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NEWS HIGHLIGHTS

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

AUGUST 16, 2021

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OWNER OPERATED COMPANIES

Brookfield Asset Management

("BAM") for second quarter of 2021 reported funds from operation (FFO) per share of \$0.50, up approximately 25% from \$0.40 in the year-ago period, although slightly below estimate of \$0.54. FFO per share, including carried interest and gains from asset sales, increased from \$0.73 in 2020 second quarter to \$1.01 in 2021 second quarter. In the quarter, BAM realized US\$205 million of carried interest net of costs, as compared to \$31 million in the prior year period. During the 2021 second quarter, BAM raised \$30 billion of third-party capital in its flagship funds, and fee-bearing capital is now \$325 billion, up \$48 billion or 17% year-over-year. Subsequent to quarter end, BAM raised an additional \$7 billion for its first Global Transition Fund, which is focused on the global transition to a net-zero economy, and \$9 billion for its next flagship real estate fund. BAM's second quarter 2021 operating FFO was slightly below expectations, yet management fees continue to grow and the various segments are generally performing well, with the property division being the notable exception.

SoftBank Group Corp. ("SoftBank") – Masayoshi Son said he would begin to make personal investments alongside SoftBank's Vision Fund. Son made the disclosure as his company reported earnings, explaining that he will begin to co-invest in Vision Fund 2, an investment vehicle in which SoftBank has been the sole source of capital. Son can invest up to US\$2.6 billion and will own 17.25% of the equity. He will have a similar arrangement with SoftBank's Latin America fund. The founder explained that venture capital firm partners typically get a 20% to 30%



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COMPANY NEWS**

performance fee, but the Vision Fund doesn't have similar incentives. The co-investment is supposed to provide financial benefits, but will include a downside. "I will take risks all by myself initially," Son said. "Then I will distribute to other people in the management. We want this to remain as the culture of SoftBank." The Vision Fund's income in the three months ended June 30 was 235.6 billion yen (US\$2.1 billion), down from a record 2.27 trillion yen profit in the previous quarter. In the press conference, Son defended the company's track record and its long-term investment success. He said SoftBank's funds have \$88.2 billion in unrealized fair value, along with \$18.3 billion in realized value. Son argued his investments were not concentrated in any single geographic area, explaining China is just 23% of the fund's total value and accounted for 11% of new investments last quarter. He also suggested investors should wait it out, allowing one to two years to finalize new regulations. Son confirmed that most of the company's portfolio, of over 300 companies, leverage artificial intelligence, of which there's little doubt that technology will be central to the future.

Reliance Industries Ltd. ("Reliance") - Saudi Aramco ("Aramco") is in advanced talks for an all-stock deal to acquire a stake in Reliance's oil refining and chemicals business, explained the people with knowledge of the matter. The Saudi Arabian firm is discussing the purchase of a roughly 20% stake in the Reliance unit for about US\$20 billion to \$25 billion-worth of Aramco shares, the people said who requested not to be identified because of the private information. Reliance, which is backed by Indian billionaire Mukesh Ambani, could reach an agreement with Aramco as soon as the coming weeks, noted the people. A deal would forge a closer alliance between the world's biggest oil exporter and one of the fastest-growing consumers. It would seal more than two years of negotiations and mark Aramco's first all-stock deal since its initial public offering ("IPO") in 2019. Ambani confirmed talks about a deal with an implied stake valuation of \$15 billion that same year. Discussions were delayed by the onset of the coronavirus pandemic and a slump in oil prices. Energy markets have since recovered, with crude

prices jumping around 35% this year to almost \$70 a barrel. Aramco said last week due diligence on a deal with Reliance was underway. A transaction would boost Aramco's sales of crude to India. For Reliance, it would help to lock in a steady supply of oil for its giant refineries and make the Indian company a shareholder in Aramco. Based on Aramco's market valuation of about \$1.9 trillion, a transaction would give Reliance a stake of around 1%. Details of the potential transaction are still being negotiated, and talks could drag on longer or fall apart, the people explained. A representative for Aramco declined to comment. In June, Reliance appointed Aramco Chairman, Yasir Al-Rumayyan, to the board. Ambani had said Reliance could finalize an investment deal with the oil producer this year. The Saudi government sold 2% of Aramco in the IPO, raising almost \$30 billion. Crown Prince Mohammed bin Salman, said in April that the kingdom was in talks to sell a 1% stake in Aramco to a "leading global energy company." "This deal could be very important in strengthening Aramco's sales in the country where this company resides," the prince stated. Saudi Arabia shipped 613,000 barrels a day of crude to India in July, around 10% of its total exports. The transaction would help Aramco reach its goal of more than doubling refining capacity between 8 million and 10 million barrels of crude a day. The Saudi firm had 3.6 million barrels a day of capacity at the end of last year, including stakes in joint ventures.

Facebook Inc. - ("Facebook") and some of the world's largest telecommunications carriers, China Mobile Ltd. and MTN Group Ltd., are set to build a very large sub-sea cable in Africa. The companies plan to add the Indian Ocean island countries of Seychelles and Comoros, as well as Angola and a new connection to Nigeria, according to a statement released on Monday. This is in addition to a recently announced link to the Canary Islands that would bring connection-landings to 35 in 26 countries. The undersea cable sector is experiencing a resurgence, with Facebook and Alphabet Inc.'s Google behind about 80% of recent investments in transatlantic links. The tech giants are seeking to tap growing demand for fast-data transfers used for everything from streaming movies to social messaging and telemedicine. During the 1990s dot-com boom, phone companies spent more than \$20 billion laying fiber-optic lines under the oceans. The project is part of Facebook's long-held plans to lead the race to provide more reliable and faster internet in Africa, a continent of more than 1.2 billion people with an increasing up take of smartphones. Facebook first announced plans for a new undersea cable in May 2020. That followed attempts to launch a satellite in 2016 to beam signal around the continent -- but the SpaceX rocket carrying the technology blew up. 2Africa, set to be one of the largest subsea cable project in the world will cost just under US\$1 billion, according to Bloomberg. Manufacturing of the first segments of the infrastructure has started in the U.S., according to the statement. Nokia Oyj' Alcatel Submarine Networks was picked to build the cable. 2Africa is expected to come into operation by 2024 and will deliver more than the combined capacity of all sub-sea cables that are currently serving Africa, according to the statement. Other project partners include Telecom Egypt Co, the U.K.'s Vodafone Group PLC and Paris-based Orange S.A.

Samsung Electronics Co. ("Samsung") – Last Wednesday, Samsung Electronics Co. launched its lineup of consumer devices for the latter half of the year, positioning its new Galaxy Z Flip 3 as a direct rival to Apple Inc.'s upcoming iPhone release. The 5G-capable, Android-powered device dramatically lowers the entry price for the foldable category, coming in at \$999 after its predecessor had cost \$1,449 at launch.

Flanked by a new Galaxy Z Fold 3 costing \$1,799, a Galaxy Watch 4 at \$249 and Galaxy Buds 2 at \$149, the Flip 3 will be Samsung's star attraction in the fall, with the company omitting its usual launch of a Galaxy Note device in the summer. The larger Fold 3 will be capable of using a stylus, effectively supplanting the Note's position in the company's premium range. Samsung committed to "a full-scale flagship marketing" blitz for its foldables this year during its most recent earnings call. "The market demand for foldable smartphones is growing exponentially," Samsung said in a statement, citing analyst forecasts projecting a tripling of sales to 6.5 million units. "Samsung will be the leading and foremost provider, driving the market demand. We anticipate this generation of foldables will be our best-selling yet." Samsung is hoping to steal a march on the competition by popularizing a device category that's been plagued by technical problems and consumer ambivalence given the high price tags. The world's largest smartphone maker is under pressure not just from Apple but also increasingly sophisticated Chinese rivals from Xiaomi Corp. to Guangdong Oppo Mobile Telecommunications Corporation Limited ("Oppo"), particularly in parts of Europe and India. On Tuesday, Xiaomi Chief Executive Officer, Lei Jun, declared his intention to overtake Samsung within three years.

DIVIDEND PAYERS

Walt Disney Co.
Disney+ ("DIS+")

Subscriptions (116 million) came in well ahead of estimates (by 8 million), driven by growth in India. We believe subscriptions in the U.S. slowed sequentially from fiscal second quarter to third quarter. And with more content hitting DIS+ later this quarter, a re-acceleration in domestic subscriptions is believed likely with estimates around 4 million net additions for DIS+ for fourth quarter to 120 million. Operating income at Domestic/International parks improved by approximately \$750 million quarter-over-quarter as attendance at Walt Disney World Resort and the Walt Disney Land reopening drove the improvement. Although there's some seasonality, with all of the Parks open for a full quarter, expectations are for further fourth quarter improvement (with COVID-19 being a caveat). Underlying cable affiliate revenue grew +4% in the third quarter, which was roughly in-line with the second quarter. Subscriptions moderated further to a 3% decline (from down 4%) – but an 8% pricing tailwind drove overall growth.

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 **GO TO PORTLAND GLOBAL ARISTOCRATS PLUS FUND¹**

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RWE AG ("RWE") reported 2021 first half results. The 2021 first half adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) was €1,751 million (second quarter outturn of €868 million was approximately 4% above company collected consensus median of €836 million) and 2021 first half adjusted net income was €870 million (second quarter outturn of €530 million was approximately 12.5% beat against expected €471 million). The main reason for the 2021 second quarter EBITDA beat was a better than expected performance of the Other and Coal/Nuclear subdivisions. This coupled with a €48 million better than expected adjusted minorities item (+€13 million outturn versus company collected consensus median of -€35 million)

is the key reason for the sizeable 2021 second quarter adjusted net income beat. 2021 first half net debt was approximately €0.9 billion (approximately €0.4 billion better than consensus of €1.3 billion mainly driven by a positive impact from variation margins relating to Carbon dioxide (“CO2”) hedging). RWE reiterated its 2021 outlook.



ECONOMIC CONDITIONS

Canada: Reuters highlighted that Canadian Prime Minister, Justin Trudeau, called an early election for September 20, 2021, saying he needed a new mandate to ensure voters approved of his Liberal government’s plan to recover from the COVID-19 pandemic. According to the Reuters article, Mr. Trudeau is betting that high vaccination rates against the virus and a post-pandemic economic rebound will help him prolong and strengthen his grip on power. Newly released data shows 71% of the country’s eligible population is fully vaccinated. The article notes that the polls suggest the Liberals will win their third consecutive election but may not regain a majority in the 338-seat House of Commons. Currently, Mr. Trudeau has only a minority of seats, leaving him reliant on other parties to govern. Nationally, Liberals would win 35% of the vote, compared to 30% for Conservative party, the main opposition and 19% for the left-leaning New Democrats, revealed a Leger Marketing poll on August 12. Nanos Research pollster, Nik Nanos, said the Liberals had no choice but to go to the polls now, noting that the longer they wait, the more risk they face of a fourth wave of the coronavirus. That said, another minority administration would leave him likely relying once more on the New Democrats, who favor even heavier spending on social programs. It would also raise questions about Mr. Trudeau’s future as the leader of his party.

U.S.: Consumer Price Index increased 0.5% month-over-month in July after climbing 0.9% the prior month. This result was exactly in line with consensus expectations. The energy component rose 1.6% on a 2.4% gain for gasoline. The cost of food, for its part, increased 0.7% as the food away from home segment climbed 0.8%, a record since 1981. The core consumer price index (CPI), which excludes food and energy, progressed a still strong 0.3% after climbing 0.9% the prior month, a result that was boosted by prices of used vehicles. Price for ex-energy services rose 0.3% on strong gains for shelter (+0.4%) and medical care services (+0.3), while transportation edged down (-1.1%) for the first time since February 2021. The price of core goods, meanwhile, grew 0.5% on gains for new vehicles (+1.7%), motor vehicle parts (+1.1%), education commodities (+0.8%), tobacco/smoking products (+0.5%), while apparel was unchanged. Year on year, headline inflation clocked in at a 13-year high of 5.4% for the second consecutive month. The core index, meanwhile, grew 4.3% year on year after climbing 4.5% the previous month, in line with consensus expectations.

The UK economy grew by 4.8% between April and June, according to official figures, as most businesses emerged from lockdown. Data from the Office for National Statistics showed that the expansion in gross domestic product (GDP) was fueled by retail, restaurants and hotels.

The Chinese economy: Industrial Production slowed more than expected at 6.4% year-over-year and 14.4% year-to-date fiscal/calendar 7.9% year-over-year and 14.6% year-to-date) from 8.3% year-over-year and 15.9% year-to-date previously. Retail Sales weakened to 8.5% year-over-year from 12.1% year-over-year last month and fixed asset investments dipped to 10.3% year-to-date from 12.6% year-to-date previously. China’s National Bureau of Statistics (“NBS”), warned that

“the economic recovery is still unstable and uneven” due to Covid-19 outbreaks and natural disasters in different regions. The NBS says Beijing will target measures to push for a more stable recovery in employment. Speculation is that the People’s Bank of China (PBOC) will look for another round of reserve requirement ratio (RRR) cuts later this year.



FINANCIAL CONDITIONS

The U.S. 2 year/10 year treasury spread is now 1.04% and the U.K.’s 2 year/10 year treasury spread is 0.43%. 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 could be an early warning of an economic slowdown.

The U.S. 30 year mortgage market rate has increased to 2.87%. Existing U.S. housing inventory is at 1.9 months’ supply of existing houses - well off its peak during the Great Recession of 9.4 months what we believe a more normal range of 4-7 months.

The VIX (volatility index) is 17.32 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 could be encouraging for quality equities.

And finally: “Making predictions is way easier than making money”
~Ben Carlson

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Glossary of Terms: 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'GDP' gross domestic product, 'ROE' return on equity, 'ROTE' return on common equity, 'ROTCE' return on tangible common equity, 'conjugate' a substance formed by the reversible combination of two or more others.

1. Not all of the funds shown are necessarily invested in the companies listed

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