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 17, 2019

Owner Operated Companies

Facebook, Inc. plans to release new versions of its Portal video chatting devices this autumn, the company's vice president of Augmented Reality/Virtual Reality, Andrew Bosworth, said during an interview at the Code Conference in Scottsdale, Arizona. "We have a lot more that we're going to unveil later in this fall, new form factors that we're going to be shipping," Bosworth said of the new devices. The release of new video chat devices fits into Facebook's focus toward private messaging by encryption of conversations on more of its messaging services. Facebook is one of the biggest global players in private messaging with its WhatsApp, Messenger and Instagram, each used by more than 1 billion people. Only WhatsApp fully secures message content from all outsiders, including Facebook itself. Chief Executive Officer Mark Zuckerberg said in March that within a few years, direct messaging would dwarf discussion on the traditional, open platform of Facebook's news feed, where public posts can go viral across the world. Bosworth said in the interview that the devices did not have the ability to record things and were only for calls. "There was a lot of conversation around us launching Portal. But it's about what Facebook is at its core. It's entirely about private conversation," Bosworth said.

Telix Pharmaceuticals Limited, a clinical-stage biopharmaceutical company focused on the development of diagnostic and therapeutic products based on targeted radiopharmaceuticals or "molecularly-targeted radiation" (MTR) announced that it has concluded a master services and distribution agreement with Eczacıbaş-Monrol of Turkey. Eczacıbaş-Monrol is a leading nuclear medicine company, active in over 30 countries around the globe. Telix and Monrol have signed a master agreement that covers the manufacturing and distribution of Telix's products, starting with TLX250-CDx (89Zr-girentuximab) for the imaging of clear cell renal cell carcinoma (ccRCC) with Positron Emission Tomography (PET). The agreement with Monrol significantly extends Telix's international reach as it moves toward product commercialisation. The agreement with Monrol serves as a distribution platform for potentially over 40 countries in the MENA (Middle East and North Africa) region, including several high-growth and health tourism destinations servicing significant numbers of cancer patients. Monrol is also capable of providing commercial-scale manufacturing backup for Telix clinical and commercial activity in Europe. As part of the market access strategy for Telix's products in the region, four (4) high-quality clinical oncology sites in Turkey will be added to the global ZIRCON Phase III trial for TLX250- CDx.

Energy Sector

Nothing significant to report.

Financial Sector

Citigroup Inc.'s trading and investment banking businesses will see declines in revenues in the second quarter, the bank's chief financial officer said last week, but its wider institutional and retail banking businesses continue to see growth. CFO Mark Mason, speaking at an industry conference, said that revenue in fixed income and equity trading would be down in the mid-single digits, relative to the year-ago quarter: "The slowdown we saw [in markets] in the quarter coming out of December . . . has persisted though most of the second quarter." In investment banking, Mr. Mason said, revenue would be down in the mid-teens compared to a strong second quarter of 2018 but the results would "likely [be] better than what we are seeing in the industry overall," suggesting that Citigroup is taking market share. The bank's institutional cash management and retail banking operations continue to see growth, he commented, with "continued strength in branded cards in particular." Citigroup's card business fell short of targets in 2018 but accelerated in the first quarter. Credit quality remains strong in the card business, Mr. Mason said. (Source: Financial Times)

DNB ASA - The CEO of DNB, Rune Bjerke, has notified the board of directors that he wishes to step down as of September 1st after nearly 13 years as head of DNB. The board of directors states that it has carried out an extensive process to find the right person to take over from Mr. Bjerke, thus the step down has been planned for a while. The Board started the process of finding Mr. Bjerke's replacement this winter and it says that it has found a perfect candidate in the current CEO, Kjerstin Braathen. Ms. Braathen has been CFO of DNB since 2017 and she has more than 20 years' experience from DNB of which 13 years have been in the bank's department for shipping and offshore. Furthermore, she has been the chair of the board for several of DNB's wholly-owned subsidiaries. Ms. Braathen will take over as CEO of DNB September 1, 2019. Analysts consider Ms. Braathen as the most obvious successor of Mr. Bjerke and they expect DNB's current strategy to continue.

Morgan Stanley's securities business will probably disappoint analysts by making less money in the second quarter than in the first three months of the year, chief executive James Gorman warned. "A lot of the analyst models have us beating the first quarter. I'd be very surprised if that happened," Mr. Gorman told a New York conference last week. "We're not going to have a bad quarter in the securities business (but) . . . The macro space is challenged, we had several weeks there where the IPO [initial public offering] calendar was effectively shut, the M&A [mergers and acquisitions] stuff has been lumpy," He said the bank's results had "definitely" been weighed upon by uncertainties in the wider environment. "When you've got this much noise politically…there's not a lot of activity." Citigroup, The Bank of America Corporation and JPMorgan Chase & Co. have already warned of tough trading conditions in the second quarter. (Source: Financial Times)

Royal Bank of Scotland PLC (RBS) confirmed the anticipated disposal of their stake in The Saudi Hollandi Bank (Alawwal Bank). The sale enables a +0.6% benefit to RBS' Core Equity Tier 1, driven by a £4.7bn reduction in Risk Weighted Assets and +£0.7bn contribution to attributable profit.

Activist Influenced Companies

Pershing Square Holdings, Ltd. – Billionaire investor William Ackman's activist hedge fund Pershing Square Capital Management, L.P. is reportedly opposing United Technologies Corporations planned $120 billion aerospace merger with defence contractor The Raytheon Company. The move makes Ackman the first major Wall Street figure to come out against the deal. Ackman wrote an email to United Technologies CEO Greg Hayes to express his concerns about the proposed deal after reading press reports about it. The fund manager, whose firm owns roughly 0.67% of United Technologies, had previously supported the company in its plans to split into three businesses - aerospace, The Otis Elevator Company and Carrier Corporation air conditioners. "We are extremely concerned that such a transaction will significantly lower the business quality of pro-forma United Technologies' aerospace business, and, to make matters worse, will be accomplished through the highly dilutive issuance of large amounts of United Technologies stock," Ackman's reportedly said in his email. Activist hedge fund Third Point LLC also has a stake in United Technologies. Like Pershing Square, it supported the company's break-up, but its views on the Raytheon deal are not known. The merger would reshape the competitive landscape by forming a conglomerate which spans commercial aviation and defence procurement. United Technologies provides primarily commercial plane makers with electronics, communications and other equipment, whereas Raytheon mainly supplies the U.S. government with military aircraft and missile equipment. Activist hedge funds are increasingly targeting announced deals and are seeking to upend them, often by betting that the acquirer's stock would go up were it to walk away from the purchase. United Technologies' deal with Raytheon also faces regulatory hurdles. The deal with Raytheon would be structured as an all-stock merger of equals because United Technologies, which currently has a market capitalization of $106 billion, would separately spin off Carrier and Otis. United Technologies bulked up in aerospace last year with its $23 billion acquisition of avionics maker Rockwell Collins.

"We cannot comprehend why United Technologies would attempt to effectuate a merger with Raytheon now, when United Technologies' shares are likely to be materially higher after the business separation is effectuated early next year," Ackman's email reportedly said. This year, Ackman's firm has been one of the hedge fund industry's best performers delivering gains of nearly 40% in the first four months of the year.

Dividend Payers

Nothing significant to report.

Economic Conditions

The Goldman Sachs Group, Inc. economists said on Sunday June16th they are skeptical of the "insurance" of U.S. interest rate decreases from the Federal Reserve to forestall possible slowing in U.S. economic growth due to global trade tensions. A surprise escalation in trade tensions between Washington and Beijing since May, together with stubbornly low inflation, have spurred bets among traders the U.S. central bank may lower key lending rates by 0.75% by year-end. "However, we think the hurdle for such cuts is likely to be higher than widely believed," Goldman economists wrote in a research note published on Sunday. A number of primary dealers, or the 24 top Wall Street firms that do business directly with the Fed, anticipate the Fed would lower key borrowing costs beginning this summer. (Source: Reuters)

U.S. industrial production rose 0.4% in May, beating expectations while April's 0.5% decline was trimmed to -0.4%. As encouraging as this headline is, **utilities** were responsible for the beat. The always-volatile sector rose 2.1% on the back of warmer weather. Excluding utilities, production was up 0.2%.

Manufacturing, which accounts for 75% of total production, rose 0.2% in May. The sector continued to suffer the impact of the trade war, but at least it managed its first pickup since December. **Mining** inched up 0.05%, the second upward move in a row.

U.S. retail sales jumped 0.5% in May, meeting expectations. But perhaps the better news came from the significant revisions for the past couple of months. March's already strong 1.7% rise was revised to 1.8%, and April's decline was erased to reflect a 0.3% increase. This once again shows how one should never get too comfortable with any economic data release as revisions can change the picture a great deal.

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Financial Conditions

Australia's seasonally adjusted unemployment rate remained at 5.2%, the same level as in April, despite the creation of 42,300 jobs in May. Part-time employment increased by 39,800, whilst full-time employment only rose by 2,400. A record number of Australians are in work or looking for it, with a participation rate of 66%, up from a revised 65.9% in April. Despite the lift in overall employment, the number of hours worked by Australians fell by 5.9 million hours, which contributed to an increase in the national under-employment rate to 8.6%.

The U.S. 2 year/10 year treasury spread is now 0.22% and the U.K.'s 2 year/10 year treasury spread is 0.24% - 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 15.60 (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

We want to share our insights with you and welcome your feedback. Our website has the latest, as well as archived videos, company profiles, and press articles. Please visit us at www.portlandic.com.

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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