Portland Investment Counsel®
Buy. Hold. And Prosper.®

# NEWS HIGHLIGHTS

EST. 2007

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

## SEPTEMBER 7, 2021



## OWNER OPERATED COMPANIES

GO TO PORTLAND 15 OF 15 ALTERNATIVE FUND

PORTLAND 15 OF 15 ALTERNATIVE FUND COMPANY NEWS

**SoftBank Group Corp. ("SoftBank")** – Indian e-commerce retailer, Snapdeal, is considering an initial public offering (IPO) that could raise about US$400 million, joining a growing list of startups preparing to tap capital markets as the Indian digital economy booms. The company, which counts SoftBank among its investors, is speaking with advisors about a potential listing in Mumbai as soon as next year, that could value it at as much as $2.5 billion, the people said. Discussions are still at an early stage, and the firm could decide not to proceed with the plan. Snapdeal, based in the New Delhi suburb of Gurgaon, was once one of the country's top three e-commerce firms along with Flipkart Online Services and the Indian unit of Amazon.com Inc. Founded in 2010, it offers more than 60 million products across 800 categories on its platform and delivers to more than 6,000 cities and towns across the country, according to its website. Four years ago, Snapdeal walked away from a potential merger with Flipkart, which would have united the two local e-commerce companies against Amazon. Since then, Flipkart sold a controlling stake to Walmart Inc. and is now progressing towards its own IPO.

**SoftBank** - SoftBank Group Corp. is planning to sell what could be Japan's biggest yen corporate bond so far this year, tapping strong demand for its debt from individual investors as borrowing costs drop. The technology investment company plans to price 450 billion yen (US$4.1 billion) of subordinated bonds due in 2028 on September 10th, and the debt will target retail investors to refinance existing bonds, according to a regulatory filing. That would follow a 405 billion yen junior debt sale to individuals in June that was the nation's largest company note this year. SoftBank is coming to the market as falling funding costs help prompt a rush among Japanese firms to sell bonds, with deals last month surging to the most for an August on record, according to Bloomberg. Yield premiums on Japanese corporate notes have dropped to the least since 2015, Nomura BPI data show. SoftBank's bond offering would come as the earnings of its Vision Fund faces pressure due to the tech sector crackdown by Chinese regulators causing firms it invested in to surrender gains. Billionaire Masayoshi Son's company may have to rely on Vision Fund distributions, cash, borrowings and asset sales to service debt as its largest recurring income, dividend from SoftBank, can no longer cover interest costs according to Bloomberg.

**Reliance Industries Limited ("Reliance")** - Reliance Retail, subsidiary of Reliance Industries Ltd., said on Friday it has acquired a controlling stake in 25-year-old Indian search and discovery firm Just Dial Ltd. for US$469 million. Reliance said it has acquired a 41% stake in the publicly listed Just Dial for this $469 million and will make an open offer to acquire an additional 26% stake later. VSS Mani, founder and chief executive officer of Just Dial, will continue his leadership role at the firm, both the companies said in a joint press release. Just Dial offers local search and e-commerce services through its website, mobile apps and telephone line. Users in India can inquire about local plumbers, details for hotels and housekeeping services among other things by just dialing 8888888888. Just Dial which prior to entering the public markets raised about US$102 million from Tiger Global Management LLC, Elevation Capital Group, Sequoia Capital India, Sapphire Ventures LLC and Nalanda Capital Pte. Ltd., has built a massive database whose results are so useful and relevant that they often populate top search queries on Google and other search engines. The service is free for users, but Just Dial charges businesses and individual service providers a fee for listing.

**Ares Management Corporation ("Ares")** – Ares announced that John Case, Ben Fox, Joel Tomlinson and Taejoon Chun have joined to expand Ares' presence and activity in net lease and related investment opportunities. These additions reflect Ares' view of the compelling investment opportunities in the US$12 trillion net lease market in the U.S. and Europe as well as the company's continued commitment to enhance its capabilities across the platform. Ares' net lease team is a joint initiative between Ares' Alternative Credit strategy and its Real Estate Group, building on Ares' long history of sourcing and managing net lease assets across these platforms. Ares has significant experience in the asset class with more than US$4 billion in net lease investments made in the last year. Case, Fox, Tomlinson and Chun will be based in San Diego and will work collaboratively to leverage the insights across both Ares' Alternative Credit strategy and its Real Estate Group.

## DIVIDEND PAYERS

GO TO PORTLAND GLOBAL ALTERNATIVE FUND[1]

GO TO PORTLAND GLOBAL ARISTOCRATS PLUS FUND[1]

GO TO PORTLAND GLOBAL BALANCED FUND[1]

**Bunzl PLC's** first half results are consistent with that implied at the June trading update, with first half organic sales of 2.8%, and EBITA of £367 million. Management's outlook for 2021 is also unchanged. Base business contributed +6.7% to organic; the North American base business is moderately below 2019 levels, the rest of the world ahead, but overall still below. COVID-related products contributed -3.9% to organic in the first half, though supported by inflation which should moderate in the second half. Sales remain above pre-pandemic levels though are declining more steeply in the second quarter. North American business notes product inflation (not related to pandemic-products) contributed to growth and helped offset some operating cost inflation. Grocery is also seeing benefits from product cost inflation. In discussing the next 18 months, management note "We expect to see benefit from a continued recovery in the base business, support to our safety businesses from economic stimuli, enhanced hygiene trends, and we believe that our credentials as a proactive leader in providing sustainable solutions are a growing competitive advantage." Two further acquisitions have been completed, adding combined revenues of around £22 million. Eight acquisitions have been completed year-to-date. The shares trade around 19 times the 2022 fiscal year price to earnings, approximately 5% free cash flow yield.

**Canadian National Railway's ("CN")** Hedge Fund TCI with a 5% stake, has demanded CN abandon its US$34 billion pursuit of Kansas City Southern ("KCS") after a U.S. railroad regulator rejected the way the transaction was structured contending it was potentially harmful to the public interest. CN had requested to create a temporary voting trust where shareholders in KCS would be paid before the transaction had received full approval by the regulator. It seems the shareholders of KCS are now more likely to back an alternative union with rival railway group Canadian Pacific Railway. TCI is also the largest shareholder in Canadian Pacific with an 8.4% stake believing a merger of these two smaller players in the industry would have a higher chance of obtaining regulatory approval.

**The Canadian Imperial Bank of Commerce ("CIBC')** announced that it has signed a long term agreement to become the exclusive issuer of Costco Mastercards in Canada. The deal is expected to start in early calendar year 2022. Under the agreement, CIBC will also acquire the existing Canadian Costco credit card portfolio from Capital One, which has balances of roughly US$3 billion in outstanding balances. Mastercard will remain the exclusive payment network for the Costco co-branded credit card. The new CIBC Costco Mastercard will be a rewards card for all Canadian Costco warehouses and Costco.ca, and will serve as the Costco membership card.

**Costco Wholesale Corporation ("Costco")** reported August results of U.S. Same Store Sales ex-fuel being up +25.8% on a two-year basis, which was a +30 basis points sequential acceleration from July. U.S. traffic growth increased +7.5% which implies a two-year increase of +11.4% versus the 10.6% in July. eCommerce growth tracked up +1.8% translating to a +51.2% Trailing Twelve Month average growth versus +59.5% in July. Total comparisons (including foreign exchange/Fuel) increased +14.2% or up +29.3% on a two-year basis versus +28.8% in July. Food & Sundries was up mid-single digits – high single digits in August (versus low-single digits in July), Fresh Foods were up mid-single digits – high-single digits (versus mid-single digits in July), non-foods increased mid-single digits – high-single digits (versus low-double digits July) and Ancillary business increased in-line with July. Management noted that gas prices were up 41% year-over-year and that comp gas volume was up "significantly" year-over-year and up versus 2019.

**Large Canadian Banks Halt Sales of Third-Party Mutual Funds to Prepare for Rule Change:** The Globe and Mail reported that several of Canada's largest banks have halted sales of third-party investment products from their financial planning arms as new regulatory rules will soon require advisors to have deeper knowledge of the funds they recommend to clients. Royal Bank of Canada, Toronto-Dominion Bank and Canadian Imperial Bank of Commerce have all notified clients in their financial planning businesses that advisors will no longer be selling third-party funds for any investment portfolios. The changes do not apply to any of the banks' full-service brokerage accounts or do-it-yourself investing clients. The new set of rules – known as the client-focused reforms (CFRs) – are slowly being rolled out to the industry in stages. Changes to the "know-your-product," or KYP, rule will come into effect at the end of 2021, and among other things, address conflict of interest concerns such as an advisor's compensation being linked to proprietary products. However, as wealth-management firms begin to prepare for the changes, investor advocates and independent fund companies worry the KYP initiative, put in place to protect investors, may result in a number of independent fund companies being dropped from product shelves and proprietary products being the only option for investors. TD Wealth Financial Planning, a division of TD Private Wealth, and CIBC Imperial Service, a segment of CIBC advisors that services branch clients with at least $100,000 in investable assets, both announced earlier this year they would no longer be selling third-party funds effective July 1 and June 30, respectively. In an internal memo, TD notified its staff that the change would "reduce the risk" related to following new regulatory rules that require advisers to have a greater knowledge of the products they are selling. Peter Lee, CIBC's executive vice-president of banking centres, said in a letter emailed to clients that "by simplifying the range of products available, your advisor can provide more focused advice through a deeper knowledge of our CIBC investment products."

## LIFE SCIENCES

GO TO PORTLAND LIFE SCIENCES ALTERNATIVE FUND

**Telix Pharmaceuticals Limited ("Telix")** – Telix announced it has commenced a collaboration with Kettering Health (KH), a faith-based network of 13 hospitals, emergency centers, and outpatient facilities located in Southwest Ohio; headquartered at the Kettering Memorial Hospital in Kettering, Ohio, United States. The parties have signed a Memorandum of Understanding ("MOU") formalizing their intent to work together to foster late-stage clinical research into Telix's investigational PSMA-targeting radiopharmaceuticals, Illuccix® (Kit for the preparation of 68Ga-PSMA-11 injection, for diagnostic imaging with positron emission tomography, (PET) and Lu-177 PSMA (TLX591, for radioligand therapy), and to establish Kettering Health as a regional centre of excellence for PET Molecular Imaging (MI) and Theranostics, with an initial focus on the diagnosis and treatment of prostate cancer.

Telix announced that Michael Didocha has joined the company as Chief Financial Officer for the Americas region. Michael joins with approximately 20 years' experience in life science manufacturing and commercialization. Prior to joining Telix, Michael worked at Roche Holding AG where he served for 16 years across various executive positions, including as Director of Finance from 2017. Mr. Didocha holds a Master of Business Administration in Finance and Accounting from Indiana University's Kelley School of Business, and a Bachelor of Science in Mechanical Engineering from Georgia Institute of Technology.

## ECONOMIC CONDITIONS

**The Canadian economy** suffered an unexpected contraction in the second quarter, casting a shadow over the country's efforts to recover from the effects of the pandemic. Real gross domestic product fell 0.3%, Statistics Canada reported. It was an annualized drop of 1.1%, and Canada's first quarterly decline in output since the second quarter of 2020, when the first wave of COVID-19 ravaged the economy. Analysts had predicted the economy would grow at an annualized rate of 2.5%. Exports were the biggest drag, tumbling at a 15% annualized rate. Vehicle exports were especially hard hit by supply chain disruptions, StatsCan reported. The Bank of Canada had projected a 2% gain. StatsCan said real GDP dropped 0.4% in July, erasing about half of June's gain, according to a preliminary estimate. This also surprised analysts, who were expecting a healthy start to summer as Canadians unleashed their pent-up savings following the lifting of some pandemic restrictions. (Sourced from the Globe & Mail).

**U.S. Nonfarm payrolls** pulled back to a 235,000 gain in August, but only after large net revisions that took the prior two-month average above one million. The net revisions of 134,000 didn't offset the much weaker than expected August print (the consensus was north of 700,000). Evidence of surging infections was found in unchanged leisure and hospitality positions (albeit after averaging 350,000 in the past six months), with an outright decline in food services, as new mask and vaccine mandates in some areas closed indoor dining. Retail also shed 29,000 positions, as consumer spending has also been dented by the Delta variant. A retreat in local government education jobs also weighed on the headline figure, though private education jobs added 40,000 positions. Manufacturing gained 37,000 jobs, led, surprisingly, by the auto sector, though this could unwind in September in our view as some automakers have extended production cuts due to continued microchip shortages. Payrolls are now down 5.3 million (-3.5%) from pre-pandemic levels, but have averaged 586,000 per month this year. The household survey printed 509,000 net new jobs in August after over one million in July, lifting the employment rate to the highest level since March 2020, though it's still 2.6 percentage points below pre-virus levels. This reduced the unemployment rate to 5.2%. The participation rate remained at 61.7%, within the narrow range of the past year. In our view Federal Reserve Chair Powell's non-urgency to taper will find some support from this update.

**China** official manufacturing purchasing managers index (PMI) slipped for the fifth straight month, down 0.3 points to 50.1 in August, a level not visited since February 2020 and just barely expanding. Supply problems and restrictions on production given the rise in COVID cases were to blame. But what was more notable was the 5.8 point drop in the nonmanufacturing PMI to 47.5. That is the largest one-month decline, and the lowest reading, since February 2020. Of course, the levels are still vastly different at 47.5 now versus 29.6 back then. But, the factors that hurt the economy a year ago were similar a year and a half later, with measures to restrict movement and activity really hurt the services sector.

**The Australian economy** enjoyed a strong second quarter GDP print at +0.7% quarter-over-quarter, above consensus (market +0.4%) and in line with the Reserve Bank of Australia's expectation. Ranking by GDP quarter-over-quarter contributions, the positive from the report was a strong increase in household consumption (+0.6 points), public investments (+0.4 points) and private capex (+0.3 points), while the negatives were weaker net exports (-1.0 points) and lower inventories (-0.2 points). Household savings fell slightly but remained elevated at 9.7% (last 11.6%), suggesting households can draw on savings to tide them through the ongoing lockdowns.

## FINANCIAL CONDITIONS

**The Reserve Bank of Australia ("RBA")** went ahead with their taper decision. This highlights the high bar the RBA has for a quantitative easing (QE) increase despite the worsening COVID situation. However, the Bank acknowledged that the economic recovery is likely to be delayed, with greater uncertainty associated with the Delta variant outbreak. As such, the RBA decided to signal that that they are keeping the taper pace at AU$4 billion per week until at least February of 2022 from their earlier November 2021 timeline. Taken together, this is a fairly balanced decision in our view, with the Bank acknowledging the poorer-than-expected economic outlook but stuck to their narrative that the Delta outbreak is only "interrupting" the recovery and the QE taper should carry on.

The U.S. 2 year/10 year treasury spread is now 1.14% and the U.K.'s 2 year/10 year treasury spread is 0.54%. 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 2.6 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 17.40 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

**And finally:** "In order to win you must be prepared to lose sometime. And leave one or two cards showing."

*Van Morrison*

**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

**Portland Investment Counsel Inc.** **portlandinvestmentcounsel** **Portland Investment Counsel Inc.** **@PortlandCounsel**

**Glossary of Terms:** 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'GDP' gross domestic product, 'ROE' return on equity, 'ROTE' return on common equity, 'ROTCE' return on tangible common equity, 'conjugate" a substance formed by the reversible combination of two or more others.

1.Not all of the funds shown are necessarily invested in the companies listed



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

PIC21-064-E(08/21)