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NEWS HIGHLIGHTS

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OUR VIEWS ON ECONOMIC AND OTHER EVENTS AND THEIR EXPECTED IMPACT ON INVESTMENTS

MAY 19, 2020

OWNER OPERATED COMPANIES

Berkshire Hathaway Inc. – Warren Buffett's Berkshire Hathaway Inc. reported it has sold much of its stake in Goldman Sachs Group, Inc. In a regulatory filing (13F) detailing its U.S.-listed investments as of March 31, Berkshire said its Goldman stake fell 84% to 1.9 million shares, from 12 million at year-end, with the stake's market value dropping to $297 million from $2.76 billion. Berkshire sold its remaining small stakes in the insurer The Travelers Companies, Inc. and oil refiner Phillips 66, and tweaked several holdings. Its stake in Wells Fargo & Company was unchanged, though the stock's price fell 47%. The Goldman stake originated in a $5 billion preferred stock investment at the height of the 2008 financial crisis, in a vote of confidence by Buffett for the Wall Street bank. Berkshire ended March with a record $137.3 billion of cash. The cash stake likely rose in April as Berkshire also sold its entire stakes in the four largest U.S. airlines: American Airlines Group Inc., Delta Air Lines, Inc., Southwest Airlines Co. and United Airlines Holdings, Inc.

Brookfield Asset Management Inc. (BAM) announced financial results for the quarter ended March 31, 2020, which included funds from operations of $884 million or $0.55/share, down from $1,051 million or $0.69/share from the first quarter of 2019. Bruce Flatt, CEO of Brookfield, stated, "Our business performed well in the first quarter despite global issues, showcasing the resiliency of our business model and its ability to withstand periods of disruption. Today, we are in a strong financial position, with $60 billion of available liquidity, ready to be deployed globally as opportunities arise." Most of BAM's operations continued to generate favourable operating profits, reflecting the essential and durable nature of their services and activities, however these were offset by the impact of non-cash, unrealized adjustments including mark-to-market movements during the last month of the quarter. Fee-related earnings increased by 35% on a quarter-over-quarter basis to $321 million, and 44% over the LTM before performance fees to $1.3 billion. This reflects strong fundraising in BAM's long-term and perpetual private funds, as well as the contribution of fee-related earnings from Oaktree Capital Management. Realized carried interest and disposition gains during the current quarter were lower due to the timing of dispositions being delayed, largely as a result of the current environment. Brookfield raised $45 billion of capital from third parties over the last twelve months, including $9 billion in the first quarter of 2020. Assets under management and fee-bearing capital grew over the last twelve months to $519 billion and $264 billion as at March 31, 2020, representing an increase of 42% and 76% from the prior year, respectively. This growth includes the acquisition of a 61% interest in Oaktree Capital Management. To date, BAM's latest flagship real estate, infrastructure and private equity funds are approximately 50% invested or committed, in aggregate. Oaktree's latest distressed debt fund has been actively investing over the recent months and is now approximately 80% invested. The company expects that its next fund vintage will hold its initial fundraising close in the coming months. Brookfield invested $40 billion of capital over the twelve-month period, including $11 billion during the current quarter. Subsequent to quarter end, Brookfield deployed approximately $4 billion of additional capital across its combined businesses.

Facebook Inc. is acquiring Giphy, a popular website for making and sharing animated images, or GIFs, and will integrate it with its rapidly growing Instagram photo-sharing app. Giphy will become part of Instagram, the photo-sharing site owned by Facebook. Its GIF library, which can integrate with other apps, will be further integrated into Instagram and other Facebook-owned apps. "People will still be able to upload GIFs; developers and API partners will continue to have the same access to GIPHY's APIs; and GIPHY's creative community will still be able to create great content," said Vishal Shah, Instagram's vice president of product. Alphabet Inc.'s Google acquired GIF platform Tenor in 2018 and integrated it into its image search function. A Facebook spokesman said Giphy's current integrations with social platforms like Twitter, Snapchat and ByteDance Ltd.'s TikTok would not change.

Pershing Square Capital Management – Bill Ackman's investment fund's most recent 13F filing reveals that it has increased its investments in Agilent Technologies, Inc., Howard Hughes Corp., Hilton Worldwide Holdings Inc. and Lowe's Companies, Inc., as well as its investment in Berkshire Hathaway. It initiated modest stakes in private equity investor The Blackstone Group Inc. and the hospitality longing real estate company Park Hotels & Resorts Inc. The famed activist investor also re-instated the investment in Starbucks Corporation and took some profits by reducing the fund's investment in Chipotle Mexican Grill, Inc. The fund returned 16.5% this year through May 12, according to its website.

Reliance Industries Ltd. and Jio Platforms Ltd. announced on May 17, an investment of $873 million by General Atlantic, a leading global growth equity firm. General Atlantic's investment will translate into a 1.34% equity stake in Jio Platforms on a fully diluted basis. With this investment, Jio Platforms has raised $8.8 billion from leading technology investors including Facebook, Silver Lake Partners, Vista Equity Partners and General Atlantic in less than four weeks. General Atlantic is a leading global growth equity firm with a 40-year track record of investing in the Technology, Consumer, Financial Services and Healthcare sectors. As an integrated team operating under a global investment platform across 14 locations, General Atlantic invests behind themes that are driven by innovation and entrepreneurship and supported by long-term secular growth. General Atlantic has a longstanding tradition of backing disruptive entrepreneurs and companies around the world, including Airbnb, Inc., Alibaba Group Holding Limited, Ant Financial Services Group, Box, Inc., ByteDance, Facebook, Slack, Snapchat, Uber and other global technology leaders.

Softbank Group Corp. – On Monday, May 18, Softbank Group Corp announced its consolidated financial results for the fiscal year ended March 31, 2020. While Q4 operating income was down sharply due to COVID-19, the Net Asset Value, which is their key performance indicator, remained strong. Although the company had an unrealized valuation loss of JPY 1.2 trillion, the Net Asset Value as of May 18th was JPY 21.6 billion (down only 6% versus end Q3). Loan-to-Value (LTV) ratio remained at 14% which is well below the stated financial policy of <25%. Softbank also provided an update on the asset monetization and share buyback plan. So far, Softbank has monetized JPY 1.25 trillion using Alibaba shares. The company has repurchased JPY 251 billion of the first JPY 500 billion tranche. It has also announced plans to buy another JPY 500 billion tranche of shares out of the JPY 2.0 trillion announced in March. Softbank also made some announcements regarding changes in its board of directors. Jack Ma stepped down and there were two external and one internal new board of directors' appointments.

DIVIDEND PAYERS

Brookfield Property Partners L.P. (BPY) reported Q1 2020 Company funds from operations (FFO) per unit of $0.32 ($0.33 including realized gains), flat year-over-year and just below consensus. Lower general& administration and non-recurring transaction income from the retail business was offset by a drop in FFO in both the office division and weakness from the hospitality assets. Same-property net operating income (NOI) in the core office portfolio was up 4.4% year-over-year (contributing to $0.01 in FFO per unit growth); however, this was more than offset by an increase in interest expense (-$0.02) from both refinancing a number of large properties as well as a reduction in capitalized interest on recently completed developments. For the retail portfolio, weak fundamentals led to a drop in same-property NOI of 3.4% (-$0.01 per unit); however, this was more than offset by non-recurring 'transaction income' of $30 million ($0.03 per unit). With the office portfolio generally leased on a long-term basis to high credit companies, rent collections from this portfolio should be relatively stable. For the month of April, BPY reported collecting over 90% of rent for its core office portfolio, although in the core retail portfolio, rent collections were weaker at 20% as most of the malls are currently closed. Management stated on Friday's earnings call that it is optimistic that the vast majority of unpaid rents will be ultimately collected. As of Q1 2020, BPY's IFRS NAV per unit is $28.52, down 4.0% from $29.72 sequentially, and flat year-over-year. NAV per unit estimates by analysts are now about $12.60, which is highly sensitive to changes in cap rate (analysts assess as about 6.7%) and NOI for the retail portfolio, and if we were to reduce the utilized cap rate to 5.3%, in line with what BPY uses, then the NAV estimate would rise 59% to $20.00 per unit.

Novartis International AG's gene therapy Zolgensma was conditionally approved in Europe for the treatment of patients with spinal muscular atrophy (SMA) and a clinical diagnosis of SMA Type 1; or SMA patients with up to three copies of the SMN2 gene. Zolgensma is immediately available in France and expected shortly in Germany. Spinal Muscular Atrophy (SMA): SMA is a rare, genetic neuromuscular disease caused by a lack of a functional SMN1 gene, resulting in the progressive and irreversible loss of motor neurons, affecting muscle functions, including breathing, swallowing and basic movement. Loss of motor neurons cannot be reversed. Patients SMA Type 1 will die before the age 2 if left untreated. Zolgensma is a gene therapy that is designed to address the genetic root cause of SMA by providing a functional copy of the human SMN gene to halt disease progression through sustained survival motor neuron protein expression with a single, one-time intravenous infusion. We believe this is great news for patients with SMA. From an investor's perspective, this approval was expected following the positive Committee for Medicinal Products for Human Use (CHMP) opinion on March 27.

Roche Holding AG - In the American Society of Clinical Oncology (ASCO) abstracts, we believe are the first promising results from Roche's phase 2 CITYSCAPE trial that tested tiragolumab plus Tecentriq in patients with metastatic non-small cell lung cancer. Tiragolumab is a monoclonal antibody designed to bind with TIGIT, a protein receptor on immune cells. By binding to TIGIT, tiragolumab can suppress the body's immune response thereby enhancing the body's anti-tumor activity. While tested in all-comers, the benefit appears to be primarily driven by PD-L1 high patients, which represent c. 30% of 1L Non-small-cell lung carcinoma (NSCLC) patients. The safety profile of tiragolumab + Tecentriq appears well tolerated for patients, with similar Gr 3-5 AEs compared to Tecentriq monotherapy. At ASCO annual meeting, May 29-31 virtual meeting, Roche will present updated data with additional 6-months of follow-up. Since the discovery of checkpoint inhibitors such as Roche's Tecentriq (anti-PD-L1), researchers looked for safe combination partners that would enhance the outcome for patients. Tiragolumab seems to be a promising candidate that Roche will now move into phase 3 in PD-L1+ NSCLC, SCLC, and phase 2 in PD-L1+ cervical cancer. While too soon to estimate the potential size of these markets each offer a multi-billion dollar opportunity in analysts' view.

LIFE SCIENCES

Telix Pharmaceuticals Limited announced that it has been granted a Type B pre-IND meeting with the United States Food and Drug Administration (FDA) in relation to the Company's planned Phase III ProstACT trial for TLX591 (177Lu-DOTA-rosopatamab) for the treatment of metastatic castrate-resistant prostate cancer. The meeting date has been scheduled for July 7, 2020. The company's planned Phase III ProstACT trial is a second-line study in men with metastatic castrate-resistant prostate cancer whose disease has progressed following initial treatment. The study will examine the effectiveness of TLX591 in combination with best standard care, compared with best standard care alone. The trial will recruit patients primarily in Australia and the United States, subject to regulatory approvals to conduct the study. Telix CEO Dr. Chris Behrenbruch said that "The Company has spent many months preparing for this meeting request and once we have feedback from the Agency on our planned clinical activity, we will be providing a comprehensive update to Shareholders on the future development strategy for this asset. Our preparation for this meeting and the design of the ProstACT trial has been conducted in close consultation with an advisory board comprising leading US, European and Australian urologic oncology experts and trialists."

Telix Pharmaceuticals (U.S.) Inc., a subsidiary of Telix Pharmaceuticals Limited announced it has entered into a commercial distribution agreement with Boca Raton-based Pharmalogic Holdings Corp. to provide nuclear pharmacy and logistics services to support Telix's prostate cancer imaging product TLX591-CDx (68GaPSMA-11), a radiopharmaceutical for the imaging of metastatic prostate cancer. Under the agreement, Pharmalogic will prepare and deliver patient-specific unit-doses of TLX591-CDx, for the U.S. market through its network of 27 nuclear medicine pharmacies. Pharmalogic's nuclear medicine pharmacy network services predominantly regional and rural areas in the Midwest and Northeast regions of the United States. Pharmalogic President and CEO Steven Chilinski stated "The collaborative partnership between Telix and Pharmalogic is being highlighted by the planned launch of this highly anticipated prostate imaging agent, ensuring that this important drug is available to our customers and patients, and furthering our mission to advance the development and commercialization of new, game-changing diagnostic and therapeutic radiopharmaceuticals." Telix U.S.A President Bernard Lambert added "We are delighted to have entered this commercial distribution agreement with Pharmalogic. This agreement is vitally important to our mission of bringing next generation prostate cancer imaging to patients in need in the United States, and in particular, ensuring maximal access for patients who live in regional and rural areas. We fundamentally believe in equity of access and that no man should be left behind in the fight against prostate cancer."

ENERGY SECTOR

Crude Oil Output Cuts – The Organization of the Petroleum Exporting Countries, Russia and other allies (OPEC+) has cut oil exports sharply in the first half of May suggesting a strong start in complying with a new production cut agreement. OPEC+ are cutting supply by a record 9.7 million barrels per day from May 1 to offset a slump in prices and demand caused by the coronavirus outbreak. Saudi Arabia is, reportedly, showing the largest cutback. Saudi oil exports have averaged 7.26 million boed, down 2.24 million boed month on month. Russia is also making a large reduction of 922,000 boed in May. Kuwait and the United Arab Emirates have also reduced shipments significantly. The two countries have loaded a combined 4.25 million boed onto ships for export, a drop of 1.26 million bpd month on month. The OPEC+ agreement applies to production, so exports do not provide the full picture on compliance, as withdrawals of crude from storage can boost exports temporarily.

Occidental Petroleum Corporation – Total S.A. has called off a plan to acquire Occidental Petroleum's assets in Ghana, which was conditional on the completion of the acquisition of Occidental's other assets in Algeria. The deal was part of an $8.8 billion agreement reached between Total and Occidental over Anadarko's assets in Mozambique, Ghana, Algeria, and South Africa. Occidental in 2019 decided to unload those assets as part of a $38 billion deal to buy Anadarko Petroleum. While a deal over the assets in Mozambique has been reached, Total said that an agreement over the assets in Ghana fell through after authorities in Algiers blocked Total's acquisition of Occidental's assets in Algeria. The acquisition of assets in Ghana was conditional upon the completion of the Algeria asset sale, Total said. Algeria blocked Occidental's deal to sell those assets earlier in the month. Total added that Occidental had informed the company that, as part of an understanding with the Algerian authorities, that Occidental would not be in a position to sell its interests in Algeria.

ECONOMIC CONDITIONS

U.S. housing starts sank a record 30.2% in April to 891,000 units annualized, a larger-than-expected move, and the lowest since January 2014. That's the third decline in a row. Most construction sites around the country remained open, but the country was effectively shut down during the month due to the pandemic. Singles plunged 25.4% to a 5-year low of 650,000 units while multis took a bigger 40.5% chop to a 7-year low of 241,000 units. Building permits didn't take as bad of a hit as consensus had estimated; they took a 20.8% drop in April to 1,074,000 units, and this is a useful indicator: you need a permit to break ground before one can start building. Things are slowly looking up. Mortgage applications for new purchases are up over 20% so far in May, and homebuilders are clearly anticipating a pickup.

U.S. Initial jobless claims - The number of first-time unemployment insurance (UI) claims fell 195,000 (the smallest decline over that six-week period) to 2,981,000 in the week of May 9. This is an important report particularly so this week as it covers the May payroll survey period, and, it points to a third straight month of job losses (but not as massive as April's 20,537,000). Although the number of claims are declining, the number of Americans who stay on UI remains sky-high. Continuing claims rose for the ninth straight week, up 456,000 to 22,833,000 in the week of May 2. As the lockdowns/shutdowns began, employers were forced to temporarily lay off or furlough their staff but continuing claims provide a glimpse that so far, it is not looking likely that some losses will be more permanent.

U.S. retail sales plunged a record 16.4% in April, worse than expected and following March's 8.3% dive. Excluding autos, they were worse.... down 17.2%. (Interesting as unit auto sales were slashed by a 1/3 in April to 8.6 million units annualized.) Of the major categories, only one was up.... non-store retailers (+8.4%), which cover online shopping. With the exception of building/garden equipment (-3.5%), the rest of the categories were all down at double-digit rates. A big one was clothing (-78.8%), as well as electronics/appliances (-60.6%). Even grocery stores were down (-13.2%) probably reflecting earlier stockpiling ...as grocery stores surged 28.6% in March. Core sales plummeted 15.3%.

U.K. and European Union - Talks between the UK and EU over a post-Brexit trade deal will enter their third round later, ahead of a decisive summit next month. Both sides are due to decide by the end of June whether the current deadline for negotiating an agreement should be extended beyond the end of December. The UK has said it will not agree to an extension, even if the EU requests one. The latest round of talks, held via video link concluded last week After the latest round in April, EU chief negotiator Michel Barnier said progress had been disappointing, whilst the UK said only "limited progress" had been made. There are differences between the two sides on fisheries, competition rules, police co-operation, and how a deal would be enforced.

Europe - Germany and France agreed to support a EUR 500 Billion EU recovery fund. The positive surprise is that the proposal is 100% in grants whereas prior discussions indicated Germany and Italy were willing to consider a combination of grants/loans. EC has estimated that Italian debt/GDP could near 160% by end-2020 without support. With the top-4 EU countries (France, Germany, Italy, Spain) now all in agreement, we believe this should break the opposition pact (Austria, Netherlands, Denmark, Sweden all wanting the aid to be issued in the form of loans). The funds would be distributed based on the needs of member states with the repayments to be pegged by the contributions of individual sates to the EU budget. All 27 members states would have to approve.

FINANCIAL CONDITIONS

U.S. - In his speech last week on "Current Economic Issues", Federal Reserve Chair Jay Powell re-emphasized his concern over the pandemic's medium-term risks to the economic outlook (which was first mentioned in the recent post-Federal Open Market Committee presser). The risks arise on two fronts. The first is how the virus, along with the medical and social responses to it, will unfold going forward. The second is how the economic damage already caused by stay-at-home orders and business closures could have lasting impacts. Powell said: "The overall [fiscal and monetary] policy response to date has provided a measure of relief and stability, and will provide some support to the recovery when it comes." He added that while the "response has been both timely and appropriately large, it may not be the final chapter, given that the path ahead is both highly uncertain and subject to significant downside risks." Powell argued that mitigating these risks "may require additional policy measures." Ruling out, yet again, negative policy rates, Powell said "we will continue to use our tools to their fullest until the crisis has passed and the economic recovery is well under way." He emphasized the Fed's lending powers. "A loan from a Fed facility can provide a bridge across temporary interruptions to liquidity, and those loans will help many borrowers get through the current crisis." Powell cautioned, "the recovery may take some time to gather momentum, and the passage of time can turn liquidity problems into solvency problems. Additional fiscal support could be costly, but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery." Congress is currently working on a fifth, and the potentially largest fiscal support package. Powell said now is not the time to worry about government debts and deficits, these can—and must—be addressed when the next economic expansion is well-established. In summary, analysts believe the Fed is more than willing to do more to promote economic recovery.

The U.S. 2 year/10 year treasury spread is now 0.54% and the U.K.'s 2 year/10 year treasury spread is 0.27%. A 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.

The U.S. 30 year mortgage market rate has increased to 3.28%. Existing U.S. housing inventory is at 3.1 months' supply of existing houses - well off its peak during the Great Recession of 9.4 months and we consider a more normal range of 4-7 months.

The VIX (volatility index) is 29.11 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

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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 tangible equity, 'ROTCE' return on tangible common equity.

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