News Highlights

Owners. Operators. And Insightful Investors.

Phone: 1-888-710-4242
Web: www.portlandic.com
Email: info@portlandic.com

PORTLAND INVESTMENT COUNSEL®

Established in 2007

Our views on economic and other events and their expected impact on investments. July 15, 2019

Owner Operated Companies

Facebook, Inc. – The U.S. Federal Trade Commission (FTC) approved a roughly $5 billion settlement with Facebook over its investigation into the social media company's handling of user data. The FTC has been investigating allegations Facebook inappropriately shared information belonging to 87 million users with the now-defunct British political consulting firm Cambridge Analytica Ltd. The probe has focused on whether the data sharing violated a 2011 consent agreement between Facebook and the regulator. Facebook's revenue for the first quarter of this year was $15.1 billion while its net income was $2.43 billion. It would have been higher, but Facebook set aside $3 billion for the FTC penalty. The deal resolves a major regulatory headache for Facebook, though the firm still faces further potential antitrust probes as the FTC and Justice Department undertake a wide-ranging review of competition among the biggest U.S. tech companies.

Energy Sector

CES Energy Solutions Corp. announced that the TSX has accepted its notice of its intention to implement a normal course issuer bid (NCIB). The NCIB effectively renews the existing NCIB, which was scheduled to terminate on July 16, 2019. CES's Board of Directors and management continue to believe that the market price of CES's common shares do not reflect their underlying value. Accordingly, the renewal of CES' NCIB will allow CES to opportunistically reduce the issued and outstanding common shares of the company and enhance shareholder value. Pursuant to the renewed NCIB, CES may purchase through the facilities of the TSX and other alternative securities trading platforms, from time to time over the next 12 months, up to 18,649,192 Common Shares, being 7.5% of the public float of Common Shares. Common shares purchased under the NCIB will be subsequently cancelled.

Financial Sector

Canadian Imperial Bank of Commerce (CIBC) announced it has reached an agreement to acquire Cleary Gull Holdings Inc., a U.S. mid-west based boutique investment banking firm specializing in middle market mergers and acquisitions, private capital placement and debt advisory across the United States, with a focus on family and entrepreneur-owned businesses, as well as private equity firms. According to CIBC, the acquisition will support the bank's continued growth in the U.S., meeting the needs of privately owned firms and furthering CIBC's capabilities to deepen client relationships for middle market clients. The transaction is expected to close in Q4, pending regulatory approval. Terms of the deal were not disclosed.

DNB ASA- Overall Profit Before Tax for Q2 was NOK7,705 million, or 3% ahead of consensus. The key drivers of the beat to consensus were stronger fees and gains on financial instruments with weaker costs. Net Interest Income was 1% light, albeit improving 3% quarter/quarter with volume growth stronger. Core Equity Tier 1 finished the quarter at 16.5%, improving 10 basis points (bps). Costs were 4% weaker with underlying costs higher given digital investment. The high level of capital is a headwind, albeit final implementation from Norwegian authorities could change this. Longer term, DNB remains best exposed to rising interest rates, in analysts' view, and the strong Norwegian macro environment ever updated proposals imply 30 bps of Core Equity Tier 1 build required, likely making the buyback tougher to execute near term.

HSBC Holdings PLC is replacing the chief executive of its US operation with a veteran of rival bank Citigroup Inc. as the lender tries to turn the struggling business round. The London-headquartered bank said Patrick Burke, 57, who has worked for HSBC since 1989, would retire as chief executive of HSBC USA in October and be replaced by Michael Roberts, an executive who has worked at Citigroup since 1986. Mr Burke's exit comes as HSBC attempts to revive its US business, which has been a major drag on profitability for years. In its 2018 annual report, HSBC described turning round its US operations as "its most challenging strategic priority". The bank's US unit generated a return on tangible equity — an important measure of profitability — of just 2.7% last year, well below the HSBC group figure of 8.6%cent and significantly behind its US-based rivals. The annual report said "significant improvement" of the division was necessary if it is to achieve its stated target of improving ROTE at the unit to more than 6% by the end of 2020. One executive familiar with HSBC's strategy in the US said "there was no easy fix", adding that the bank had too much capital trapped in its operation there. (Source: Financial Times).

Bank of England committee leaves countercyclical capital buffer for UK banks at 1%. Bank of England (BoE) published its Financial Stability Report stating that it stands ready to move countercyclical capital buffer in either direction as conditions and risks evolve. BoE believes the UK financial system is resilient and prepared for wide range of risks, including a worse-case disorderly Brexit. Perceived likelihood of no-deal Brexit has increased since the start of the year which has put additional downward pressure on forward interest rates, sterling and underperformance of UK-focused stocks. Underlying vulnerabilities that can amplify shocks have not changed materially since November. Other risks include rising trade tensions, which has resulted in declining business confidence and pose risk to global output.

Activist Influenced Companies

Brookfield Business Partners LP, together with its institutional partners, has closed the acquisition of 100% of the equity capital of Ouro Verde Locação e Seviços S.A., a leading Brazilian heavy equipment and light vehicle fleet management company. As part of the closing arrangements, Brookfield sponsored a recapitalization in which Ouro Verde: (i) received 500 million Brazilian real (US$131-million) to strengthen the company's balance sheet and support its growth strategy; and (ii) assumed certain liabilities. Brookfield and Ouro Verde originally entered into a transaction on September 4, 2018, for Brookfield to acquire a 55% controlling interest in the company. This original agreement was significantly modified. Under the terms of the new arrangements, Brookfield acquired all the equity in Ouro Verde.

Dividend Payers

Barrick Gold Corporation announced the deadline to make a firm intention to acquire the remaining 36.1% of Acacia Mining PLC has been extended to July 19, 2019. This follows Barrick's original May 21 proposal to acquire Acacia based on a share exchange ratio of 0.153 Barrick shares per Acacia share. Barrick owns 63.9% of Acacia. Barrick deal values Acacia at US$1,008 million (on 100% basis) and $364 million for the minority shareholder interest. Under UK law, Barrick now has until 5.00 p.m. (UK time) on July 19, 2019 to either announce a firm intention to make an offer for Acacia or announce that it does not intend to make an offer. Barrick's proposal remains subject to a number of customary conditions, including receiving the recommendation of the Acacia Board. The proposal does not impose an obligation on Barrick to make an offer.

WPP PLC sold 60% of Kantar Group to Bain Capital for a 100% enterprise value of US$4.0 billion. dilution. The recent £ weakness helps the deal's financials and its estimated WPP's EPS goes up by approximately 2% in 2021. The private equity structure of the transaction means that Kantar will continue to be a source of upside for WPP (five-year internal rate of return of 17%, £400 million of value creation, ie 3% of market cap) and a buyback should be supportive if management decides to return their planned approximately. £1 billion this way.

Economic Conditions

U.S. Consumer Price Index rose 0.1% in June, as flat food costs and a 3.6% slide in gasoline were more than offset by a **0.3% increase in core prices** (after a string of 0.1% advances in the prior four months). The headline rate still fell a couple of notches to 1.6%, but the core rate edged up to 2.1%. The two big "idiosyncratic" items temporarily depressing inflation this year, **clothing and used vehicles**, both rebounded (more than 1%) after declining in recent months. These two large gains added 0.07% to the monthly core increase. None of the other components suggested that inflation was breaking out to the high side. The shorter-term core metrics (3- and 6-month annualized rates) are only slightly above 2%.

China's exports (USD-terms) was slightly better-than-expected at -1.3% year/year in June while the contraction in imports came in at a larger -7.3% year/year. Trade surplus widened to US$50.98 billion from US$41.66 billion in May. In Chines Yuan terms, exports rose 6.1% year/year in June while imports registered -0.4% year/year. Overall, exports and imports (USD-terms) posted growth of +0.1%year/year and -4.3% year/year respectively in the first half of 2019. The weaker imports demand highlights concern of weakness in the domestic demand as China economy slows, posing further headwinds to the GDP growth ahead. China's export to the US fell for six out of seven months, recording -7.8% year/year in June (May: -4.1%) while its imports from the US slumped 31.4% year/year in June (May: -26.8%) in its 10th consecutive month of decline. China's trade surplus with the US widened to US$29.92 billion in June from US$26.90 billion in May, the largest so far this year.

Financial Conditions

U.S. Federal Reserve Chairman Jerome Powell has sent a strong signal the U.S. central bank could cut interest rates later this month by highlighting how the economic outlook hasn't improved in recent weeks. Mr. Powell also said he wouldn't leave his office if President Donald Trump tried to replace him. After Fed officials agreed to hold rates steady last month, Mr. Powell strongly suggested they could lower them in the months ahead if an economic outlook clouded by uncertainty over trade policy and weakening global growth didn't brighten. Overnight, he said recent data showed little reason to expect improvement. "The bottom line for me is the uncertainties around global growth and trade continue to weigh on the outlook," Mr. Powell told the House Financial Services Committee. Mr. Powell also warned of risks that weaker inflation readings could prove more persistent than previously anticipated. This development "strengthened the case for a somewhat more accommodative policy," he said. Fed officials face a mixed economic picture right now. The US labour market remains healthy, and consumer spending has been steady. "Our baseline outlook is for economic growth to remain solid," Mr. Powell said. But Mr. Powell spent far more time detailing the risks to the economy. Pressed on whether the strong June jobs report last week, in which employers added 224,000 jobs, had changed the outlook, Mr. Powell said, "The straight answer to your question is 'no.' (Source: The Australian)

The U.S. 2 year/10 year treasury spread is now 0.27% and the U.K.'s 2 year/10 year treasury spread is 0.23% - 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 3.75% (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 6.4 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 12.62 (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.

Portland Investment Counsel Inc. | portlandinvestmentcounsel | Portland Investment Counsel Inc. | @PortlandCounsel

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.

Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel.:1-888-710-4242 • www.portlandic.com • info@portlandic.com

PIC19-041-E(07/19)

Phone: 1-888-710-4242
Web: www.portlandic.com
Email: info@portlandic.com

Portland Investment Counsel Inc. portlandinvestmentcounsel Portland Investment Counsel Inc. @PortlandCounsel

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.

Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel.:1-888-710-4242 • www.portlandic.com • info@portlandic.com

PIC19-040-E(07/19)