
Source: FactSet

Figure 56: TED Spread (bps)



Source: FactSet

Figure 57: 10-Year Minus 2-Year Treasury

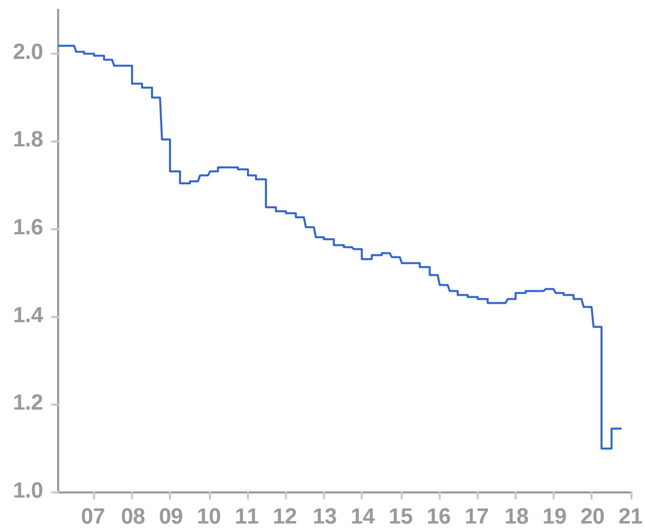


Source: FactSet

ROCKINGSTONE ADVISORS LLC

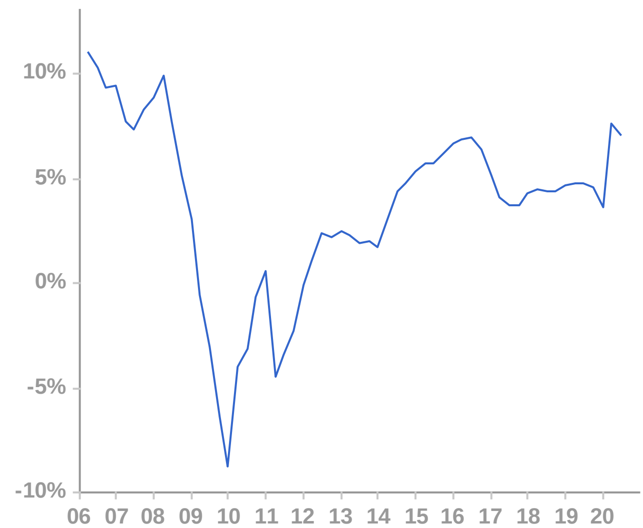
Liquidity and Other Indicators

Figure 58: Velocity of M2 Money Stock



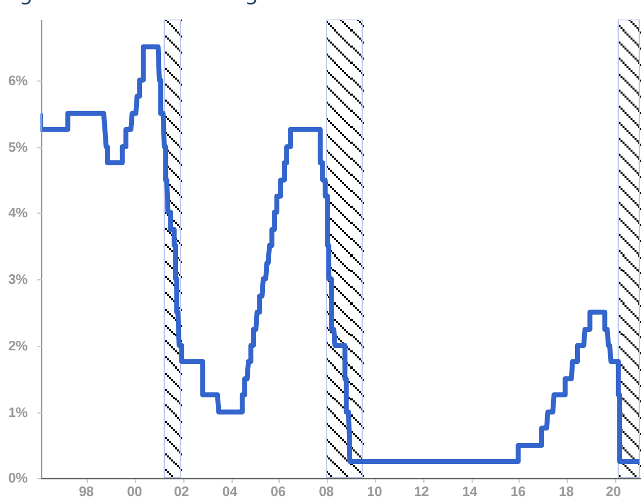
Source: FactSet

Figure 59: Loan Growth (Non-Financial, Private Sector)



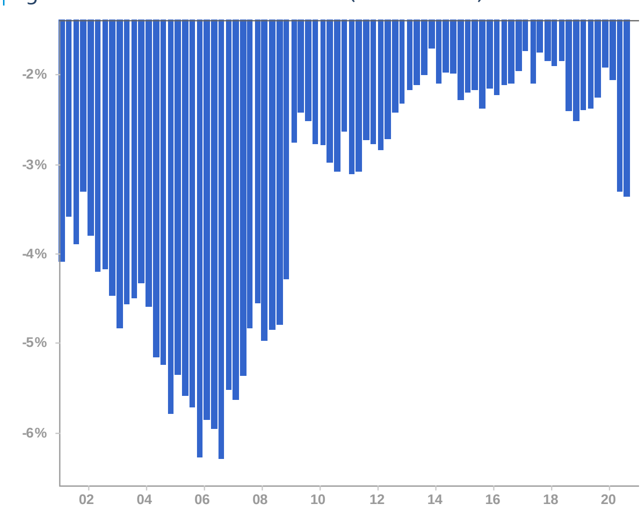
Source: FactSet

Figure 60: Fed Funds Target Rate



Source: St. Louis Federal Reserve, FRED Database

Figure 61: Current Account Deficit (as % of GDP)



Source: St. Louis Federal Reserve, FRED Database

Appendix

Important Regulatory Disclosures and End Notes

Form ADV available upon request. This quarterly is only for informational purposes and not a solicitation to buy or sell securities or as a source of specific investment, legal or tax recommendations.

Rockingstone Advisors is solely responsible for the content of this Quarterly. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix (composition) of portfolios in any given year and the number of portfolios within the sample set. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors or at cost. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis (except for PiK securities). Annualized return is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time and the mix changes every year. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet "accredited investor" standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is neither indicative of-- nor a predictor of-- future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone's performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

Quarterly Data prices are as of December 31, 2020; most other prices and yields are as of January 20, 2020.

We are happy to provide the raw data and source links for any of the charts or tables in this Quarterly. We are also happy to provide individual account performance data by annual cohort or by IRR (instead of TWM) so you can better understand the range of portfolio returns. We thank you for your interest and always appreciate any feedback.

Our contact information:

Brandt Sakakeeny & Eric Katzman, CFA
Rockingstone Advisors LLC
212-430-2240

brandt@rockingstoneadvisors.com
eric@rockingstoneadvisors.com

[i] Asset class performance charts depict Equity (SPY ETF), Bonds (BND ETF), Commodities (DBC ETF), Preferred (PFF ETF) and Real Estate (VNQ ETF) price change plus dividends and interest during the selected period.

[ii] Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix of portfolios in any given year. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis. Annualized return since inception is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet "accredited investor" standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is not indicative or a predictor of future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone's performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

[iii] Our Five-Year Forecast is updated quarterly and reflects our best judgment on future performance based on current valuations relative to historical valuations, as well as our outlook for earnings and macroeconomic conditions. We caution that predicting outcomes is inherently risky and subject to change.

[iv] Equity performance charts depict U.S. large-cap (SPY ETF), U.S. mid-cap (VO ETF), U.S. small-cap (IWM ETF), International Developed (VEA ETF), and Emerging Markets (VWO ETF) price change plus dividends and interest during the selected period. We note that Vanguard highlighted a trading glitch in the shares of VO during March 31, 2015 that led to prices materially higher than underlying NAV. Hence you should assume VO's valuation and total return was inflated as of the end of the first quarter.

[v] Fixed income performance charts depict Intermediate Government (IEF ETF), High Yield Corporates (JNK ETF), High Grade Corporates (LQD ETF), International Corporates (PICB), and Emerging Markets bonds (EMB ETF) price change plus interest income earned over the selected period.

[vi] Commodity performance charts depict Precious Metals (DBP ETF), Base Metals (DBB ETF), Oil (DBO ETF), and Agriculture (DBA ETF) price change.