PORTLAND INVESTMENT COUNSEL®

NEWS HIGHLIGHTS

EST. 2007

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

AUGUST 31, 2020

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OWNER OPERATED COMPANIES

GO TO PORTLAND 15 OF 15 ALTERNATIVE FUND

PORTLAND 15 OF 15 ALTERNATIVE FUND COMPANY NEWS

Berkshire Hathaway Inc. - Berkshire Hathaway bought stakes in five of Japan's biggest trading companies, adding to its wager on the commodities sector and marking one of his largest-ever forays into Asia's second-largest economy. Warren Buffett's Berkshire Hathaway has acquired a slightly more than 5% stake in each of the five leading Japanese trading companies. Berkshire acquired the holdings in ITOCHU Corporation, Marubeni Corporation, Mitsubishi Corporation, MITSUI & CO. LTD., and Sumitomo Corporation over a roughly 12-month period through regular purchases on the Tokyo Stock Exchange. Berkshire says it intends to hold the investments for the long term, and that it may increase its holdings in any of the companies up to a maximum of 9.9%, depending on price. The investments into commodity-centric Japanese conglomerates, disclosed in a statement from Berkshire on Monday in Tokyo, underscore Buffett's willingness to bet on economically sensitive companies despite the pandemic.

Brookfield Asset Management Inc. – Former Bank of England (BoE) Governor Mark Carney is joining Brookfield to head its green investment programme, in his first major business role since leaving Britain's central bank in March. Carney, 55, who was governor of the Bank of Canada from 2008 to 2013 and started his career at Goldman Sachs, regularly spoke on environmental issues while at the BoE and encouraged banks to take a greater interest in the risks from global warming. "Mark has been a vocal proponent of the positive role that private capital can play in climate action," Brookfield chief executive Bruce Flatt said in a statement announcing Carney's appointment. Previously Carney had been giving Justin Trudeau advice on economic policy, in addition to his role as a United Nations special envoy on climate change and finance, and helping Britain's government prepare for a U.N. climate summit next year. Carney will be a vice chair of Brookfield and oversee its environmental, social and governance-focused (ESG) investment strategies. "An accelerated transition to a net zero economy (is) imperative for climate sustainability and one of the greatest commercial opportunities of our time," he said. Brookfield manages around $550 billion of assets, including commercial property, hydroelectric dams and wind farms, as well as a large Australian port focused on coal exports and western Canada's biggest natural gas processing plant.

Facebook Inc. and Alphabet Inc. dropped plans for an undersea cable between the U.S. and Hong Kong after the Trump administration said Beijing might use the link to collect information on Americans. The companies submitted a revised proposal that includes links to Taiwan and the Philippines, as envisioned in the application that was withdrawn on Thursday. The new filing didn't include Hong Kong-based Pacific Light Data Communication Co. Limited, a partner in the original plan and a concern for U.S. security agencies that cited its links to mainland China's Dr. Peng Telecom & Media Group Co. Ltd. The companies proposed the Pacific Light Cable Network project in 2017, listing all three trans-Pacific destinations. American security agencies, the Justice Department, on June 17 asked the Federal Communications Commission to deny the link to Hong Kong, saying it would give China a way to acquire Americans' personal data. The agencies called Pacific Light Data a subsidiary of Dr. Peng, which they said has relations with Chinese intelligence and security services. The agencies recommended that the Federal Communications Commission approve parts of the project connecting the U.S. to Taiwan and the Philippines. Google in April won authority to operate the portion linking Taiwan for six months.

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Pershing Square Holdings Ltd. – Billionaire hedge fund manager William Ackman touted the success of his funds after the release of the second quarter results, citing attractive valuations for his holdings and saying he has up to $7 billion to invest in a private company, while saying that opening stock ownership to all Americans is a key to political stability. For a second straight year, Ackman's Pershing Square Capital Management is generating double-digit returns with a 44.1% gain at his Pershing Square Holdings portfolio. Four of nine portfolio companies, including Lowe's Companies Inc. and Chipotle Mexican Grill Inc. have gained in spite of the COVID-19 outbreak. "Our current holdings remain attractively valued, offering substantial additional profit potential over the long term," Ackman wrote to investors, adding that even those in the red, including Hilton Worldwide Holdings Inc., "will recover in the long term." Fresh off of raising the largest-ever special purpose acquisition company (SPAC) that helps private companies go public, Ackman, one of Wall Street's best-known hedge fund managers, said his company would take a minority stake in a target company, possibly making him a more attractive investor than strategic buyers who want control. Ackman said he is talking with potential targets and said his firm's "idea generation engine is intact and productive." Investors were ready to commit as much as $12 billion to the SPAC, Tontine, Ackman wrote. "We used the excess demand for the PSTH IPO to curate a shareholder list that would be the envy of any public company."

Reliance Industries Ltd. is buying assets of rival Future Group for 247.1 billion rupees (approximately US$3.4 billion), almost doubling the footprint of India's largest retailer and largest company by market value. The deal includes Future's retail, wholesale, logistics and warehousing units, Reliance Retail Ventures Ltd. said Aug. 29 in a statement. The telecommunications, retail, oil and petrochemicals conglomerate led by billionaire Mukesh Ambani had been in talks for months with Future, which is facing a cash crunch amid intensifying competition and the pandemic. By scooping up the country's second largest retail chain, Ambani is also accelerating his group's shift toward consumer businesses and undermining Future's partner Amazon.com Inc., a key rival for Reliance's e-commerce business. Based on Future's existing store formats, Reliance would become the largest competitor by revenue in fashion, lifestyle and groceries.

SoftBank Group Corp. - SoftBank Group Corp. (SBG) said it would sell a $14 billion stake of its Japanese mobile unit, adding to a string of asset sales aimed at bolstering the company's balance sheet. The sale will lower its stake in the telecom unit, known as SoftBank Corp., to 40% from 62%, ending its position as majority shareholder. It will remain the largest shareholder of the company, which is one of Japan's biggest mobile-phone providers. SBG has sold or monetized JPY 4.3 trillion of assets as of August 3, 2020, as part of the program announced on March 23, 2020. In light of the ongoing uncertainty in the market environment due to concerns about a potential second or even third wave of COVID-19, SBG believes it is necessary to expand cash reserves beyond the JPY 4.5 Trillion Program to ensure flexible options to respond to changes in the market environment. In order to do this, SBG will offer a portion of its holding of common stock of subsidiary Softbank Corp. SB's strategic importance to the entire SoftBank Group remains unchanged.

DIVIDEND PAYERS

GO TO PORTLAND GLOBAL ALTERNATIVE FUND

GO TO PORTLAND GLOBAL ARISTOCRATS PLUS FUND

GO TO PORTLAND GLOBAL BALANCED FUND

Bank of Montreal (BMO) reported core cash EPS of $1.85. This was 7% better than consensus $1.73. The result was up 78% quarter/quarter but still down 22% year/year. The beat was driven by a combination of better-than-expected capital markets and insurance revenues and lower-than-expected expenses (core non-interest expenses down 2% quarter/quarter and year/year). On a segmented basis, Capital Markets and Wealth (includes insurance) both beat, while Canadian Property and Casualty (P&C) and U.S. P&C business missed expectations. Core Return On Equity was 9.6%, and book value per share came in at $76.60, up 8% year/year. The bank's Core Equity Tier 1 ratio came in at 11.6% versus 11.0% in fiscal Q2 2020. This result was better than the Street estimate of 11.0%, and the improvement was due to a combination of factors, including a 14 basis point lift from lower Risk Weighted Assets tied to a decline in commercial lending. This is likely to be a pattern across the group. BMO announced that it is eliminating its discount on the Dividend Reinvestment Plan after putting it in place in the lead up to Q2 reporting - a good signal in analysts' view. Total Provision for Credit Losses came in at $1,054 million versus consensus estimates at $885 million. This was down 6% quarter/quarter but well above the $306 million reported in fiscal Q3 2019. While provisions on performing loans declined sequentially in the U.S. P&C unit, they were actually up 21% in the Canadian P&C segment. The increase in Provision for Credit Losses on performing loans was tied to a number of factors, including management extending their view on the length of the recovery.

The Bank of Nova Scotia reported fiscal Q3 2020 adjusted cash EPS of CA$1.04, which was lower than consensus of CA$1.11. The bank's adjusted Return On Equity declined to 8.3%, while the Core Equity Tier 1 capital ratio ended the quarter at a better-than-expected 11.3%. Most notable in the quarter were the bank's very high Provisions for Credit Losses of CA$2.2 billion, which were up sequentially and higher than expected, and the significant sequential margin compression in the International segment (3.99% vs. 4.28% last quarter). The latter, in analysts' view, is a material headwind to the bank's earnings power post-crisis. Meanwhile, the Canadian P&C Banking margin fell 7 basis points from last quarter, which was also worse than expected, while Global Wealth Management earnings were roughly in line with forecasts. The bank's Capital Markets segment was the lone bright spot in the quarter, driven by elevated trading revenue CA$798 million. Of note, residential mortgage deferrals did not fall sequentially with deferred balances in Canada roughly flat from last quarter and declining very modestly in the International segment. That remains a concern for the sector more broadly given the uncertain trajectory of the economic recovery and the potential for near-term credit migration as deferral programs expire in the coming months.

Canadian Imperial Bank of Commerce reported core cash EPS of $2.71 (excluding a $51 million after-tax legal provision, among other adjustments). This was a big beat relative to consensus expectations at $2.19. EPS was down 12% year/year. The beat was driven by a number of factors, including provisions for credit losses (PCLs), trading and expenses. In terms of segments, Canadian Retail, Canadian Commercial, and Wholesale all beat expectations, while U.S. Commercial missed due to 29 basis point in quarter/quarter Net Interest Margin (NIM) pressure. NIM at the Canadian Retail unit was down 6 basis points quarter/quarter (with some more pressure to come), which is in line with most peers. The bank's Core Equity Tier 1 ratio climbed from 11.3% in Q2 to 11.8%. The increase was mostly due to 33 basis point of internal capital generation, while the decrease in Risk Weighted Assets added 6 basis points. Core Return On Equity was 12.9%, and Book Value Per Share came in at $83.17, up 6% year/year. Total PCLs came in at $525 million versus consensus expectations at $769 million. This was down 63% quarter/quarter but 80% above the $291 million reported in Q3 2019.

JPMorgan Chase & Co. is planning to launch its online British retail bank in the first quarter of 2021 under its Chase brand, Sky News reported, citing technology industry sources. The planned venture will rival The Goldman Sachs Group Inc.'s Marcus brand and start-ups including Monzo Bank Ltd. and Starling Bank at a time when domestic challengers have struggled to break the dominance of the country's "Big Four" banks. JPMorgan has signed up suppliers including Amazon Web Services and 10x Future Technologies to provide it with cloud and digital banking infrastructure, the report said. (Source: Reuters)

Royal Bank of Canada (RBC) reported core cash EPS of $2.23, versus consensus estimates at $1.85. This result was much improved from Q2 and down just 2% year/year. The beat was driven by credit and capital markets. On credit, Provision for Credit Losses (PCL) was $675 million this quarter versus consensus estimates at $1.3 billion. On the Capital Markets front, RBC reported trading revenue of nearly $1.7 billion, its strongest result since fiscal Q1 2009. On a segmented basis Capital Markets delivered the biggest beat, but Canadian Banking and Insurance were a little better than expected. Notably, net interest income declined 7% year/year as Net Interest Margin declined 12 basis points sequentially in Canadian Banking and 33 basis points in U.S. Wealth in stark contrast to results at BMO, which saw a quarter/quarter decline of 2 basis points in Canada and only 5 basis points in the U.S. Core Return On Equity was 15.7% just 100 basis points below a year ago. The bank's Core Risk Weighted Assets (RWA) for credit and operational risk were mostly offset by an increase in RWA for market risk. Total PCLs came in at $675 million versus the estimates at $1,364 million. This was down 76% quarter/quarter, but 59% above the $425 million reported in Q3 2019. PCLs on both impaired and performing loans came in lower than expected.

The Toronto-Dominion Bank reported core cash EPS of $1.25 versus the consensus at $1.23. This result was down 30% year/year. The miss came from net interest income (margin pressure). Loan loss provisions came in at $2.2 billion, a little higher than the expectations, while expenses were also in line at $5.2 billion or down 1% year/year. Trading beat, delivering $942 million compared to analysts' $675 million forecast. The key issue this quarter will be margin pressure which was very large on both sides of the border. In the U.S. Retail segment the margin was down 43 basis points quarter/quarter (BMO was down only 5 basis points) while in Canada it was down 15 basis points (peer group was more in the mid-high single digits). That said, capital is a key positive as the bank's Core Equity Tier 1 ratio went from near the bottom of the pack at 11.0% in Q2 to 12.5% in Q3 helped by the transition of non-retail U.S. portfolio, decreases in risk weighted assets and shares issued under the discounted Dividend Reinvestment Plan (DRIP) (11 basis points). TD announced that it has eliminated the discount on its DRIP effective with the dividend declared last week. Core Return On Equity was 10.4% and Book Value Per Share came in at $47.80, up 8% year/year. Total Provisions for Credit Losses came in at $2,188 million above the consensus estimates at $2,067 million. This was down 32% quarter/quarter, but 234% above the $655 million reported in Q3 2019.

LIFE SCIENCES

ITM Isotopen Technologien München AG – The collaborative efforts of ITM Isotopen Technologien München AG's (ITM) production partners in relation to the Bruce Power Lutetium-177 isotope production project are delivering progress on the engineering front. The project underscores the value of the ITM technology and its importance for delivering improved cancer care on a global scale. Bruce Power and Isogen, an Ontario-based joint venture between Kinectrics and Framatome Canada, have marked a critical milestones in their isotope production project, Bruce Power announced. A dedicated mock-up of the Isotope Production System to be deployed to Bruce Power's nuclear units to produce Lutetium-177 (Lu-177), construction of which began in January, is currently in its final phase of engineering, testing, and design. The system is Ontario-designed and manufactured and will offer flexibility in function, supporting the future production of other isotopes in addition to Lu-177 in order to leverage the Bruce Power site to provide a stable, redundant supply of many medical isotopes for decades to come. Isotope production is expected to start in 2022 following regulatory and other approvals. Lu-177 is produced by irradiating ytterbium-176. The ytterbium-176 source material, in special sealed containers, will be placed in an isotope production system in one of the Bruce Power reactors for about two weeks. The resulting containers of Lu-177 will be sent for processing and distribution to health care facilities. Germany-based ITM is the exclusive partner which manufactures Lu-177, based on targets irradiated by Bruce Power and Isogen. ITM will deliver the ytterbium-176 to the Bruce Power site, where Isogen will be responsible for handling and preparing the source material according to ITM requirements. "The advancement of the Lutetium-177 project sends a strong message across Canada and the world that we are committed to doing our part in the fight against cancer," said James Scongack, Chair of the Canadian Nuclear Isotope Council. "We are proud of the innovative work being done by Canadian companies in expanding Canada's leadership role in the growing global medical isotope supply chain."

Telix Pharmaceuticals Limited announced that the United States Food and Drug Administration (FDA) has granted Orphan Drug Designation (ODD) for 4-[211At] astato-l-phenylalanine (internally designated as TLX102), for the treatment of multiple myeloma. The granting of an ODD for TLX102 qualifies Telix for various drug development incentives which may include FDA-administered market exclusivity for seven years, waived FDA prescription drug user fees, and tax credits for R&D and clinical development costs. Multiple myeloma is a haematologic malignancy (blood cancer) arising from plasma cells, the white blood cells responsible for antibody production, with an incidence of 32,000 cases and an estimated prevalence of 129,000 cases in the United States in 2020. Telix's TLX102 is an evolution of the company's existing investigational glioblastoma treatment TLX101, incorporating new chemistry and rapid synthesis methods. Astatine-211 is a high-energy, very short-range radiation emitting isotope known as an "alpha emitter". The short-range of alpha radiation may be ideally suited to blood cancers such as multiple myeloma, which are typically comprised of disseminated cancer cells that require highly targeted radiation to minimise damage to adjacent healthy tissues, particularly bone marrow. Telix CEO Dr. Christian Behrenbruch said, "The granting of an Orphan Drug Designation by the FDA for TLX102 will enable Telix to develop a unique targeted therapy product for multiple myeloma, a cancer that still has a poor prognosis with a 5-year survival of around 50%, despite recent advances in treatment. TLX102 is an example of "Targeted Alpha Therapy" or "TAT", which represents the vanguard of radiopharmaceutical development. Telix has one of the strongest R&D pipelines for TAT with isotopes such as astatine and actinium." TLX102 has already shown promising efficacy in standard pre-clinical models of multiple myeloma and is expected to be evaluated in humans in the second half of 2021. This internally-directed R&D program is the result of two years of collaboration with the University of Nantes and the ARRONAX cyclotron facility (France) and Osaka University (Japan), and has resulted in the in-licensing of significant new intellectual property to further augment Telix's potential future product development pipeline.

Novartis AG - Asciminib met its primary endpoint of superiority versus bosutinib in 3L+ Chronic Myelogenous Leukemia (CML) patients in the phase 3 ASCEMBL study. U.S. filing is expected in Q1 2021 and approval expected still in 2021 as the FDA has granted asciminib Fast Track designation. CML is a type of blood cancer. Standard of care is treatment with tyrosine kinase inhibitors (TKIs). As CML patients that have been treated with at least two sequential TKIs are at increased risk of resistance and intolerance, asciminib (STAMP inhibitor) offers a welcome treatment alternative. It's estimated asciminib would have US$1 billion peak sales.

ENERGY SECTOR

Nothing significant to report.

ECONOMIC CONDITIONS

Global trade rebounded 7.6% in June, compared to May, marking the fastest monthly increase since records began in January 2000. Despite the rebound, the volume of trade is still about 10% below the level at the start of the year, before the pandemic hit.

Canada Q2 GDP - Statistics Canada reported its first estimate that the economy fell 38.7% annualized, slightly better than the consensus estimate calling for a -39.6% print, but still the worst contraction on record. Domestic demand plunged as household consumption (-43.0% quarter/quarter annualized), non-residential investment (-56.7%) and residential investment (-47.6%) crashed. Consumption on services (-51.8% quarter/quarter annualized), a category that generally holds up better in recessions, dove even more than consumption on goods (-29.6%) owing to social distancing measures imposed to curb the spread of coronavirus. Government spending also retreated in the quarter (-10.4% quarter/quarter annualized). Trade, on the other hand, added 6.2% to the headline growth figure but only because imports fell more than exports did. Nominal GDP dropped 41.5% annualized in the quarter. As disposable income surged (thanks to government handouts) and spending collapsed due to lockdowns, the savings rates spiked from 7.6% to an all-time high 28.2%. The recession may have lasted only two quarters so far but the drop in activity has been unprecedented. Since Q4 2019, output has tumbled no less than 13.4%. By comparison, the peak-to-trough decline during the Great Recession of 2008-09 was only 4.4%. This is not surprising given that the 38% annualized drop recorded in Q2 was more than four times as large as the previous record of -8.7% from 2009 Q1. Household income actually increased in Q2 thanks to generous transfer payments from government, a development which led the savings rate to rise to its highest level ever. This probably already contributed to strong GDP showings in May (+4.8%), June (+6.5%) and July (+3.0%, advance estimate) and should support household consumption going into H2. But the pace of this recovery remains highly uncertain and dependent on the evolution of the pandemic both at home and abroad.

U.S. personal spending rose a larger-than-expected 1.9% in July following an upwardly-revised gain of 6.2% in June. The increase was led by rebounding autos, recreational goods, health care services, and food services and accommodation. The latter sector has retraced about half of its earlier plunge, and the advance came despite renewed restrictions in some states to control for the flare-up in virus cases (which tentatively seems to be working). Real spending jumped 1.6% to reverse two-thirds of its 18% plunge during the shutdowns.

U.S. Core prices rose a less-than-expected 0.3% in July, but the magic of upward revisions resulted in the yearly rate rising to 1.3% from 1.1% in June. It's been trending higher from the nadir of 0.9% in April, though it still has some way to go to top 2% and satisfy the Fed's new average inflation targeting strategy.

U.S. goods trade deficit widened sharply to $79.3 billion in July from $71.0 billion in June, as imports bounced more than exports.

U.S. new home sales surged another 13.9% in July, bringing the three-month rebound to 58%. Activity reached 901,000 annualized units in the month, a level last seen in December 2006. The recovery in this is sector is now beyond a V, with activity pushing well above pre-COVID levels. Clearly there is some pent-up demand at work. Sales pulled back in the Northeast, offset by strong gains across the other three regions. Note that homebuilder confidence suggests that activity continued at a strong clip in August, with a record-high share of builders reporting good buyer traffic.

The U.K. was the hardest hit by COVID-19 among major economies from April to June, the Organisation for Economic Co-operation and Development has said. Its economy suffered its biggest slump on record over the three-month period as coronavirus lockdown measures pushed the country officially into recession. Its 20.4% contraction was well above the 9.8% drop for the 37 OECD nations as a whole, the think tank said. Spain was the next worst hit, with a decline of 18.5%. (Source: BBC)

FINANCIAL CONDITIONS

U.S. Federal Reserve Chair Jerome Powell's opening remarks at the 2020 (virtual) Jackson Hole Symposium, the Federal Reserve Open Markets Committee (FOMC) announced the approval of updates to its Statement on Longer-Run Goals and Monetary Policy. The Fed unanimously elected to adopt a "flexible form of average inflation targeting". On maximum employment, the FOMC emphasized that maximum employment is a broad-based and inclusive goal and reports that its policy decision will be informed by its "assessments of the shortfalls of employment from its maximum level." The original document referred to "deviations from its maximum level." On price stability, the FOMC adjusted its strategy for achieving its longer-run inflation goal of 2% by noting that it "seeks to achieve inflation that averages 2% over time." To this end, the revised statement states that "following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time." The updates to the strategy statement explicitly acknowledge the challenges for monetary policy posed by a persistently low interest rate environment. Monetary policy interest rates are more likely to be constrained by their effective lower-bound than in the past. Powell stressed that the inflation overshoots needed to compensate for prior undershoots, will be "moderate", temporary and not subject to a formulaic approach. In other words, they want to ensure that inflation expectations are well-anchored at 2% but without uncomfortably high levels of inflation along the way.

Banks in the eurozone are so awash with cheap cash from the European Central Bank (ECB) that they no longer want to borrow from each other, in a striking reversal of the signs of stress in money markets in the spring. Three-month Euribor — a measure of interbank interest rates in the euro area — has sunk to an all-time low of minus 0.49% in recent days. The plunge in borrowing rates comes after eurozone lenders took more than €1.3 trillion in cheap loans from the ECB in June, part of the central bank's drive to boost the region's coronavirus-stricken economy. (Source: Financial Times)

The U.S. 2 year/10 year treasury spread is now 0.59% and the U.K.'s 2 year/10 year treasury spread is 0.37%. 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 2.91. 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 24.73 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

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

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