

News Highlights

Owners. Operators. And Insightful Investors.

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PORTLAND
INVESTMENT COUNSEL®

Established in 2007

Our views on economic and other events and their expected impact on investments.

June 10, 2019

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Owner Operated Companies

Alphabet Inc.'s Google said it would buy Looker Data Sciences Inc., a privately held big-data analytics company, for \$2.6 billion in cash, in the first major acquisition for new Google Cloud Chief Executive Thomas Kurian. Google's cloud computing division is a distant third globally to Amazon.com, Inc. and Microsoft Corporation in terms of revenue from renting infrastructure and other computing tools to businesses. "When we looked at how do we broaden our portfolio, [data and analytics] is a segment where we have strength," Kurian said. Looker is "complementary and completes our analytics foundation." Santa Cruz, California-based Looker, which was founded in 2012, employs about 800 people, has raised \$281 million in venture capital and was valued at \$1.6 billion in a funding round last year. Its tool enables analysts and other workers to define calculations for items such as revenue or high-value customers and then visualize trends in their data without writing complicated scripts. The companies said they expect approval this year for the deal, which is Google's biggest since buying Nest Labs, Inc. for \$3.2 billion in 2014. Alphabet's private equity fund CapitalG previously invested in Looker.

Facebook Inc.— Public pension fund leaders called for separating the chairman and chief executive officer positions at Facebook, both held by co-founder Mark Zuckerberg, citing a vote that showed strong support for the idea among outside investors in the world's largest social media company. Facebook opposed the idea at its annual meeting held last week, saying its lead independent director already can represent all stockholder interests. The reform was never likely to pass, because Zuckerberg and other insiders control 58% of Facebook's voting power through a special class of shares carrying 10 times the voting power of standard shares. But voting results from the meeting showed that excluding the roughly 4 billion shares held by Zuckerberg and other insiders, the measure calling for an independent chair would have received support from 68% of outside investors. The voting results also indicated a majority of outside investors voted against Facebook's recommendations on other questions including on proposals to revamp the company's voting rules and on how frequently to vote on the pay of Zuckerberg and other top leaders.

The Kraft Heinz Company said the numbers it restated last month were accurate following completion of an internal investigation, but that the matter was under review by the U.S. Attorney's Office. Last month, the company said it would restate financial reports for a near three-year period to fix errors that resulted from lapses in procurement practices by some of its employees. The packaged foods company, in a long overdue annual regulatory filing on Friday, said a United States Attorney's Office for the Northern District of Illinois is reviewing

this matter. Kraft Heinz had disclosed a Securities and Exchange Commission subpoena in February. Thereafter, the company initiated an investigation into the procurement practices. As a result of the internal investigation and material weaknesses spotted, Kraft Heinz said it is taking steps to improve internal policies and would strengthen internal control in financial reporting. "We are pleased that Kraft Heinz is returning to a path of normalization," Kraft Heinz Chairman Alex Behring said. Kraft Heinz also said it has elected Joao Castro-Neves, a former Anheuser-Busch InBev executive, to its board. In April, the company named Miguel Patricio, a former marketing executive at AB InBev, as its chief executive officer.

Energy Sector

Nothing significant to report.

Financial Sector

NN Group NV - the private equity company Athora Holding Ltd. is buying Vivat NV's life and other businesses and NN Group is buying the non-life and holding businesses from them. NN Group is paying €416 million in cash for the non-life business and €150 million for the holding company. NN Group says that the non-life business should be generating FCF (distributable Solvency 2 net capital generation) of €50 million by 2022 and the holding company €10 million from interest received on a loan. The acquired unrestricted tier 1 capital (UT1) of the non-life business is €409 million. The deal is financed from internal resources with no impact on the buy-back. Analysts' view this deal as strategically sensible, financially a bit on the pricey side (unsurprisingly so given a competitive auction) and overall a small relief that it is nothing bigger.

Canada's bank regulator, the Office of the Superintendent of Financial Institutions, last week raised the capital requirement level for 'systemically important' banks in the country by 25 basis points (bps), to 2%. The increased domestic stability buffer indicates the regulator's view that Canadian banks were still vulnerable to factors such as household indebtedness, asset imbalances and institutional indebtedness and hence, should hold more capital for emergencies. U.S. banks, on the other hand, have seen some easing in capital level requirements since President Donald Trump took over in 2016. The rule, effective October 31, will only be applicable to domestic systemically important banks, such as Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, and The Toronto-Dominion Bank. (Source: Reuters)

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Activist Influenced Companies

Brookfield Business Partners – Brookfield Business Partners L.P., together with its institutional partners, announced that it has closed the previously announced acquisition of Healthscope Limited, the second largest private hospital operator in Australia and the largest pathology services provider in New Zealand, for approximately \$4.1 billion. Brookfield Business Partners is a business services and industrials company focused on owning and operating high-quality businesses that benefit from barriers to entry and/or low production costs.

Dividend Payers

Dufry AG acquires 60% of RegStaer Vnukovo with sales of CHF 66 million (=0.7% of Fiscal Year 2019 sales), which includes more than 30 stores with 6,800m² retail space (including a new 1,300m² walkthrough shop). The concession has a long-term contract until 2035. Vnukovo International Airport is one of the three large airports in Moscow and handled 22 million passengers. Dufry is already present in 6 airports in Russia (Moscow-Sheremetyevo, Moscow-Domodedovo, St. Petersburg, Sochi, Krasnodar) and the acquisition therefore will strengthen Dufry's position in Russia but also allow synergies in the operations as they are now present in all three airports in Moscow. With RegStaer, Dufry already acquired the duty-free operations in Moscow Sheremetyevo in 2012 and had a commercial agreement for Vnukovo airport. With the acquisition of RegStaer Vnukovo, Dufry strengthens its leading position in the Russian airport travel retail market, where Dufry is already present for close to 20 years. This acquisition fits well with Dufry's strategy for add on acquisitions and it will add 0.7% to sales.

Economic Conditions

Canadian Employment increased 28,000 in May according to the Labour Force Survey, well above the 5,000 increase expected by consensus. A significant headcount reduction of 22,000 for people aged 15-24 was more than offset by a 50,000 surge for people aged 25-54 (the largest gain in eight months). On a year-to-date basis, employment in Canada is up 250,000 the best such performance since 2002 with 77% of jobs being full-time and 76% coming from the private sector. The unemployment rate fell to a record low of 5.4% in May. The GTA created 20,000 jobs in May for a year to date total of 92,000. The GTA has accounted for more than two-thirds of all jobs created in Ontario so far in 2019. This remains the most important source of support for housing demand.

U.S. Nonfarm payrolls rose 75,000 in May, a good 100,000 shy of market expectations. Piling on, the prior two monthly gains were knocked down by a combined 75,000. This lowered the 3-month trend to 151,000 from 198,000 in the previous similar period. The trend in

hiring is clearly slowing. Retailers continue to cut staff, probably more due to online competition than softer consumer spending. Factories, which are taking the brunt of the trade war and have cut production this year, are hiring only modestly. Governments cut staff by 15,000 in May, so the private sector figure was a little better than the headline (90,000). The jobless rate held at a near half-century low of 3.6% amid a moderate-sized 113,000 advance in household-survey jobs and a steady participation rate. The more all-encompassing rate (U-6) actually dipped to a new cycle-low of 7.1%, suggesting ebbing slack in labour markets. Not that this is creating much wage or price pressure. Average hourly earnings rose a lukewarm 0.2%, shaving the yearly rate to 3.1%...not nearly enough to fan inflation (especially with unit labour costs outright falling in the past year to Q1).

Trade - President Trump says the U.S. has reached an agreement with Mexico and that it is suspending tariffs that were scheduled to be implemented on all Mexican imports today. In a joint statement, Mexico agrees to increase enforcement on the border which will include the deployment of its National guard (6000 troops). Mexico promises to take "decisive action to dismantle human smuggling and trafficking organizations as well as their illicit financial and transportation networks". U.S. border guards will have the ability to immediately return asylum seekers back to Mexico.

The global economy is weakening, according to a new assessment from the World Bank. The Bank said it now expects growth of 2.6% for 2019 edging up to 2.7% the following year. The slowdown is widespread, according to the Bank's economists, affecting many countries. And there are risks to even this subdued outlook, including the uncertainty for business created by international trade tensions. One of the lead authors of the report, Franziska Ohnsorge, said the World Bank had warned in its previous forecasts six months ago of darkening skies. "Then it was a forecast" she told the British Broadcasting Corporation (BBC). "But now we see it in the data." (Source: BBC)

Financial Conditions

The European Central Bank (ECB) finally changed its forward guidance on rates (unanimous decision). The main interest rates themselves were left untouched (refi rate @ 0.00%, the marginal lending facility @ 0.25%, and the deposit facility @ -0.40%), and will remain there "at least through the first half of 2020", or as long as needed to get inflation back to where they want it ("below, but close to, 2%"). The time frame was pushed out from "at least through the end of 2019", but the ECB seems to be boxing itself in by keeping the calendar reference. In any event, the extension of the forward guidance took into account the "prolongation of uncertainty", and the "uncertainty about Brexit negotiations". And, as usual, the ECB stands ready to act if needed, using all of the tools at their disposal. For those who qualify, banks can borrow 10 bps above the -0.4% deposit rate, assuming their "eligible net lending exceeds a benchmark".

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The U.S. 2 year/10 year treasury spread is now 0.24% and the U.K.'s 2 year/10 year treasury spread is 0.28% - meaning investment banks remain constrained from profiting from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above costs of capital. Also, the narrowing gap between yields on the 2 year and 10 year Treasuries is of concern given its historical track record that when shorter term rates exceed longer dated ones, such inversion is usually an early warning of an economic slowdown.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 3.82% (was 3.31% end of November 2012, the lowest rate since the Federal Reserve began tracking rates in 1971). Existing U.S. housing inventory is at 5.9 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, economic recovery, job creation, and low prices are still supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now at the low end of a more normal range of 4-7 months.

The VIX (volatility index) is 16.06 (compares to a post-recession low of 9.52 achieved in early November) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

Mutual Funds

Portland Investment Counsel Inc. currently offers 8 Mutual Funds:

- [Portland Advantage Fund](#)
- [Portland Canadian Balanced Fund](#)
- [Portland Canadian Focused Fund](#)
- [Portland Global Income Fund](#)
- [Portland Global Banks Fund](#)
- [Portland Global Dividend Fund](#)
- [Portland Value Fund](#)
- [Portland 15 of 15 Fund](#)

Private/Alternative Products

Portland also currently manages the following private/alternative products:

- [Bay & Scollard Development Trust](#)
- [ITM AG Investment Trust](#)
- [Portland Advantage Plus - Everest Fund](#)
- [Portland Focused Plus Fund LP](#)
- [Portland Focused Plus Fund](#)
- [Portland Global Aristocrats Plus Fund](#)
- [Portland Global Energy Efficiency and Renewable Energy Fund LP](#)
- [Portland Global Sustainable Evergreen Fund](#)
- [Portland Global Sustainable Evergreen LP](#)
- [Portland Private Growth Fund](#)
- [Portland Private Income Fund](#)
- [Portland Special Opportunities Fund](#)
- [Portland Value Plus Fund](#)

Individual Discretionary Managed Account Models - [SMA](#)

Net Asset Value:

The Net Asset Values (NAV) per unit of our investment funds are published on our Portland website at www.portlandic.com/prices

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Glossary of Terms: 'boe' barrel of oil equivalent, a measurement of a unit of energy, 'boed' refers to barrel of oil equivalent per day, 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'GDP' gross domestic product, 'netback' is a measure of oil and gas sales revenues net of royalties, production and transportation expenses and is used to compare performance in the oil and gas industry, 'ROE' return on equity, 'ROTE' return on common equity, 'ROTCE' return on tangible common equity.

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