PORTLAND INVESTMENT COUNSEL®

NEWS HIGHLIGHTS

EST. 2007

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

OCTOBER 13, 2020

OWNER OPERATED COMPANIES

GO TO PORTLAND 15 OF 15 ALTERNATIVE FUND

PORTLAND 15 OF 15 ALTERNATIVE FUND COMPANY NEWS

Danaher Corporation – Beckman Coulter Inc., a clinical diagnostics leader and Danaher subsidiary, announced its Access SARS-CoV-2 Immunoglobulin M (IgM) assay has received Emergency Use Authorization (EUA) from the U.S. Food and Drug Administration (FDA). The assay detects antibodies that recognize the receptor binding domain (RBD) of the spike protein which the SARS-CoV-2 virus uses to enter the human host cells. The assay, which demonstrates 99.9% specificity and 98.3% sensitivity, is part of a suite of diagnostic solutions being developed by Beckman Coulter in response to the ongoing COVID-19 pandemic to guide physicians and patients in their healthcare decision making. "Since March, the Beckman Coulter team has worked around the clock to develop a suite of assays that play a critical role in the ongoing global fight against COVID-19," said Julie Sawyer Montgomery, president of Beckman Coulter. "As a science-driven company, we continue in our commitment to deliver rigorously validated diagnostics of the highest quality that provide meaningful information, so doctors and patients alike can trust the results for urgent, care decisions." Beckman Coulter's suite of COVID-19 testing solutions includes the Access SARS-CoV-2 IgM assay and the Access SARS CoV-2 IgG assay, which received EUA in June. The company also recently received FDA EUA for its interleukin 6 (IL-6) assay, which can be used to assist in identifying severe inflammatory response in patients with confirmed COVID-19 illness to aid in determining the risk of intubation with mechanical ventilation, in conjunction with clinical findings and the results of other laboratory testing. Beckman Coulter is also currently developing a SARS CoV-2 antigen assay as well as a quantitative IgG assay anticipated to be launched later this year. All of the Beckman Coulter assays to address COVID-19 can be performed in automated or high-throughput immunoassay formats, as well as Beckman Coulter's Access 2 analyzer, a compact, table-top analyzer enabling high-quality serology testing to be carried out in small hospitals and clinics. Additionally, all of the assays seamlessly integrate into laboratory workflows making it easy to add these tests to routine blood tests performed during inpatient and wellness testing.

Reliance Industries Ltd. – On October 6, Reliance Industries Limited announced that a wholly owned subsidiary of the Abu Dhabi Investment Authority (ADIA), will invest US$750 million into Reliance Retail Ventures Limited (RRVL), a subsidiary of India's Reliance Industries. ADIA's investment will translate into a 1.20% equity stake in RRVL on a fully diluted basis. With this investment, RRVL has raised approximately US$5.17 billion from leading global investors including Silver Lake Management L.L.C., KKR & Co. Inc., General Atlantic, Mubadala Investment Company, GIC Private Limited, TPG Capital L.P. and ADIA in less than four weeks. Reliance Retail Limited, a subsidiary of RRVL, operates India's retail business serving close to 640 million footfalls across its approximately 12,000 stores nationwide. Reliance Retail's vision is to develop an inclusive strategy serving millions of customers by empowering millions of farmers and micro, small and medium enterprises and working closely with global and domestic companies as a preferred partner, while protecting and generating employment for millions of Indians. Reliance Retail, through its New Commerce strategy, has started a digitalization of small and unorganised merchants and is committed to expanding the network to over 20 million of these merchants. This will enable the merchants to use technology tools and an efficient supply chain infrastructure to deliver a better value proposition to their own customers.

DIVIDEND PAYERS

Citigroup Inc. reported Q3 2020 EPS of $1.40, consensus was $0.92. Results included its $400 million ($0.19) civil money penalty in connection with consent orders (recorded in Corporate/Other). Revenues declined 7% year/year and fell 12% linked quarter to $17.3 billion. Global Consumer Banking revenues fell 13% year/year to $7.2 billion, while Institutional Clients Group rose 5% to $10.4 billion. By region, North America (NA) revenues were little changed year/year, while Latin America (-15%), Asia (-5%) and Europe, the Middle Eeast and Africa (-2%) declined. Tangible book increased 1.1% linked quarter to $71.95 (trading at 0.6x). It posted a 7.9% Return On Tangible Common Equity. Its Core Equity Tier 1 ratio was 11.8% (+20 basis points). Average diluted shares increased 0.5%. Net interest income fell 5%. Average earning assets were little changed with increases in securities (+6%), securities borrowed (+3%), trading assets (+2%), and deposits with banks (+1%) higher but loans (-4%) lower. Period-end loans declined 3%. Its net interest margin compressed 14 basis points to 2.03%. Fee income fell 7% year/year and declined 12% linked quarter. Relative to Q2 2020, principal transactions fell $1.7 billion. Operating expenses increased 1% on both a year/year and quarter/quarter basis. Relative to Q3 2019, investments in infrastructure, risk management and controls, higher compensation and COVID-19 related expenses more than offset efficiency savings and reductions in marketing and other discretionary spending. Its effective tax rate was 20%, reflecting the impact of the non-deductible civil money penalty. Its effective tax rate was 9% in Q2 2020, owing to a higher relative impact from tax advantaged investments and other tax benefit items given the sharply lower level of pre-tax income. Non Accruing Loans/loans decreased 6 basis points to 0.79%. Its cost of credit dropped from $7.9 billion in Q2 2020 to $2.3 billion. In Q3 2020, its allowance for credit losses on loans had a $0.1 billion release, while its allowance for credit losses on unfunded lending commitments saw a $0.4 billion build. Its reserve/loans ratio increased 11 basis points to 4.00%.

JPMorgan Chase & Co. reported Q3 2020 EPS of $2.92, consensus was $2.21. Results benefited from $569 million ($0.15) of loan loss reserve releases, $473 million ($0.12) in securities gains, and $145 million ($0.04) of Mortgage Servicing Rights risk management benefits. This was partially offset by $524 million ($0.17) of legal expense. Net, these added $0.13. Results also included an impairment on a legacy investment. Revenues were little changed year/year and fell 11% sequentially to $29.9 billion. Tangible book increased 3.5% to $63.93 (1.6x). It posted a 19% Return On Tangible Common Equity and 15% Return On Equity, and its Core Equity Tier 1 ratio was 13.0% (+60 basis points). Average diluted shares increased by 0.1%. Net interest income fell 6%. Average earning assets increased 2% with increases in securities (+10%), deposits with banks (+7%) and Fed Funds Sold (+14%) more than offsetting declines in loans (-4%) and trading assets (-7%). Its net interest margin compressed 17 basis points to 1.82%. The yield on average earning assets declined 26 basis points (-22 basis points excluding Corporate and Investment Banking markets) to 2.05% with loans (-5 basis points) and securities (-16 basis points) lower. Fee income rose 7% year/year but declined 16% linked quarter. Relative to Q2 2020, while principal transactions (-$3.5 billion) and investment banking fees (-$0.7 billion) declined, most other categories increased with lending & deposits fees, asset management fees, mortgage fees and card income each increasing around $0.2 billion. Excluding legal, expenses were little changed year/year and declined 3% linked quarter to $16.4 billion. Its managed overhead ratio was 56%. Its effective tax rate was 19.0%, up from 15.8% in the prior quarter. Nonaccrual loans to total loans increased 19 basis points to 1.11%. Its provision of credit losses was $611 million, down from $10.5 billion in the prior quarter. Results included a $569 million reserve releases. It had an $8.9 billion reserve build in the prior quarter. Reserve release were witnessed across its four main businesses. Its reserve/loan ratio declined 1 basis point to 3.26%.

JPMorgan Chase & Co. says it is shifting its financing portfolio away from fossil fuels after facing years of pressure from shareholders and environmental activists. The U.S. bank on Tuesday called for its clients in the oil and gas, electric power and automotive sectors to reduce emissions by 2030 and vowed to cut its exposure to companies that do not align their operations with the Paris climate accord. The announcement followed longstanding criticism from activists who have targeted JPMorgan. This year the bank said it would replace Lee Raymond, the former chief executive of ExxonMobil Corporation, as lead independent director, in a move heralded as a win by sustainable investment advocates. (Source: Financial Times)

The Toronto Dominion Bank (TD) announced the completion of the TD Ameritrade (TD AMTD) transaction by The Charles Schwab Corporation (NYSE-SCHW). The transaction had been announced in November 2019. Upon closing of the transaction, TD received an approximately 13.5% stake in Schwab, consisting of 9.9% voting common shares and the remainder in non-voting common shares which are convertible into voting common shares upon transfer to a third party. Going forward, the 13.5% interest in Schwab will be accounted for by TD using the equity method (similar to AMTD in U.S. retail). Per the agreement, TD AMTD stockholders are entitled to receive 1.0837 Schwab shares for each TD AMTD share owned, which represents a 17% premium over the 30-day volume weighted average price exchange ratio as of November 20, 2019. The estimated value of the transaction is US$22 billion (slightly lower compared to announcement date). With the closing of the transaction, TD expects to record a $2.3 billion revaluation gain based on a Schwab share price of US$36.94. TD expects its Core Equity Tier 1 ratio to remain relatively unaffected. When the deal was announced, TD and Schwab entered into an amended Insured Deposit Account (IDA) agreement, which would take effect post-closing. From July 2021, Schwab has the option to reduce TD's IDA sweep deposit balance by up to US$10 billion per annum (floor of US$ 50 billion). As of July 2020, TD's IDA balances stood at US$142 billion (vs. US$103 billion in July 2019), increasing significantly as a result of the pandemic. Additionally, TD's net service fees will be lowered by 40%, from 25 basis points to 15 basis points, for the life of the agreement. Terms of the revised IDA contract were extended until 2031. TD has nominated Mr. Bharat Masrani (TD CEO) and Mr. Brian Levitt (TD chair of the board) to the Schwab board of directors. Schwab has nominated Mr. Todd Ricketts. Upon closing, Schwab now becomes a company with approximately $6 trillion in client assets spread across 28 million brokerage accounts. The acquisition allows Schwab to add significant scale (lower operating expenses), broaden its product offerings, and add potential for cross-selling opportunities across both companies (e.g. AMTD's trading platform, SCHW's cost-effective innovative solutions). TD shareholders should stand to benefit from the newly formed company's synergies, scale, best in-class services, organic growth prospects, and potential multiple valuation re-rating.

LIFE SCIENCES

Telix Pharmaceuticals Limited announced that the United States Food and Drug Administration (FDA) has granted Orphan Drug Designation (ODD) for O-(2-[18F]fluoroethyl)-L-tyrosine (18F-FET), for the positron emission tomography (PET) imaging of glioma, a type of brain tumour. The granting of an ODD for 18F-FET 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 Research and Development and clinical development costs. Telix CEO, Dr. Christian Behrenbruch said, "PET imaging of the brain is increasingly used to supplement conventional imaging with MRI, which for many years has been the primary clinical imaging modality in patients with glioma at all stages of disease. The granting of an Orphan Drug Designation by the FDA for 18F-FET provides Telix with the option to develop this valuable PET imaging agent commercially, to ensure it is available to patients with glioma across the disease spectrum. 18F-FET's relevance as a patient selection and therapeutic monitoring tool for TLX101 is particularly beneficial to the Company."

ENERGY SECTOR

Pioneer Natural Resources Company appointed current Chief Financial Officer, Richard Dealy, as president and chief operating officer of the U.S. shale producer. The company said Neal Shah, vice president of its investor relations, would succeed Dealy as the company's CFO. Dealy has been with Pioneer for 28 years in various roles and has served as its CFO since 2004. The announcement comes at a time when U.S. oil and gas producers are struggling to cope with a pandemic-driven downturn in the energy industry.

ECONOMIC CONDITIONS

Canada Jobs - The jobs report last week was above analysts expectations with an increase of 378,200. The big gain left employment down just 3.7% from February's high, a much milder slice than the 7.1% shortfall in U.S. payrolls. Given that Canada's GDP will likely fall more than the U.S. this year, the relatively lighter hit in Canada likely reflects policy measures to help keep workers on the job. Note that total hours worked in both Canada and the U.S. have dropped by just under 7% since February.

Canada home sales hit record highs in August and, by all accounts, leapt further last month. Home building by comparison fell in September, but remained healthy at 209,000 units. The key point is that starts are on track to rise slightly for all of 2020 from last year, one of the very few areas to report any kind of growth in this deeply challenging year.

U.S. consumer prices rose 0.2% in September (or 1.4% year/year), exactly in line with analysts expectations, but the pace has clearly slowed. This is the fourth straight month of increases, but the latest result was the smallest, with gains led by, once again, cars. New and used car prices jumped 2.5% in September, the biggest on record (dating all the way back to 1993). Other areas that had seen outsized gains during the pandemic—major appliances such as laundry equipment—pulled back in September. Although dining in (versus out) prompted a 1.9% pop in nonelectric cookware and tableware, the most in 2½ years. Also worth a mention was the 1.4% run-up in toy prices, the biggest in 16 years. Energy also rose 0.8%. **Excluding food & energy**, prices were pretty tame. Core inflation was up 0.2%, the smallest increase since May, and 1.7% above a year ago. Although inflation did not brake heavily during this unique period, price increases started to ease six months in. Supply issues and higher input costs have added to pricing pressures, but elevated unemployment will hold back more significant gains.

The Institute for Supply Management (ISM) non-manufacturing index surprisingly rose to 57.8 in September from 56.9 in August. That's just shy July's 1 ½ year high and half a point above February's level. The quickening pace would normally be consistent with quarterly GDP growth of around 3.2% annualized, says the industry group. Most of the major sub-indexes improved, including activity, new orders and employment, the latter popping above the neutral 50 mark for the first time since the pandemic struck. Of 18 industries in the survey, 16 reported growth, one more than in August. The respondents' comments were generally upbeat, albeit laden with caution. No doubt the survey was boosted by the resilient housing market, though oil production is seeing little pickup amid sluggish global demand. Governments pausing or even reversing some reopening plans do not appear to have had a major slowing impact on the economy. Combined with only mild slippage in the manufacturing index (55.4) from a near two-year high, the ISM surveys suggest the recovery has some backbone heading into the current second-wave scare.

Europe - The COVID-19 second wave now engulfing Europe is likely to douse an already slowing economic recovery, economists have warned. They say striking the balance between containing the second wave without inflicting more damage on European economies is becoming increasingly difficult. Business groups are issuing dire warnings that whole industries could collapse if restrictions go too far, while sporadic protests, usually, though not always, limited to a political fringe, have broken out. "The eurozone economy is chilling rapidly," said Daniela Ordonez, an economist at Oxford Economics. (Source: Australia Finance Review)

FINANCIAL CONDITIONS

The U.S. 2 year/10 year treasury spread is now 0.60% and the U.K.'s 2 year/10 year treasury spread is 0.29%. 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 2.87%. Existing U.S. housing inventory is at 3.3 months supply of existing houses - well off its peak during the Great Recession of 9.4 months and analysts consider a more normal range of 4-7 months.

The VIX (volatility index) is 25.41 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

And finally ...

"If I can help a kid discover a liking, or even a passion for music in their life, then that's a wonderful thing. Rock stars come and go. Musicians play until they die." Eddie Van Halen

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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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