



PORTLAND
INVESTMENT COUNSEL®

NEWS HIGHLIGHTS

EST. 2007

FOR ADVISOR USE ONLY

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

MAY 25, 2020

The views of the Portfolio Management Team contained in this report are as of May 25, 2020 and this report is not intended to provide legal, accounting, tax or specific investment advice. Views, portfolio holdings and allocations may have changed subsequent to this date. This research and information, including any opinion, is compiled from various sources believed to be reliable but it cannot be guaranteed to be current, accurate or complete. It is for information only, and is subject to change without notice. The contents of this Newsletter reflect the different assumptions, views and analytical methods of the analysts who prepared them.



OWNER OPERATED COMPANIES

Brookfield Asset Management Inc. received approval from the Toronto Stock Exchange (TSX) for the renewal of its normal course issuer bid to purchase up to 132,829,848 Class A limited voting shares, representing 10% of the public float of Brookfield's outstanding Class A Shares. Purchases under the bid will be made through the facilities of the TSX, the New York Stock Exchange and/or alternative trading systems. The period of the normal course issuer bid will extend from May 25, 2020, to May 24, 2021, or an earlier date should Brookfield complete its purchases. As at May 19, 2020, the number of Class A shares issued and outstanding totalled 1,572,865,053, of which 1,328,298,481 shares represented the public float.

Facebook, Inc. announced its biggest move into e-commerce to date, branded Facebook Shops. The announcement was made during a Facebook Live session with Mark Zuckerberg. Shopify Inc. founder Tobias Lutke, joined Mark Zuckerberg on the live webcast. The new e-commerce feature will allow small businesses to build online stores on both Facebook and Instagram. Business owners can create a dedicated "shop" section on their Facebook Page or Instagram profile and build out a catalog of products and services that visitors can browse, save, share, and even purchase.

In the future, Facebook Shops will also allow small businesses to sell products through Instagram Direct, WhatsApp, and Messenger, and tag products during live broadcasts.

Shopify Inc. is one of the several commerce partners on the Facebook Shops initiative. Other partners include BigCommerce Inc., WooCommerce, and ChannelAdvisor Corporation.

We believe the Facebook Shops initiative highlights the alignment of the investment in Facebook with the 15 of 15 wealth creation principles. Facebook is run by a highly engaged owner, a visionary, focused on long-term value creation through leveraging the loyalty and engagement of its user base. This move also provides opportunity for entrepreneurs running small businesses in a synergetic fashion.

KKR Ltd. /Reliance Industries Limited – On May 22, 2020, Reliance Industries Limited and Jio Platforms Limited announced that KKR Ltd. will invest approximately USD1.5 million into Jio Platforms for a 2.32% equity stake on a fully diluted basis. This investment represents a 12.5% premium to the equity valuation of the Facebook investment announced on April 22, 2020.

We believe KKR has a long history of successfully investing in businesses in the technology sector, including BMC Software, Inc., ByteDance and GoJek through its private equity and technology growth funds. Since inception, the firm has invested over \$30 billion (total enterprise value) in tech companies, and today the firm's technology portfolio has more than 20 companies across the Technology, Media and Telecom sectors. In addition, India has been a key strategic market for KKR with a history of investing in the country since 2006.

Softbank Group Corp. – On May 22, Softbank Group (SBG) announced the sale of a 5% stake in Softbank Corp. (SBC), as part of the plan outlined on March 23 of asset sales, debt reduction and share repurchases. The sale is expected to close on May 26, and after the transaction, Softbank Group stake in Softbank Corp will be 62.1%. SBG is expected to report a gain on the sale and a positive impact as a result of use of tax loss carryforwards available, which have not previously been recognized as tax assets.



FOR ADVISOR USE ONLY OUR VIEWS ON ECONOMIC AND OTHER EVENTS AND THEIR EXPECTED IMPACT ON INVESTMENTS



DIVIDEND PAYERS

JPMorgan Chase & Co. the largest U.S. bank, approved more than \$45 billion in new credit for over 250,000 of its business clients impacted by the COVID-19 pandemic in March and April, CEO Jamie Dimon said in a memo to stakeholders. (Source: Thomson Reuters)

RBC Capital Markets is limiting its trading relationship with a U.S.-based oil exchange traded fund, after unprecedented price volatility forced the bank to reassess its exposure to oil futures contracts. United States Oil Fund LP (USO), the world's largest oil exchange traded fund, disclosed last week that RBC is no longer buying new oil futures contracts on behalf of the ETF. Because RBC is the sole futures commission merchant for USO, the move could significantly affect the fund's ability to track the price of oil, the fund said in a regulatory filing. RBC has bought and sold futures contracts on behalf of USO since 2013, acting as a counterparty in derivative arrangements that give the fund exposure to the oil market. Extreme oil price swings over the past two months, however, have made it difficult for counterparties such as RBC to hedge their exposure to oil price moves. "RBC has indicated that such limitation on USO is a result of RBC's own internal risk management requirements and directions it has received from other regulators in the United States, Canada and the United Kingdom," USO said in a regulatory filing. RBC will still allow USO to roll its existing contracts forward each month. The bank has "expressly informed" USO that it will not help the fund add to its position by buying additional oil futures contracts. USO is now looking for other futures commission merchants to conduct trades on its behalf, according to the filing. (Source: Globe & Mail).

Walmart Inc. - In Q1 Walmart's U.S. e-commerce grew +74%. Walmart invested in price at a time others are pulling back (several other grocers reported gross margin expansion as promotions have been rolled back). Also, Walmart continued improving the shopping experience, driven by e-commerce enhancements (more same-day options, merged grocery/general merchandise apps, ship from store in approximately 2,500 locations, express 2-hour delivery etc.) and labor/wage investments to keep associate morale high and shelves stocked. Analysts believe Amazon.com, Inc.'s decision to focus on essentials during the pandemic helped, opening up a window for new customers to try Walmart's digital offering. Many likely realized that Walmart not only offers strong convenience, but also exceptionally competitive pricing. Indeed, Walmart noted that it brought 4x the number of new customers since mid-March, and despite Amazon beginning to shift its focus back to general merchandise, many new customers should be sticky in analysts' view given Walmart's value/convenience attributes.



LIFE SCIENCES

Nothing significant to report.



ENERGY SECTOR

Nothing significant to report.



ECONOMIC CONDITIONS

Canada - In testimony made to the House of Commons' Standing Committee on Finance, the head of Canadian Mortgage Housing Corporation (CMHC), Evan Siddall, discussed a variety of issues involving the domestic housing market and risks that could evolve in the coming months. Siddall raised concerns regarding Canada's elevated (and likely rising) household debt levels. Moreover, Siddall sees a looming "deferral cliff" in September as deferred mortgage payments come due. CMHC estimates that 12% of mortgage holders have been approved for mortgage payment deferrals, a number that could rise to 20% if the economy does not sufficiently recover. As a result, CMHC is evaluating its underwriting criteria and perhaps targeting the minimum down payment rules. In his remarks, Siddall highlighted the cushion a 10% down payment would provide to cover potential losses. Mr. Siddall suggested that CMHC could move the minimum down payment required to obtain mortgage insurance to 10%, replacing the 5% minimum down payment required for sub-\$500,000 mortgages and a 5-10% blend on mortgages between \$500 thousand - \$1 million. Mortgage payment deferrals have been a necessary step to help Canadians weather the storm brought on by the COVID-19 pandemic. However, they have also introduced a potential scenario where the rate of residential mortgage delinquencies could materially surpass the highest levels ever recorded, which was evident during the early 90s recession (Canadian Bar Association data shows delinquency peak of 65 bps).

Canada employment - Canada shed 226,700 jobs in April when efforts to contain the coronavirus outbreak shut down much of the economy, with trade, leisure and hospitality among the hardest hit industries, a report from payroll services provider ADP showed last week. The March data was revised to show 17,200 jobs were lost, rather than 177,300. The report, which is jointly developed with Moody's Analytics, is derived from ADP's payrolls data of about 40,000 companies.

U.S. existing home sales were down a sharp 17.8% in April (not far from consensus) to 4.33 million units annualized, the lowest since July 2011. Interested homebuyers stayed put given the stay-at-home orders across the country. No one was going to open houses and home sellers didn't want anyone strolling through their homes either. In California, for example, such orders prompted home sales in the Golden State to plunge 25.6% in April, or 30.1% below a year ago. But some of these sales closed before mid-March, before the orders took effect and first-timers bravely stepped up. First-time homebuyers accounted for 36% of sales, the largest share in about nine years (although during normal, healthy times, the share is 40% to 45%). The share of sales to individual investors or buyers of 2nd homes fell to 10%, while repeat homebuyers made up nearly half of all sales. Inventories continue to



be super-tight (positive for future housing starts and, thus, new home sales), as the number of homes available to be bought hit record lows (after adjusting for seasonality) and that continues to put a floor under prices. The median sales price is up nearly 7½% year/year... good for sellers, not good for buyers.

U.S.-China relations remain a concern as tensions show no sign of release. The U.S. Commerce Department added two dozen Chinese companies with ties to Weapons of Mass Destruction and military activities and nine Chinese entities “related to human rights abused in the Xinjian Ulghur Autonomous Region” to the “Entity List”. This will require these entities to obtain additional license requirements and limit the availability of exceptions for exports, re-exports and transfers. The U.S. Transportation Department also accused China of blocking U.S. airlines resuming service to China and ordered four Chinese air carriers to file flight schedules with the U.S. government. Chinese Foreign Secretary Wang says a political virus is being spread in the U.S. and some political forces are pushing towards the brink of a new Cold War with China. In Hong Kong, thousands protested the new proposed Chinese security law as unrest returned to Hong Kong.

China made a change in the usual statement about Taiwan from “promoting China’s peaceful reunification” to “promoting China’s reunification” which displays a strong stance against Taiwan.

British small businesses have borrowed more than 14 billion pounds (\$17.1 billion) under a government-guaranteed coronavirus credit programme during its first two weeks of operation, outpacing bank lending under other schemes for bigger firms. The finance ministry offers banks a 100% credit guarantee on loans of up to 50,000 pounds under its ‘Bounce Back Loan Scheme’, after an 80% guarantee slowed lending under an earlier programme. The BBLS has lent 14.18 billion pounds to nearly 500,000 small businesses as of May 17, up from 8.38 billion pounds by May 10. (Source: Reuters)

Spain’s Government said last week it would approve new liquidity lifelines to help companies and households weather the coronavirus crisis after releasing another tranche of the 100 billion euros of state-backed credit announced in March. “If companies and the productive sector need more liquidity, the government will obviously provide the liquidity mechanisms that will keep them alive,” government spokeswoman Maria Jesus Montero said following a cabinet meeting. (Source: Reuters)

Brazil’s Government last week launched a new credit line aimed at helping small companies weather the economic crisis stemming from the coronavirus pandemic. The country’s Treasury will use 15.9 billion reais (\$2.78 billion) to cover potential loan defaults, limited to 85% of each loan extended. The remaining part should be covered by financial institutions providing the loans. Companies with annual revenue of up to 4.8 million reais (\$834,000) can apply for this new credit line, which costs Brazil’s benchmark interest rates plus 1.25% per year. There is no grace period for repayments.



FINANCIAL CONDITIONS

The U.S. 2 year/10 year treasury spread is now 0.49% and the U.K.’s 2 year/10 year treasury spread is 0.22%. 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 3.24%. 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 28.16 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

Portland Investment Counsel Inc. currently offers Mutual Funds & Private/Alternative Products - visit www.portlandic.com

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

Net Asset Value:

The Net Asset Values (NAV) 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 tangible equity, 'ROTCE' return on tangible common equity.

This research and information, including any opinion, is based on various sources including corporate press releases, annual reports, public news articles and broker research reports and is believed to be reliable but it cannot be guaranteed to be current accurate or complete. It is for information only, and is subject to change without notice. This Newsletter is not an offer to sell or a solicitation of an offer to buy any security nor is it necessarily an indication of how the portfolio of any Portland Fund is invested. The securities discussed in the Newsletter may not be eligible for sale in some jurisdictions. The views expressed by any external links and subsequent media, including but not limited to videos, are not necessarily those of Portland Investment Counsel Inc. and are provided for general information purposes only. Portland Investment Counsel Inc. assumes no responsibility for the information provided by external sources.

Information presented in this Newsletter should be considered for background information only and should not be construed as investment or financial advice. As each individual's situation is different, you should consult with your own professional investment, accounting, legal and/or tax advisers prior to acting on the basis of the material in the Newsletter. Commissions, management fees and expenses may be associated with investment funds. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. Please read the prospectus or offering document before investing.

Consent is required for any reproduction, in whole or in part, of this piece and/or of its images and concepts. PORTLAND, PORTLAND INVESTMENT COUNSEL and the Clock Tower design are trademarks of Portland Holdings Inc. Used under licence by Portland Investment Counsel Inc.

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

PIC20-030-E(05/20)

NEWS HIGHLIGHTS

EST. 2007

FOR ADVISOR USE ONLY

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

MAY 7, 2020



PORTLAND
INVESTMENT COUNSEL®