PORTLAND INVESTMENT COUNSEL®

NEWS HIGHLIGHTS

EST. 2007

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

NOVEMBER 30, 2020

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OWNER OPERATED COMPANIES

GO TO PORTLAND 15 OF 15 ALTERNATIVE FUND

PORTLAND 15 OF 15 ALTERNATIVE FUND COMPANY NEWS

Ares Management Corporation announced that a fund managed by its Private Equity Group and Harvest Partners LLC have sold Valet Living, LLC, the nationally-recognized, full-service amenities provider to the multi-family housing industry, to GI Partners, L.L.C. Terms of the transaction were not disclosed. Based in Tampa, Florida, Valet Living is the leading provider of value-added amenity services to the largest property owners, managers and residents nationwide. Serving more than 1.6 million apartment homes annually across 40 states, Valet Living provides the only full-service amenity solution offering with a scaled national footprint, including doorstep trash collection, turnkey apartment turnover and app-driven on-demand amenity services. Valet Living has consistently remained the #1 provider of amenity services in the United States, maintaining clear market leadership serving 30 times more homes than the nearest competitor. “Since partnering with management to acquire Valet Living in 2015, we are proud to have supported the company during a period of strong double-digit top-line growth, which included both geographic expansion and the expansion of services from doorstep trash collection to turnkey rental unit turnover, front desk concierge, package management, housekeeping, pet walking, fitness classes and more,” said Matt Cwiertnia, Partner and Co-Head of the Ares Private Equity Group. “We would like to thank Harvest Partners for their partnership and we wish the Valet Living team continued success.”

Brookfield Asset Management Inc. – The owner of the Toronto Blue Jays is reportedly seeking to demolish the Rogers Centre and construct a new stadium as part of a redevelopment. Rogers Communications and Brookfield Asset Management are working with city, provincial and federal government officials on a plan that would effectively cut the Rogers Centre in half. The partners would build a new, baseball-focused stadium on the foundations of the southern end of the current facility and adjacent parking lots. The northern portion of the 12.7-acre site would be turned into residential towers, office buildings, stores and public space. Rogers is also considering building a new stadium on a lakefront site if plans for the Rogers Centre fall through. The Rogers Centre, with its retractable roof, opened in 1989 as SkyDome and cost $570-million, with taxpayers picking up a significant portion of the cost. Rogers acquired the stadium in 2004 for $25-million. The multibillion-dollar project would be privately financed by Brookfield and Rogers, but needs numerous government approvals to move forward. While Rogers owns the stadium, the federal government owns the land.

Samsung Electronics Co., Ltd. – Samsung Electronics is investing $116 billion into its next-generation chip business that includes fabricating silicon for external clients, looking to close the gap with the industry leader Taiwan Semiconductor Manufacturing Company Ltd. (TSMC). Samsung will mass-produce 3-nanometer chips in 2022, a senior executive at its foundry division told attendees at an invite-only event last month. That target means it’s on a path to start churning out the industry’s most advanced semiconductors the same year as its Taiwanese rival expects to pass that milestone. Samsung is already developing initial design tools with key partners, Park Jae-Hong, executive vice president of foundry design platform development, told conference delegates. If Samsung succeeds, that will be a breakthrough for its ambition to become the chipmaker of choice for the likes of Apple Inc. and Advanced Micro Devices Inc. that now rely on foundries like TSMC. The business isn’t new to Samsung, which was the first manufacturer of Apple’s iPhone processors. But the company’s renewed push is now shepherded by Jay Lee, who wants to see it establish tech leadership across advanced sectors like chipmaking and 5G networking to power its next phase of growth. Park’s comments suggest Samsung is accelerating its bid to compete with iPhone-chipmaker TSMC, one of the biggest beneficiaries of this year's wave of stay-at-home demand for personal electronics. Lee has taken a close interest in the matter. He flew to ASML Holding N.V. headquarters in the Netherlands last month to discuss supply of its extreme ultraviolet lithography machines, gear that's indispensable to the creation of the most advanced semiconductors. Officials at Samsung believe the company has a competitive edge from its experience building both the chips and the devices that they go into, like Galaxy smartphones. It can foresee and address the engineering requirements of its clients. Samsung believes its other trump card is an ability to package memory and logic chips into a single module, improving power and space efficiency.

DIVIDEND PAYERS

Compass Group PLC - Full year results for the year ended September 30 2020: Revenue £20.2 billion, down 18.8% and Operating Profit £561 million, down 69.7%. Operating margin 2.9%, down from 7.4%, Earnings per Share £0.191, down from £0.838. Free Cash Flow £213 million, compared to £1,247 million last year and Annual dividend per share maintained at £0.40. Dominic Blakemore, CEO stated: "We began the year on track to deliver our strongest performance ever, and over the course of a fortnight in March, we saw the containment measures to stop the spread of COVID-19 close half of the business. We rapidly enhanced our health and safety protocols, mitigated our costs, increased our liquidity and strengthened our balance sheet. Through the summer, our performance began to improve slowly as we helped clients in Education and Business & Industry return to schools and offices safely. Importantly, in the fourth quarter we returned the business to profitability and are now cash neutral. This was achieved mainly through contract renegotiations to reflect the difficult trading environment, continued discipline in terms of costs and some improvement in volumes. We are executing at pace and expect the underlying operating margin in the first quarter of 2021 will be around 2.5%. Although the prospects of a vaccine are encouraging, the resumption of lockdowns in some of our major markets shows that we have to continue to take proactive actions to control the controllable and ensure the business can thrive despite the ongoing pandemic. We are innovating and evolving our operating model to be more flexible and to provide our clients and consumers with an exciting offer that is delivered safely and provides great value. This combined with our existing scale, ability to flex costs and focus on operational execution, will allow us to return to a Group underlying margin above 7% before we return to pre-COVID volumes. The scope for growth from first time outsourcing and share gains is significant. In addition, we have a strong pipeline of new business in Healthcare & Seniors, Education and Defence, Offshore & Remote that will diversify and broaden our revenue base. We are investing in the business organically and inorganically to support our long term growth prospects, enhance our competitive advantages, and further consolidate our position as the industry leader in food services."

Novartis AG announced a new $2.5 billion share repurchase program. The buyback 'highlights management confidence in growth'. It starts immediately and lasts until 1st Half 2021. During a recent conference, management stated it's confident in its diverse drivers of growth and should deliver top line growth each year to 2025 despite some meaningful patent expiries. The company endorsed consensus product expectations and sees Kesimpta (multiple sclerosis) and Kisqali (breast cancer) as key areas of upside. For Kesimpta this reflects the goal to be leading switch and new start multiple sclerosis drug of choice and for Kisqali if the adjuvant indication achieves positive data. Novartis expects current Gilenya generic appeals to run for 12-18 months and then can provide greater clarity to the markets. (Source: Credit Suisse)

LIFE SCIENCES

Telix Pharmaceuticals Limited announced it has entered into an agreement with Scintec Diagnostics GmbH ('Scintec') to acquire TheraPharm GmbH ('TheraPharm'), a Swiss-German biotechnology company developing innovative diagnostic and therapeutic solutions in the field of hematology. The acquisition of TheraPharm provides Telix with access to a portfolio of patents, technologies, production systems, clinical data and know-how in relation to the use of Molecularly Targeted Radiation (MTR) in hematology and immunology. TheraPharm is developing antibody MTR technology against CD66, a cell surface target highly expressed by neutrophils (a type of white blood cell) and tumor-infiltrating lymphocytes. As such, the technology has potentially very broad applications in the diagnosis and treatment of hematologic diseases (e.g. blood cancers), lymphoproliferative disorders and immune-mediated diseases (e.g. lupus, and multiple sclerosis). Of particular interest is the demonstrated use of the technology to safely and effectively perform bone marrow conditioning (BMC) prior to bone marrow stem cell transplant. Telix CEO, Dr. Christian Behrenbruch stated, "Telix is committed to extending and improving the lives of patients with serious diseases. As such, the acquisition of TheraPharm and its MTR assets are uniquely aligned to Telix's mission and technical strengths in antibody engineering and radiochemistry. TheraPharm's technology has a significant role to play in BMC and stem cell transplantation across a broad range of blood cancers and rare diseases. The current approach to BMC employs highly toxic drugs that have a poor morbidity and mortality profile, and for which many patients are ineligible. MTR offers an excellent safety profile that may greatly expand the number of patients able to undergo life prolonging stem cell transplantation while greatly reducing the hospitalisation burden and cost associated with such procedures." TheraPharm co-founder and Managing Director, Dr. Klaus Bosslet added, "Over the past 5 years, TheraPharm, in collaboration with Dr. Kim Orchard from the University of Southampton (UK), has made excellent progress developing 90Y-besilesomab for the treatment of hematologic cancers and several related conditions including multiple myeloma, leukemia and amyloidosis. This unique asset is a logical addition to Telix's portfolio, offering a potentially rapid development path to a first commercial indication for the treatment of patients with [Systemic Amyloid Light-Charin Amyloidosis], while at the same time having potentially broad applications for stem cell transplantation in patients with more common cancers of the blood, including multiple myeloma and leukemia. We look forward to joining the Telix team in order to expedite the development of products for this under-served field." With the acquisition of TheraPharm, Telix Pharmaceuticals solidifies its role as a leading global developer of clinical imaging and therapeutic solutions using MTR. The set of assets that TheraPharm brings to Telix's platform, focused on hematologic diseases, is complementary with the company's portfolio, which includes diagnostic and therapeutic options for prostate, renal and brain cancers. The already strong European presence of the company, through the acquisition of ANMI of Belgium in 2018 and the addition of a specialty manufacturing facility in Seneffe, Belgium in 2020, sees the addition of Switzerland and Germany as operations centres for the company.

ENERGY SECTOR

Enbridge Inc. announced it had filed a federal complaint in the U.S. District Court seeking an injunction to stop the State of Michigan from taking any steps to prevent the operation of Line 5. The Enbridge Line 5 pipelines runs under the Straits of Mackinac, where Lakes Huron and Michigan meet, and ships 540,000 barrels per day of light crude oil and propane, serving both retail customers and refiners in Michigan and Ohio. It is a critical part of the company's network that delivers the bulk of Canadian crude exports to the United States and eastern Canada. Michigan's Governor Gretchen Whitmer said in November she is terminating the easement that allows Enbridge to operate its Line 5 pipelines, as the company failed to protect the U.S. Great Lakes by preventing the line from being damaged. The move would require the line to be shut by May 2021. "In the face of continued roadblocks by this Administration it's time for the State to stop playing politics with the energy needs and anxieties of U.S. and Canadian consumers and businesses that depend on Line 5," said Vern Yu, Enbridge's executive vice president and president of liquids pipelines. The company added that a disruption to Line 5 would result in a daily shortage of over 14 million gallons of gasoline and other transportation fuels, impacting the entire region, including Wisconsin, Indiana, Ohio, Pennsylvania, Ontario and Quebec. The National Wildlife Federation (NWF) said Enbrige's lawsuit seeks to strip Michigan of its authority to protect the Great Lakes.

ECONOMIC CONDITIONS

Canadian Banks' Back-to-Office Plans Thwarted by Virus Surge - Bloomberg reported that a recent surge in COVID-19 cases is derailing Canadian banks' plans to bring employees back to offices, with one lender even asking some workers who had already returned to go back home. Bank of Montreal and Canadian Imperial Bank of Commerce are extending work-from-home plans for some employees until at least April, while National Bank of Canada is prolonging such measures for corporate-office staff until the end of June. Toronto-Dominion Bank hasn't set a firm date for a return, but said in a memo last week that most people working from home won't come back "until at least the spring." Royal Bank of Canada even encouraged employees who had gone back to offices to return to working at home as of Nov. 16, according to a memo from Chief Human Resources Officer Helena Gottschling. Royal Bank also delayed plans to have employees retrieve personal items from work sites in and around Toronto until further notice. Bank of Nova Scotia also hasn't set a specific time for office employees to return because of "uncertainty around how the COVID-19 pandemic will unfold in the coming months," according to a spokesman. Canada's third-biggest bank said workers will receive at least four weeks' notice before being asked to return.

U.S. personal spending rose 0.5% in October, the slowest in a string of 6-month increases, but still ongoing increases. The Personal Consumption Expenditure deflator was flat in the month meaning **real spending** was also +0.5%, a solid start to the final quarter of 2020. Whereas spending on **Energy goods**, like gas, and food services & accommodations were down **recreational goods & vehicles** spending jumped 1.5% on those discretionary items. Supply issues had caused some slowing in the prior month but looks like some of those issues have cleared. **Recreation services** were also up 2.6%.

China's manufacturing and non-manufacturing Purchasing Managers Indices expanded for a 9th straight month, the former to its highest since September 2017 and latter to its highest since June 2012. The breakdown revealed strong gains in output and new orders to their highest since September 2017, while new export orders and imports both strengthened to their highest since December 2017 and May 2018, respectively.

FINANCIAL CONDITIONS

Sweden's central bank said last week it would expand and extend its asset-purchase programme to support the economy through a second wave of the coronavirus pandemic, as it kept its benchmark interest rate on hold at 0%, as expected. (Source: Reuters)

The U.S. 2 year/10 year treasury spread is now 0.70% and the U.K.'s 2 year/10 year treasury spread is 0.33%. 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 2.72%. Existing U.S. housing inventory is at 2.5 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 21.78 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

And Finally

"It's easier to fool people than to convince them that they have been fooled" Mark Twain

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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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