News Highlights

Owners. Operators. And Insightful Investors.

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Established in 2007

PORTLAND INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments. June 24, 2019

Owner Operated Companies

Carnival Corporation & PLC cut its full-year profit forecast, anticipating a hit from the Trump administration's sudden ban on cruises to Cuba and weakening demand in Europe. Carnival is the latest cruise operator to warn of the financial impact of the restrictions on recreational travel to the lucrative Caribbean island, a move that has forced companies to reroute their cruises, usually booked months in advance. "Cuba has gone for the foreseeable future and not in the plans for next year," Chief Executive Officer Arnold Donald said. "That higher-yielding itinerary is off the table. And companies like us and others will have to adapt to see what they can generate." Travelers from continental Europe made up nearly 19% of Carnival's total passengers in 2018, with cruises in European and Mediterranean comprising about 27% of its itinerary. Donald said the United Kingdom has been among the better performing European markets, despite uncertainty around Brexit. Carnival said it now expects 2019 adjusted earnings in the range of $4.25 to $4.35 per share, down from an earlier forecast of $4.35 to $4.55. The company forecast a 10 to 12 cent hit to full-year earnings from lower net revenue yields, a measure of spending per available berth. The company's total revenue rose 11% to $4.84 billion in the second quarter ended May 31.

Oracle Corporation forecast current-quarter profit above estimates, as the business software maker benefited from demand for its on-premise IT, cloud services and license support businesses. The company said, assuming currency headwind, it expected first-quarter adjusted profit to be between 80 cents and 82 cents per share. Oracle has been aggressively pushing into cloud computing to make up for a late entry in the fast-growing business. Chairman Larry Ellison said the company saw a surge in database license sales and a rapid growth in database options required to run Autonomous Database, a cloud-based technology that automates routine tasks needed to manage Oracle databases. The company added more than 5,000 customers on a trial basis in the quarter, as it migrates database users to the cloud. Microsoft Corporation and Oracle earlier this month announced an agreement to make their two cloud computing services work together with high-speed links between their data centres, which "will only help accelerate the transition from on-premise database to the Autonomous Database service," said co-Chief Executive Officer Safra Catz. Revenue from the cloud services and license support business, its biggest, rose marginally to $6.80 billion. The company's net income rose to $3.74 billion, or $1.07 per share, in the fourth quarter ended May 31, from $3.28 billion, or 79 cents per share, a year earlier. Total revenue rose 1% to $11.14 billion, above analysts' expectation of $10.93 billion. On an adjusted basis, the company earned $1.16 per share beating estimates of $1.07.

Energy Sector

Nothing significant to report.

Financial Sector

America's top banks face a more comprehensive test of their cyber defenses as U.S. regulators consider pooling resources to assess one of the biggest risks facing the world's financial system. Several senior regulators have told the Financial Times that they are working on a cross-agency approach to testing banks against attacks that could crash global payments networks, expose customer data or otherwise threaten the integrity of an industry that now relies far more on terabytes and interchanges than bricks and mortar. The proposed system, which regulators say could be in place later this year, would replace an existing regime in which different regulators examine different parts of the same institution. This has left banks grappling with multiple requests and regulators at risk of not grasping the totality of a bank's exposure to cyber threats. (Source: Financial Times)

DNB ASA - After Norges Bank's decision to raise its key policy rate by 25 basis point (bps) on June 20, from 1.0% to 1.25%, DNB last Friday increased the interest rate on its home mortgages by up to 0.25%. The interest rate changes will be effective for existing customers from August 8. DNB's decision is in line with its previous communication to the market. The CFO has said that the impact from the increase in September 2018 and March 2019 could prove to be good references for the potential outcome of future rate rises. The previous adjustments to prices for home mortgages (also 0.25%) were announced by DNB on March 22, 2019 (effective from May 8, 2019) and also come after Norges Bank's decision to raise its key policy rate by 25 bps.

NN Group N.V. - Shareholders representing approximately 41.1% of the outstanding number of shares have elected to receive the final dividend in ordinary shares. Consequently, 4,807,859 new ordinary shares will be issued as stock dividend. NN Group will neutralize the dilutive effect of the stock dividend through the repurchase of ordinary shares for a total amount of EUR 169 million, equivalent to the value of the stock dividend. These share buybacks will be executed by financial intermediaries under a share buyback program which is expected to end no later than December 31, 2019.

Activist Influenced Companies

Brookfield Business Partners L.P. (BBU) announced that it has agreed to issue 8,760,000 limited partnership units, on a bought deal basis, to a syndicate of underwriters co-led by TD Securities Inc., Scotiabank, BMO Capital Markets, Credit Suisse (Canada) Inc. and HSBC Securities (Canada) Inc. at a price of $39.40 per unit for gross proceeds of approximately $345 million. In addition, Brookfield Asset Management Inc. and certain of its related entities (other than Brookfield Business Partners) will, concurrent with the offering, purchase, directly or indirectly, 6,610,000 redemption-exchange units of Brookfield Business Partners' holding limited partnership (REUs) at the offering price (net of underwriting commissions), for a total amount of approximately $250 million. BBU will also, concurrent with the offering, issue 5,077,000 units at the offering price by way of private placement to The Ontario Municipal Employees Retirement System, the defined benefit pension plan for municipal employees in the Province of Ontario (Canada), for gross proceeds of approximately $200 million. The aggregate gross proceeds of the offering and the concurrent private placements will be approximately $795 million. The company intends to use the net proceeds from the offering, together with the proceeds of the concurrent private placements, for general corporate purposes, including future growth opportunities. The offering and the concurrent private placements are expected to close on or about June 28, 2019.

Pershing Square Holdings, Ltd. (PSH) announced that it will promptly commence a share buyback program of $100,000,000 of PSH's outstanding public shares on the London Stock Exchange and Euronext Amsterdam. The program is accretive to Net Asset Value (NAV) per share and will reduce PSH's capital. PSH is appointing Jefferies International Limited as sole buyback agent for the program. PSH retains the ability to purchase shares either on an opportunistic basis, and/or based on a trading plan put in place with Jefferies, which will enable the purchase of shares during closed periods. In accordance with European Union regulations, PSH advises shareholders that (a) the maximum number of shares to be repurchased under the program is 6,000,000, or approximately 2.8% of PSH's current outstanding Public Shares, and (b) the program is expected to last approximately until PSH's next Annual General Meeting but may be completed prior to this time.

Dividend Payers

Barrick Gold Corporation last week announced the deadline to make a firm intention to acquire the remaining 36.1% of Acacia Mining PLC has been extended to July 9, 2019. This follows Barrick's original May 21 proposal to acquire Acacia based on a share exchange ratio of 0.153 Barrick shares per Acacia share. Barrick owns 63.9% of Acacia. Based on June 18th closing prices, the proposed transaction values Acacia at $887.8 million on a 100% basis and $320.1 million for the minority shareholder interest. It is estimated that the proposed transaction equates to 0.99x NAV (on an unrisked basis) while Barrick is trading at 0.96x NAV; analysts currently apply a 25% risk discount to the Acacia assets given the longstanding concentrate ban and tax dispute with the Government of Tanzania (GoT). Barrick's 63.9% interest in Acacia represents 1.6% of analysts' Barrick mining NAV. Barrick reiterated the GoT does not want Acacia to operate in the country, in any form. Barrick has been negotiating with the GoT for the last two years and has developed a basis for a settlement, but it has not been finalized. The previously announced terms of a proposed framework for Acacia included a $300 million payment to the government of Tanzania and for economic benefits from Bulyanhulu, Buzwagi and North Mara to be shared on a 50/50 basis with the GoT in the form of royalties, taxes, and a 16% free carry interest. Barrick has reiterated its proposal for Acacia, provided further colour as to why it believes its offer represents fair value, highlighted concerns with the Acacia mine plans, and noted that it plans to record a material impairment to its carrying value of Acacia in the current quarter. Barrick's arguments for fair value include: 1) Acacia cannot continue to function as an independent company given the value represented by assets in Tanzania and Acacia's damaged relationship with the Government of Tanzania (GoT); 2) Acacia will have to transfer significant value to the GoT in the form of a US$300M payment and 50/50% sharing of economic benefits; 3) The operating environment in Tanzania could deteriorate further if no settlement is secured, raising the "risk of catastrophic loss of value" (including ongoing threats of criminal charges, detentions, and environmental investigations); and 4) Barrick's offer is the only "credible option" and its detailed due diligence has identified "significant risks inherent in these operations". Nonetheless, Barrick has ended up in a precarious situation with an apparent conflict of interest negotiating a settlement with the Tanzanian government on behalf of all Acacia shareholders while trying to justify that its indicative offer to buy out Acacia minorities at a discount is fair. Understandably Acacia minority shareholders are questioning Barrick's independence. Under U.K. law, Barrick now has until 5.00 p.m. (U.K. time) on July 9, 2019 to either announce a firm intention to make an offer for Acacia or announce that it does not intend to make an offer.

GEA Group AG announced its new organizational structure which will become effective from January 1, 2020. GEA will be organized in five divisions with each up to six sub-divisions: 1) Separation & Flow Technologies (pro forma 2018 sales: €1.2 billion; adjusted EBITDA margin: 21%), 2) Liquid & Powder Technologies (sales: €1.6 billion; adj. EBITDA margin: 5%), 3) Food & Healthcare Technologies (sales: €1.0 billion; adj. EBITDA margin: 8%), 4) Refrigeration Technologies (sales: €800 million; adj. EBITDA margin: 9%) and 5) Farm Technologies (sales: €650 million; adj. EBITDA margin: 10%). Each division will be led by a three-member Division Board consisting of a Division CEO, Division Chief Service Officer ('CSO') and Division CFO. Central Group functions will be focused on areas featuring the greatest potential for synergies, in particular procurement and production. GEA will create a new and joint Board level position for procurement, production and logistics and a search for COO position has already been launched. GEA will provide further details including divisional profitability targets, synergies for the global procurement as well as a timeline for the optimization of the production network and realignment of the enterprise resource planning systems, at the Capital Markets day on September 26, 2019. The new organizational structure largely

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resembles the pre-2015 setup. That's a sensible setup in analysts' view which should improve external transparency and help drive internal efficiencies, not least with the consolidation of procurement under the group COO, whilst the elevation of the heads of service to the divisional management boards should ensure greater focus on services.

Economic Conditions

U.S. housing starts topped expectations in May, despite falling 0.9%, as the prior two months were revised higher. At 1.269 million units annualized, the level was above expectations of around 1.24 million. The six-month average (1.222 million) tilted higher, though it remains well below the cycle high (1.297) reached in the six months to May 2018. Damping any enthusiasm in this report is that all of the increase was in the volatile multiple units, which increased 11% for a second straight month, while singles fell 6.4%. As well, all of the increase was in the South (which accounts for just over half of the national total), with the other three regions posting declines. A near-record amount of rainfall last month likely delayed some starts. A modest advance in building permits to 1.294 million units annualized suggests starts will continue to trend higher in coming months, supported by lower mortgage rates. This means residential construction should lift GDP growth for the first time in six quarters in Q2. However, a June setback in homebuilders' activity suggests any support from housing will be limited. Weighing in, units under construction haven't risen in four months, while completions have fallen in the past two months. In analysts' view the housing market is more likely to follow the economy than lead it this year.

U.S. existing home sales beat expectations with a 2.5% rise in May to 5.34 million units, the highest since February, with gains spread across all four regions of the country. And, April's figure was revised a bit higher to 5.21 million (was 5.19), which means it was flat versus March, not down 0.4%. Unlike the housing starts report earlier this week, both **single-family homes** and **condo** sales were higher (the former more so than the latter), while the **months' supply** stayed little changed at 4.3... which is still tight in analysts' view.

U.K. Economic Growth - The Bank of England has said it expects economic growth to be flat in the second quarter of the year. The Bank's Monetary Policy Committee (MPC) had previously predicted growth of 0.2% over the period. The committee said the downgrade in part reflected an easing of stock-building ahead of Brexit deadlines. In the run-up to the end of March, when the U.K. had originally been expected to leave the European Union, businesses from pharmaceuticals companies to food manufacturers stockpiled goods. They wanted to be ready in case the U.K. left the EU without a transition deal, which they feared could lead to delays at UK borders. (Source: BBC)

Financial Conditions

The U.S. Central Bank has opened the door to an interest rate cut, in a shift in guidance that follows criticism by President Donald Trump. The Federal Reserve left rates on hold, but said uncertainties about the economic outlook could force its hand. According to the vote, one Fed policymaker advocated an immediate cut, something the president has called for. Officials have in recent weeks acknowledged that the trade war with China is darkening the outlook. The policy-setting Federal Open Market Committee (FOMC) kept the key rate in the 2.25-2.5% range, but said "uncertainties about this outlook have increased" and the Fed "will act as appropriate to sustain the expansion." The closely-watched Fed statement included a marked shift in language. (Source: BBC)

The Bank of England kept its main interest rate on hold at 0.75% and warned that a combination of Brexit worries and global trade tensions was weighing on growth. All nine members of the Monetary Policy Committee backed the decision to not change rates. There had been some expectations in the markets that a couple of them could vote for an increase because of concerns that rising wages will push up inflation. However, figures this week showed the annual inflation rate fell to the bank's target of 2%, easing pressure to raise rates. Also, uncertainty surrounding Britain's departure from the European Union remains despite a Brexit deadline extension and are keeping a lid on growth. Only around 20% of respondents to a Bank of England survey think Brexit uncertainty will be resolved by the end of this year.

The Bank of Japan kept its monetary policy stance unchanged on June 20, 2019 as the central bank maintained in its statement that it "intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020…"

The U.S. 2 year/10 year treasury spread is now 0.28% and the U.K.'s 2 year/10 year treasury spread is 0.23% - 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 3.84% (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 15.48 (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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