

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.

June 3, 2019

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Owner Operated Companies

Alphabet Inc.'s Google said it had resolved the network congestion in the eastern United States that affected services in Google Cloud, G Suite and YouTube. Google said it would conduct an investigation of the outage and make appropriate improvements to the company's systems to prevent or minimize future recurrence. Snapchat, which also experienced outages, said it was aware of the issue. Snapchat's parent company, Snap Inc., said in its annual report it used Google Cloud, but neither company responded to questions about whether the Snapchat outage was linked to the Google Cloud issues. The U.S. Justice Department is reportedly preparing an investigation of Alphabet Inc.'s Google to determine whether the tech giant broke antitrust law in operating its sprawling online businesses.

Brookfield Asset Management Inc. is reportedly close to sealing a deal with U.S. infrastructure fund KKR and Spain's Ribera family to buy a 50% stake in solar group X-Elio Energy SL. The transaction values the whole company, which builds and operates photovoltaic plants in the United States, Europe, Africa and Asia, at around €1.05 billion including debt. Brookfield plans to buy a 20% stake in the company from the Riberas family, an industrial dynasty from northern Spain that founded car parts maker Gestamp. It also plans to acquire a further 30% stake in the company from KKR, which bought 80% of X-Elio from the family in 2015. KKR will continue to hold the remaining 50% of X-Elio. Most of X-Elio's more than 78 solar plants and almost half its staff are located outside Spain.

Energy Sector

Energy sector activism – Activist investor Carl Icahn sued Occidental Petroleum Corporation over its deal to buy rival Anadarko Petroleum Corporation, signalling he may try to replace Occidental's board of directors and press for asset sales. His lawsuit calls Occidental's \$38 billion purchase of Anadarko "fundamentally misguided and hugely overpriced" and asks for access to Occidental's financial records and details of negotiations. Carl Icahn also criticized Occidental Chief Executive Vicki Hollub and her management team for taking \$100 million in pay since 2016. Occidental said it would respond to the lawsuit and expects to complete the merger this year. Its bid for Anadarko topped one by Chevron Corporation and includes a \$10 billion financing deal with Warren Buffett's Berkshire Hathaway Inc. The merger of the two U.S. shale producers would increase Occidental's debt to around \$40 billion, assuming it sells the Africa assets to Total S.A., as announced. The Berkshire investment allowed Occidental to increase the cash portion of its bid for Anadarko and eliminated the need for Occidental to win approval from its own

shareholders. Icahn was not the only investor to take issue with the lack of a shareholder vote on the deal. T. Rowe Price Group, Inc. said it would vote against the Occidental board of directors at the company's annual meeting earlier this month because the company would not allow shareholders to vote on its bid for Anadarko, which T. Rowe Price and other shareholders opposed.

Financial Sector

The Bank of Nova Scotia reported second quarter results, which included adjusted net profit attributable to shareholders of CAD \$2.08 billion, or CAD \$1.70 per share, in the quarter, compared with CAD \$2.06 billion, or CAD \$1.71 per share, a year earlier. Analysts on average had expected a profit of CAD \$1.74 per share. Adjusted non-interest expenses rose 7.7% to about CAD \$4 billion in the quarter from a year earlier, while its provisions for credit losses surged 35% to CAD \$722 million. The jump in provisions came after Scotiabank's recent acquisitions, which include Canadian insurer MD Financial Management Inc. and investment firm Jarislowsky, Fraser Limited. Adjusted net income of Scotiabank's Canadian banking business unit grew about 4% in the quarter ended April 30, while net income from its relatively smaller international banking division surged about 20%. Scotiabank, which has the biggest overseas presence among Canada's major banks, has been focusing on the Latin American trade bloc comprising of Mexico, Peru, Chile and Colombia. The bank's markets revenue, which includes trading in bonds and equities, also showed an increase.

Activist Influenced Companies

Brookfield Business Partners L.P. together with its institutional partners announced that it has closed the previously announced sale of BGIS Global Integrated Solutions US LLC, a leading global provider of facilities management services, to CCMP Capital Advisors, LP for approximately \$1 billion. Brookfield Business Partners is a business services and industrials company focused on owning and operating high-quality businesses that benefit from barriers to entry and/or low production costs.

Dividend Payers

Nothing significant to report.

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Economic Conditions

U.S. – Personal income advanced by 0.5% in April, ahead of the expected 0.3% improvement, while personal consumption expenditures were up 0.3% in the same month, also ahead of the consensus expectations calling for a 0.2% increase. Part of the same report, the change in the personal consumption expenditures (PCE) core price index, the U.S. Fed's favourite inflation gauge, clocked in at 1.6%, in line with expectations. Though the reading is materially below the U.S. Fed's target, the factors driving it are likely temporary and until proven differently, the Fed is likely to hold the line on the rates.

The Institute for Supply Management's (ISM) Purchasing Managers' Index (PMI), a key leading indicator of manufacturing activity, retreated to 52.1 index points in May, falling short of the expected 53.0 reading. The U.S. consumer sentiment, as measured by the University of Michigan, also retreated in May, to 100.0 index points, as both the "current conditions" and the "expectations" components of the composite index weakened during the month.

Canada – The Canadian economy advanced by 0.4% in the first quarter, a modest pace of improvement, falling short of the already low expectations for a 0.7% increase, with March being the stronger of the three months surveyed. A strong quarter in the consumer sector and business activity was offset by weakness in residential construction and a drop in net exports.

Not surprisingly, the Bank of Canada decided to maintain the overnight lending rate at 1.75%, indicating that its favourite stance going forward is to hold at the same level.



Financial Conditions

The U.S. 2 year/10 year treasury spread is now 0.23% and the U.K.'s 2 year/10 year treasury spread is 0.28% - 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 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.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 3.99% (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 5.9 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 18.68 (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 Fund](#)
- [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) per unit 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, '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 common equity, 'ROTCE' return on tangible common equity.

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