

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.

November 19, 2018

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Owner Operated Companies

Oracle Corporation – Warren Buffett's Berkshire Hathaway Inc. announced a stake in Oracle Corp. According to filings, Berkshire owned \$2.13 billion worth of Oracle stock as at the end of the third quarter, the database software company. It also added to its sizable stakes in two earlier Buffett investments, Bank of America Corporation and The Goldman Sachs Group Inc. Despite the stock purchases, Berkshire ended September with \$103.6 billion of cash and equivalents.

Energy Sector

Nothing significant to report. .

Financial Sector

HSBC Holdings PLC is planning to rebuild its presence in Brazil three years after selling most operations in the country, as new chief executive John Flint works towards his target of putting bank back into "growth mode". Executives are discussing bulking up the investment bank in order to win back domestic corporate clients. Many of these were lost when HSBC cut ties with the market in 2015, the year it agreed to sell its loss-making Brazilian business to Banco Bradesco for \$5.2 billion, according to two people familiar with the plan. A non-compete agreement HSBC signed as part of the deal with Bradesco expires soon, clearing the way for the lender to return in force, one of the people said. HSBC retained about 80 investment bank staff in the country after the Bradesco sale so it could continue advising and financing large international corporate clients. (Source: Financial Times).

NN Group NV - Q3 2018 Results - €63 million pre-tax operating result is a big beat against consensus but it seems largely driven by one-offs in our view. The approximately €0 million beat sits half in Dutch Life and half in the corporate centre. The non-life business also had € million of private equity (PE) dividends. The 'other' segment benefitted from another €4 million provision release and another unusually high profit from ING Groep N.V. by approx. €0 million. Adjusting for all of these factors would get the underlying result to approx. €85 million for no PE dividends. 97.1% Dutch non-life combined ratio is good in our view. 239% Solvency 2 ratio, this comfortably beats consensus. Operating capital generation is exactly in line with expectations. The headline big beat in operating earnings can probably be normalized down to consensus, but it should not be any worse than that. The Dutch non-life combined ratio is good and the Solvency 2 ratio is strong, albeit distorted by markets.

Nordea Bank Abp and Royal Bank of Scotland Group PLC (RBS) have been removed from a list of the world's most important banks, meaning they will no longer have to hold additional capital to offset the systemic danger they used to present to the global financial system. The decision by the international Financial Stability Board means both Nordea and RBS escape the requirement to maintain capital equivalent to an extra 1% of its risk-weighted assets. This could boost the amount of cash the majority government-owned RBS bank will be able to return to U.K. taxpayers and institutional shareholders. RBS briefly became the largest bank in the world before the financial crisis, with a balance sheet the same size as the German economy, but it has shrunk significantly and retreated back to its home markets since being rescued by the U.K. government in 2008. It had total assets of £719 billion at the end of the third quarter, down from £2.4 trillion a decade ago. (Source: Financial Times)

U.K.-based life insurer Prudential PLC said its profits from new business rose by 17% in the first nine months of the year, driven by record performances in some of its Asian operations. Asia is seen as the company's main growth engine, and Asian new business profits — a measure of profits on new business sold in the period — grew 15% to £1.8 billion in the nine months to the end of September thanks to strong sales of health and protection products. In the U.S., profits at Prudential's Jackson business rose 22% to £716 million as the company reaped the benefits of higher interest rates and tax reforms. (Source: Financial Times)

Royal Bank of Scotland – Announced last week that Alison Rose is to become the Deputy CEO and a Director of NatWest Holdings Limited, the bank's ring fenced holding company.

Activist Influenced Companies

Brookfield Business Partners L.P. – Johnson Controls International PLC announced it would sell its power solutions business, which makes car batteries, to investment firm Brookfield Business Partners, in a cash deal valued at \$13.2 billion. Johnson Controls unit's batteries are used in about a third of cars globally. The deal represents the biggest shake-up at Johnson Controls since its merger in 2016 with Tyco International PLC. Johnson Controls' power solutions business, which makes and distributes about 154 million lead-acid batteries for passenger cars and light trucks annually, carries higher margins but has been capital intensive for Johnson Controls.

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Nomad Foods Limited reported financial results for the three and nine month periods ended September 30, 2018. Key operating highlights and financial performance for the third quarter 2018, when compared to the third quarter 2017, include: reported revenue increased 15.6% to €531 million; organic revenue growth of 1.9%; reported profit for the period of €36 million; adjusted EBITDA increased 7% to €84 million; reported EPS decreased 13% to €0.21; adjusted EPS increased 8% to €0.26. Company raised its 2018 guidance to the upper end of the prior range of €365 to €370 million adjusted EBITDA and €1.14 to €1.17 Adjusted EPS. Stefan Descheemaeker, Nomad Foods' Chief Executive Officer, stated, "[...] Organic revenue growth of 1.9% marks our seventh consecutive quarter of organic growth and is a testament to our focused strategy and relentless commitment to execution. As anticipated, underlying gross margin improvement was offset by acquisition mix and an unfavourable pea harvest. We continue to expect accelerated EBITDA growth in the fourth quarter and look forward to a strong finish to 2018."

Pershing Square Holdings, Ltd. – Billionaire investor William Ackman has turned his back on snack maker Mondelez International Inc. and put the money into potentially more lucrative bets, including global coffee company Starbucks Corporation and hotel operator Hilton Worldwide Holdings Inc. Ackman's hedge fund, Pershing Square Capital Management, sold out of Mondelez International during the third quarter, some three years after spending \$5.5 billion for 7.5%. The two most recent additions to the \$7.2 billion fund's portfolio are a 1.1% stake in Starbucks and a 3.7% stake in Hilton. Ackman took care to praise management at each company and said his team would soon be meeting with the Starbucks team. Ackman ranks among the year's best-performing activist investors, with his private hedge fund up 9.36% for the year through November 6 while the average activist has lost 5% this year, according to Hedge Fund Research data. Ackman said that much of the recent gains have been fuelled by Starbucks and investments in Chipotle Mexican Grill Inc., which is up 68% this year, and Automatic Data Processing, Inc., which has climbed 23.5% this year. Some 11 months after telling investors that he planned to keep a lower profile, Ackman has largely stuck by his plans and reassured investors that he is working hard behind the scenes. "We will be active, engaged and supportive even if you don't see us on television or in the media," he said.

Dividend Payers

Novartis AG - Alcon filed the initial Form 20-F registration statement with the SEC for the proposed spinoff. Alcon shares are planned to be listed on the SIX and NYSE under the ticker "ALC". Novartis plans for a tax neutral 100% spinoff of Alcon with closing in the 1st half of 2019. Alcon is the largest eye care devices company in the world, with 2017 sales of USD \$6.8 billion. The company researches, develops, manufactures, distributes and sells eye care products within two key businesses: surgical (approx. 55% of Alcon sales) and

vision care (approx. 45% of sales). Measured by global market share, Alcon is global no.1 in the ophthalmic surgical market and no. 2 in the vision care market. The size of the eye care market in which Alcon operates is approx. USD \$23 billion in size and grows approx. 4% per annum (2018-23). The surgical market is approx. USD \$9 billion in size and grows 4% per annum. It includes sales of implantables, consumables, and surgical equipment. The vision care market is approx. USD \$14 billion in size and grows approx. 4% per annum. It comprises products for ocular care and consumer use (contact lenses). The spinoff of Alcon is expected to support Novartis' transformation to a focused innovative medicines company.

Roche Holding AG - The Food & Drug Administration granted priority review to Tecentriq + nab-paclitaxel (chemotherapy) for the 1L treatment for patients with PD-L1 positive triple-negative breast cancer. Priority review should in our view allow for a shorter approval timeline hopefully within the 1st half of 2019 instead of later 2019.



Economic Conditions

U.K. business, having breathed a huge sigh of relief on Wednesday after the cabinet approved the draft Brexit withdrawal agreement, expressed horror on Thursday as political turmoil threatened to derail it, and the spectre of a "no deal" Brexit rose once more. "There is absolutely no circumstance under which no deal would be a better alternative to this agreement," said one senior banker. "[If it collapses] we will do ourselves damage that we will find it very difficult to recover from." Josh Hardie, deputy director-general of the CBI, said that, if the withdrawal agreement failing meant the U.K. crashing out of the E.U. without a deal, "it would be a disaster". "No one should delude themselves," he said. Adam Marshall, director-general of the British Chambers of Commerce, said that if the withdrawal agreement died, the increased uncertainty would have "real-world" consequences for business confidence and investment. "In such a scenario, we would be especially concerned about how major international investors might react," he said. (Source: Financial Times)

The U.K. inflation rate remained steady at 2.4% in October. The Consumer Prices Index (CPI) figure included falls in food and clothing costs, but rising utility bills and petrol prices. The inflation figure comes a day after data showed that wages were rising by 3.2% - the fastest pace in nearly a decade. Core inflation also held steady at 1.9% in October. That figure strips out the effects of energy, food, alcohol and tobacco prices. (Source: BBC)

Japan's exports growth returned to positive territory in October after a brief decline in September. Exports increased 8.2% year/year (significantly improved from -1.3% in September but below Bloomberg median forecast of 8.9%). Imports growth continued to accelerate, expanding 19.9% year/year in October (from 7.0% year/

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year in September and above Bloomberg median forecast of 14.1%). While exports expanded at a decent pace, it was the unexpected surge in imports that resulted in a bigger than expected trade deficit for Japan at JPY 449.3 billion in October (from a small surplus of JPY 131.3 billion in September and well below Bloomberg median expectations for a deficit of JPY 70 billion). For the first 10 months of 2019, Japan is currently looking at a small trade deficit of JPY 400.8 billion. On a seasonally-adjusted basis, the trade deficit was JPY 302.7 billion, from a deficit of JPY 141.5 billion in September.

Financial Conditions

The U.S. 2 year/10 year treasury spread is now 0.26% and the U.K.'s 2 year/10 year treasury spread is 0.69% - 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 two-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 4.94% (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 4.0 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 19.09 (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 and McKinley Funds](#)
- [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) of our investment funds are published on our Portland website at www.portlandic.com/prices

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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, 'ROE' return on equity, 'ROTE' return on common equity.

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