PORTLAND INVESTMENT COUNSEL® NEWS HIGHLIGHTS
EST. 2007

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

JULY 27, 2020

The views of the Portfolio Management Team contained in this report are as of July 27, 2020 and this report is not intended to provide legal, accounting, tax or specific investment advice. Views, portfolio holdings and allocations may have changed subsequent to this date. This research and information, including any opinion, is compiled from various sources believed to be reliable but it cannot be guaranteed to be current, accurate or complete. It is for information only, and is subject to change without notice. The contents of this Newsletter reflect the different assumptions, views and analytical methods of the analysts who prepared them.

OWNER OPERATED COMPANIES

Danaher Corporation – announced results for the quarter ended July 3, 2020, which included net earnings of $927.3 million, or $1.24 per share, which represents a 38.0% year-over-year increase from the comparable 2019 period. Non-GAAP adjusted diluted net earnings per common share were $1.44 which represents a 32.0% increase over the comparable 2019 period. Revenues increased 19.0% year-over-year to $5.3 billion, with 3.5% non-GAAP core revenue growth including Cytiva (the former lifesciences business of GE, which Danaher acquired last year). Operating cash flow for the second quarter 2020 was $1.4 billion, representing a 37.0% increase year-over-year, and non-GAAP free cash flow was $1.3 billion, representing a 41.0% increase year-over-year. For the third quarter of 2020, the company anticipates that non-GAAP core revenue growth including Cytiva will be in the mid- to high-single digit range. Thomas P. Joyce, Jr., President and Chief Executive Officer, stated, 'We are very pleased with our second quarter results-especially in such a challenging environment. Our solid revenue growth, strong cash flow generation and more than 30% adjusted EPS growth are a testament to our team's commitment to the Danaher Business System [DBS] and the outstanding portfolio of businesses that comprise Danaher today.' Joyce continued, 'We are tackling the challenges presented by the COVID-19 pandemic head-on, providing critical diagnostic testing capabilities and accelerating our customers' pursuit of new vaccines and treatments. We're fortunate to navigate through this environment from a position of strength and believe that the combination of our team's DBS-driven execution, resilient portfolio and strong balance sheet uniquely position Danaher in 2020 and beyond.'

Pershing Square Holdings Ltd. – Pershing Square Tontine Holdings, Ltd. raised $4 billion in the biggest IPO by a special purpose acquisition company (SPAC). The company sold 200 million units at $20 each in the initial public offering. "We believe we can make an advantageous deal for our shareholders, really bringing a great opportunity for a company to accelerate its growth, deleverage the balance sheet, and provide capital for investors seeking to make an exit," said William Ackman. Mr. Ackman has said he was looking to buy a "mature unicorn", which has chosen to remain private due to limited pressure from their investors for liquidity until now. In addition to the money raised in the IPO, the SPAC also entered into a forward purchase agreement with Ackman's Pershing Square Funds for a minimum of $1 billion units, each comprising one Class A share and one-third of one redeemable warrant, at a price of $20 per unit. The forward purchaser, which includes three funds owned by Pershing Square Capital Management, has the right to buy up to an additional $2 billion units. The money raised for a SPAC sits in a trust earning interest until the SPAC manager identifies a company to buy. A SPAC typically acquires within two years of the IPO and investors are not notified in advance of the target. Blank check companies have raised $16.2 billion through U.S. IPOs so far in 2020, according to SPAC Research, easily exceeding the record $13.6 billion in 2019. Ackman's vehicle handily beat out former Citigroup Inc. executive Michael Klein's Churchill Capital III Corp., which raised $1.1 billion, to become the largest ever SPAC.

Reliance Industries Limited - Amazon.com is in preliminary talks to acquire a 9.9% stake in Indian billionaire Mukesh Ambani's retail venture Reliance Retail. Asia's richest man and the chairman of Reliance Industries Ltd. told shareholders last week that Reliance Retail Ltd. is getting inquiries from investors and may start bringing some on board in the coming months.

SoftBank Group Corp. – Arm Ltd., the chip designer controlled by SoftBank Group Corp., is attracting takeover interest from Nvidia Corp. in what could become the biggest-ever semiconductor deal, people with knowledge of the matter said. Nvidia, the world's largest graphics chipmaker, made an approach in recent weeks about a potential deal for Cambridge, England-based Arm, according to the people. SoftBank has been exploring options to exit part or all of its stake in the business, which it acquired for $32 billion in 2016. Other potential bidders could also emerge, the people said, asking not to be identified because the information is private. Nvidia's interest may not lead to a deal, and SoftBank could opt to pursue a listing of the business instead.

DIVIDEND PAYERS

The Coca-Cola Company - Q2 2020 Comparable EPS of $0.42, which compares to Consensus $0.40. Below-the-line items were a 1 cent drag to earnings. Operating margins down just -30 basis points (vs. consensus -240 basis points) driven by strong cost control. North America organic sales down -18% with price/mix flat. Latin America price/mix up +5% led by price realization and package initiatives in Mexico with the release also noting value share gains in the total beverage category. Europe, Middle East and Africa unit case volume -17% and price/mix down -9%. The price/mix weakness was driven by negative channel, package and geographic mix. Concentrate sales were -26% with the large gap to case volume driven by year-ago Brexit timing and stockpiling related to coronavirus concerns. Asia-Pac organic down -22% driven by lockdown restrictions in India. China was highlighted as having "positive performance". Global Ventures organic down -52% driven by temporary closures of nearly all of Costa's retail footprint in Western Europe. With the next three years presenting a very different reality than anticipated just a few months ago, Coca-Cola is accelerating efforts to optimize its portfolio… While Coca-Cola has made progress on eliminating "zombie" Stock Keeping Units (SKUs) over the past 3 years, we learned from the company this week that greater than 50% of its 400 master brands today are still single-country brands that in aggregate contribute a mere 2% to revenues. With the crisis highlighting the benefits of a more focused portfolio across the Consumer Packaged Goods industry, Coca-Cola aims to be more deliberate in prioritizing fewer but bigger brands. The recent decision to discontinue Odwalla is case in point. Also the company is seeking to introduce greater discipline into innovation and marketing decisions to ensure the company can support its growth ambitions more efficiently. Again, scale is taking precedence with management highlighting both a shift to bigger, more targeted innovation bets in new growth avenues as well as long-term opportunities to improve marketing effectiveness and efficiency through scalable programs; for example, a new "Together Tastes Better" campaign pairing Coke with meals that will kick off in the U.S. but be rolled out globally and tailored by market.

LIFE SCIENCES

Novartis AG - Q2 2020 results fall short on the top line Sales $11.3 billion vs. consensus $11.8 billion (-3.7% vs. consensus): Pharma 2% miss (multiple sclerosis & ophthalmology weak), Sandoz 9% miss, but beat consensus on core operating profit Group EBIT $3.7 billion. (+1.8% vs. consensus) and on core EPS. Core EPS of US$1.36 is slightly up vs. Q2 2019 (US$1.34). As expected, there was pandemic impact on ophthalmology drugs (Lucentis, Xiidra) and newly launched drugs (Piqray, Mayzent). Cosentyx also fell short of expectations - presumably due to the pandemic. Pipeline: ZPL389 (adriforant) for atopic dermatitis was discontinued - resulting in an impairment charge of US$485 million. This project was last featured on the company's potential blockbuster list. The guidance follows the results seen in Q2 2020 - Group sales growth guidance is lowered to mid single digit from mid to high single digit; and core EBIT growth is increased to low double digit from high single to low double digit. Overall results are as expected - Q2 2020 took a pandemic hit, mainly compensating for the strong beat seen in Q1 2020, that was also driven by the pandemic. As such, when looking at 1st Half 2020, we see Novartis being on track for the full-year despite the adjustments to the full-year guidance. This, though, assumes, a more or less unaffected 2nd Half 2020 which is not a given when looking at the many flare-ups of daily new cases around the globe, and in particular in the U.S.

Roche Holding AG - 1st Half 2020 sales of CHF 30.519 billion misses consensus by 3.1%. The miss is across the board, including both divisions as well as established and newly launched products. Pharma performed 4.5% below estimates and Diagnostics -2.3%, respectively. Products & pandemic: Ocrevus performed 5.6% behind estimates and Perjeta fell short by 3.5%. The main three cancer drugs that suffer from biosimilar erosion fell short between 5% and 8% versus estimates. Also newly launched product took a hit as, due to the pandemic, launch activities came to a standstill. Biosimilars during Q2 2020: Erosion rates for all 3 oncology drugs were higher than anticipated. In the U.S., biosimilar erosion for all three products was roughly 10% worse than anticipated, with erosion rates that are at least as steep as seen in Europe pharma. Despite this difficult quarter, Roche leaves its full-year guidance unchanged. Roche's Q2 2020 is significantly impacted by the pandemic and, thus, 1st Half 2020 falls short of expectations. Nevertheless, the company maintains its full-year guidance as it sees that the situation has started to normalize in June and expects less of a pandemic impact in 2nd Half 2020. Biosimilar erosion seems to be stronger than anticipated, still, when looking at 1st Half 2020, new medicines generated sales of CHF 8.9 billion, comfortably outpacing biosimilar erosion of US$2.1 billion in the same period.

Telix Pharmaceuticals Limited – announced that it has received an AUD$11.4 million Research & Development (R&D) tax refund in relation to eligible Australian and international R&D activities undertaken by the company in the year ended December 31, 2019. On August 3, 2018 Telix announced it had received an 'advance finding' from the Department of Innovation, Industry and Science in relation to its proposed pre-clinical, clinical, manufacturing and regulatory-related activities. The advance finding enables the company to claim an R&D tax rebate on eligible domestic and international R&D investment, up to a gross amount of $55.2 million over five years. Telix received the AUD$11.4 million tax refund for the year ended December 31, 2019 in the company's account on July 21, 2020. Telix Chief Financial Officer, Mr. Doug Cubbin stated: "The Australian Federal Government's R&D tax credit scheme is of significant value to a late clinical stage company such as Telix. The return of funds to the Company under the R&D tax credit scheme materially augments Telix's ability to deliver its numerous research partnerships and drug development programs both at home in Australia and abroad."

ENERGY SECTOR

Permian Basin M&A – Chevron Corporation's surprise $5 billion all-stock deal for oil producer Noble Energy, Inc. put an end of this year's deal drought, and may trigger more buys. The COVID-19 pandemic destroyed fuel demand and left dozens of energy companies without the prospect of drilling their way out of debt. They may now be more willing to entertain deals with the Chevron offer as a standard. Chevron agreed to pay $5 a barrel for Noble's proved reserves, a price that could reset expectations for sellers weighing deals. Other oil companies that have hinted at interest in cheap reserves and have the wherewithal to buy include ConocoPhillips, Exxon Mobil Corp. and Total SA. U.S. producers spent only $3.4 billion on company and land deals in the first six months of the year, turning away from buying assets as oil prices fell. Noble's $13 billion price tag puts it among the five biggest deals since 2013 and brings with it holdings that include deepwater and natural gas assets, as well as shale plays in the Permian Basin, the top U.S. oilfield. The top Permian independent explorers and producers include Pioneer Natural Resources Company, Diamondback Energy Inc. and Parsley Energy, Inc., prominent holdings in the Portland Energy Opportunities Alternative Fund.

ECONOMIC CONDITIONS

The U.S. economy is forecast to shrink by 6.6% in 2020 due to the shock of the coronavirus pandemic, but a resurgence in coronavirus infections and a systemic increase in poverty could worsen that outlook, the staff of the International Monetary Fund warned last week. After concluding a regular Article IV review of the world's largest economy, IMF staff cited other risks, including a big increase in government and corporate debt levels, and the prospect of a long period of low, or even negative, inflation. "There are tremendous uncertainties surrounding the economic propagation of the COVID-19 shock," they said in a note. "It will likely take a prolonged period to repair the economy and to return activity to pre-pandemic levels." (Source: Reuters)

U.S. initial unemployment claims: The 15 consecutive weeks of declines in U.S. initial claims from record high levels is over. The **number of Americans filing for initial claims rose** by 109,000 in the week of July 18 to 1,416,000, the highest level since the end of July. Given that the resurgence in the number of COVID-19 cases around parts of the country has led to a reversal in restrictions, this was expected. And when those reversals eventually reverse, claims should decline again. More importantly, **continuing claims**, or those who remain on Unemployment Insurance (UI), **fell further**. For the seventh consecutive week, the number of Americans who remain on UI fell by 1,107,000 in the week of July 11 to 16,197,000—that's the **lowest reading since April**. Clearly the level is still extremely high but it is the direction that counts and it indicates that the job market is getting better…it is just going to take some time.

U.S. existing homes sales were 4.72 million in June, surging 20.7% from May's print of 3.91 million. The latter was the lowest level in more than 9½ years and reflected the full brunt of the pandemic since these sales are measured at the time of closing, not contract signing. Helping prod a strong rebound, mortgage rates hit a record low in May and did so again in June; 30-year terms averaged 3.23% and 3.16%, respectively, according to Freddie Mac. And, July is on track to do the same. Meanwhile, mortgage applications for purchases increased 21% in June, on average, to their highest level in more than 11½ years, and appear to have stabilized at this elevated level so far in July. As such, existing home sales are primed for further solid gains during the summer months, with the pre-pandemic trend of 5.4 million in sight. Unfortunately, lingering joblessness and languishing confidence (no doubt undermined further by the new surge in virus cases) could prevent sales from pushing much past where they were before, let alone completely climbing back -- despite record-low borrowing costs

Europe - After marathon talks over approximately 4 days, the EU leaders finally reached agreement on the €750 billion Recovery Fund earlier this week, comprising €390 billion of grants and €360 billion of loans. Austria, Denmark, Germany, the Netherlands and Sweden have reportedly won cash rebates (totalling more than €50 billion over 7 years) on their annual contributions to the EU's budget. (Page 65 of the release contains information indicating Germany will qualify to contributing less to the recovery fund, saving €3.7 billion in 2020 alone.) Meanwhile, Dutch Prime Minister Mark Rutte had pushed hard for any country to secure a veto on further payments from the EU recovery fund to another nation that wasn't abiding by its economic reform pledges. This is time-limited, and the EU Commission will make final decisions. In addition, a weighted majority of EU governments can also put a brake on distributions to countries that are violating the rule of law. There's a significant allocation (almost one-third) of the money to combat climate change, but only €7 billion to the European Defence Fund and it seems efforts to support democratic standards in Eastern Europe were weakened. EC President Charles Michel has stated in a press conference last week that: "This agreement sends a concrete signal that Europe is a force for action". Overall, positive in our view to see this initial mutualisation of European debt finally over the line, in typical EU fashion after lengthy (and at times fractious) discussions; Italy is set to be the main beneficiary.

The U.K. economy has "clawed back" about half the fall in output it saw during the peak of the coronavirus lockdown in March and April, according to the Bank of England's chief economist. Andy Haldane told MPs there had been a "V" shaped "bounceback". Last month, Mr. Haldane said the economy was "on track for a quick recovery" - the so-called "V" shape. However, other economists have expressed doubts about the potential for such a swift recovery in activity. "Roughly half of the roughly 25% fall in activity during March and April has been clawed back over the period since," Mr. Haldane told members of the Treasury Select Committee. The economy had grown by about 1% per week, he said. (Source: BBC)

FINANCIAL CONDITIONS

The U.S. 2 year/10 year treasury spread is now 0.44% and the U.K.'s 2 year/10 year treasury spread is 0.23%. 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 is usually an early warning of an economic slowdown.

The U.S. 30 year mortgage market rate has increased to 3.01. Existing U.S. housing inventory is at 3.1 months supply of existing houses - well off its peak during the Great Recession of 9.4 months and we consider a more normal range of 4-7 months.

The VIX (volatility index) is 26.88 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

Portland Investment Counsel Inc. currently offers Mutual Funds & Private/Alternative Products - visit www.portlandic.com

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

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 tangible equity, 'ROTCE' return on tangible common equity.

Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel.:1-888-710-4242 • www.portlandic.com • info@portlandic.com

PIC20-043-E(07/20)