

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.

January 14, 2019

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Owner Operated Companies

BlackRock Capital Investment Corporation, the largest fund manager in the world, plans to cut 500 jobs, or 3% of its workforce. The company wants to continue to invest “while key competitors will be playing defense” in areas including high-growth markets, technology and improving how the company works with clients. The company will also focus on key products, including exchange-traded funds (ETFs). The company’s headcount will still be 4% higher than a year ago after the layoffs. BlackRock oversees \$6.4 trillion in assets under management. On Wednesday, Chief Executive Officer Larry Fink gave Mark Wiedman, the executive behind the company’s iShares ETF brand, a new job overseeing strategy, marketing and international businesses as the world’s largest asset manager grooms possible successors to Fink. Fink also told employees in a memo that the company would be announcing additional changes “to bring the firm closer together, to simplify our organization, to make us more nimble, and to create new opportunities to drive growth and serve our clients.”

Brookfield Property Partners L.P. – A South Florida resort owned by Brookfield has, as reported by Bloomberg, been put on the block and could generate as much as \$1 billion. Thayer Lodging Group, the Brookfield subsidiary, has tapped Newmark Knight Frank and Hodges Ward Elliott to market the Diplomat Beach Resort, a 1,000-room hotel in Hollywood, Florida. The Diplomat is coming up for sale at a time Florida resorts are outpacing the U.S. market. Revenue per available room increased by 4.2% at Florida resorts in the first 11 months of 2018 compared to 3.4% percent at all U.S. resorts. The property, which has more than 200,000 square feet of meeting space, sits between the Atlantic Ocean and the Intracoastal Waterway.

Energy Sector

Bonterra Energy Corp. announced an initial 2019 capital budget range of \$57 to \$77 million, which will ultimately be dependent on Canadian realized pricing per boe. This capital program represents a continuous single rig drilling program and associated facility capital. Bonterra’s strategic objectives associated with the 2019 capital budget are consistent with the company’s long-term objectives of achieving disciplined per share growth in combination with maintaining financial flexibility while paying a sustainable dividend. Bonterra’s 2019 capital budget incorporates a measured approach to address the volatility in the crude oil price and oil price differential environments. Canadian crude oil price differentials have been positively impacted by the Alberta government’s recent

announcement that 325,000 barrels per day of Alberta crude oil production would be curtailed effective January 1, 2019 to help reduce the excess crude in storage, as well as their intention to purchase rail cars to transport additional barrels of crude oil out of the province. While these actions are expected to have a positive impact over the near-term, Canada still requires additional pipeline capacity such as: Keystone XL, Trans Mountain and Enbridge Line 3 Replacement to ensure a fair price is received for the country’s crude oil over the longer term. The Company remains committed to focusing on sustainability and debt reduction for the remainder of 2019 and will continue to monitor the effect of the production curtailments, progress of additional pipelines and commodity prices to determine if adjustments to its capital spending program for 2019 may be warranted. Annual average production volumes are expected to range between 12,600 and 13,200 boe per day, with a 2019 forecast exit rate range of 13,000 and 14,000 boe per day.

Financial Sector

Barclays PLC - Bloomberg reported last week that Barclays holder Edward Bramson lost confidence in talks with management; may seek a board seat at the AGM. Citing a letter sent to his investors, Bramson is said to have indicated he may seek a change in board composition at the company’s annual general meeting or a separate session. It notes Bramson discussed the lack of progress in recent discussions with the company, noting, “After considering the situation carefully, we do not have confidence that continued engagement with the company, strictly as an outsider, will produce any more measurable results in the future than it has to date.”

Citigroup Inc.’s Q4 results - adjusted EPS came in a few pennies better than expected at \$1.61 per share (excluding \$0.03/share tax benefit)—with consensus at \$1.55. Revenue totals fell short—largely fixed income trading driven but investment banking and Treasury & Trade Solutions nicely ahead of forecast. In North American branded cards, margins firmed and loss rate was stable; organic momentum was evident in North America retail banking—average deposits, average loans and investment sales all increased quarter/quarter; and the group’s operating efficiency at 57.4% was in line with revised estimates. EPS upside was driven by lower/better credit costs and a lower tax rate. Full year 2018 ROTCE of 10.9% (vs 10.5% target) on CET 1 of 11.9%. In the press release, as per CEO Michael Corbat: “For 2019, we remain committed to delivering a 12% ROTCE and continuing to improve our operating efficiency during the year.”

Royal Bank of Canada Global Asset Management and BlackRock Canada announced that they had entered into an alliance that will see the two sizable asset managers combine their exchange-traded

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fund (ETF) offerings in Canada under the branding of RBC iShares. Although this transaction is clearly more of the 'strategic' variety for RBC on the whole, for the asset management unit, the move will provide significant heft to the passive ETF offering, and will do so via a partnership with the recognized leader in the space. To this end, we would note that BlackRock ended November with \$58 billion in ETF AUM in Canada (\$56 billion of which was passive), representing approximately 36% of total industry ETF AUM and approx. 41% market share in the passive product. While we fully acknowledge the lower margins associated with passive ETFs, in analysts' view, the benefit to RBC from this partnership results from the ability to offer clients (and advisors) a comprehensive set of in-house investment solutions, and does so without the bank having to incur the expense/opportunity cost associated with building-out a more fulsome passive offering.

Activist Influenced Companies

Pershing Square Holdings, Ltd. – Billionaire investor William Ackman's publicly traded hedge fund gained 7.1% in the first week of January, according to an investor update, marking the strongest start to a new year ever for the firm. Early January stock gains at Chipotle Mexican Grill, Inc., one of Ackman's most potent investments ever since he helped install a new Chief Executive last year, helped power the portfolio forward. Gains at Platform Specialty Products Corporation and Lowe's Companies, Inc. also helped. Ackman's Pershing Square Holdings fund, managed by his New York-based Pershing Square Capital Management, ended 2018 with a small 0.7% loss. That still beat most rivals, known as activist investors that push companies to perform better, who lost an average 11.3% for the year, as shown by data from Hedge Fund Research. The fund manager declared 2018 as a year of rebuilding at Pershing Square. He shrunk his staff and curtailed the marketing and public relations meetings that took a big chunk of his time, saying he was returning to his roots of being more involved in making the investments. He made several new bets, including the Lowe's investment, and watched as older bets, like Chipotle, finally began paying off. The average activist investor has started 2019 with losses, according to Hedge Fund Research data.

Dividend Payers

Barrick Gold Corporation-Randgold Resources Ltd. merger is now complete, and so Barrick (GOLD) has re-established itself as the world's largest gold mining company, albeit Newmont Mining Corporation's announced bid to acquire Goldcorp Inc. will challenge that status. In GOLD, analysts see the combination of a diversified portfolio of high quality gold assets, experienced management, and an attractive valuation as ticking the boxes for investors. The company's continued transformation into a returns-focused gold miner adds further support to the investment thesis.



Economic Conditions

The World Bank cut its forecast for the global economy as slowing growth in trade and investment and rising interest rates sapped momentum, especially in emerging markets, according to the development lender's semi-annual update to its global outlook. Downside risks to the world economy have become more acute, including the threat of "disorderly" market movements and an escalation of trade disputes. Debt vulnerabilities in emerging markets and developing countries have increased. World Bank expects global growth of 2.9% this year, down from 3% in 2018 and a reduction of 0.1% from its forecast in June. The euro zone is forecast to expand 1.6% this year, down 0.1% from its forecast in June, while China seen expanding 6.2% versus an est. of 6.3% in June. The World Bank kept its forecast for U.S. growth unchanged at 2.5% this year. The bank lowered its projection for growth in emerging markets by 0.5% to 4.2%. "The outlook for the global economy has darkened. Global financing conditions have tightened, industrial production has moderated, trade tensions have intensified, and some large emerging market and developing economies have experienced significant financial market stress".

U.S. inflation, as measured by the changes in the consumer price index (CPI), seemed to slow down in December, at a 1.9% headline rate, compared to November's 2.2%, chiefly impacted by lower energy prices during the month. The core reading, which excludes the most volatile prices series, including food and energy, kept steady, at 2.2% in December, matching November's reading.

U.K. / Brexit - A no-deal Brexit may shrink U.K. GDP by up to 8% with thousands of jobs put at risk, The Guardian reported, citing the Confederation of British Industry. The lobby's leader Carolyn Fairbairn has called on MPs to put jobs and economy ahead of politics when they vote Tuesday. Japanese Prime Minister Shinzo Abe added his support after a visit with Theresa May, saying it's "the wish of the whole world" that a deal be done.

The U.K. Report on Jobs, a survey of recruitment consultants, indicates growth in permanent placements weakened in December to the slowest rate in nearly two years. The slowdown is attributed to economic uncertainty around Brexit meaning people are reluctant to move jobs. The underlying employment market remains firm, however, with vacancies near all time highs and temporary placements picking up following a weak November.

China's exports may have surged 9.9% in all of 2018, but the effects of the trade war with the U.S. took a clear toll in the latter months of the year. Chinese trade balance saw Imports fall by 7.6% (+4.5% was expected) and Exports fell by 4.4% (+2.0% expected) all reasons why Beijing is making a concerted effort to support growth (example: the cut to the bank reserve ratio, raising the Qualified Foreign Institutional Investor (QFII) quota to \$300 billion from \$150 billion).

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The Bank of Canada (BoC) kept the overnight rate unchanged at 1.75%, and continued to project that higher policy rates would eventually be necessary. However, negative revisions to the 2019 outlook were a bit more significant than anticipated, prompting the BoC to add the caveat that the normalization process would occur over time. Despite the negative revisions to the outlook, the Bank was careful to note that the economy had been performing well outside the oil sector. 2020 growth is expected to run well above potential at 2.1% and inflation is forecast to return to target by late 2019.

The U.S. 2 year/10 year treasury spread is now 0.16% and the U.K.'s 2 year/10 year treasury spread is 0.47% - 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 4.45% (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 3.9 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 19.80 (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

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.

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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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