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# NEWS HIGHLIGHTS

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

## SEPTEMBER 20, 2021

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## OWNER OPERATED COMPANIES

GO TO PORTLAND 15 OF 15 ALTERNATIVE FUND

PORTLAND 15 OF 15 ALTERNATIVE FUND COMPANY NEWS

**SoftBank Group Corp ("SoftBank")** - SoftBank is boosting its bet on Latin America's burgeoning tech industry, adding US$3 billion for investments in a region quickly gaining popularity with foreign venture capitalists. The Japanese firm is launching a second private investment fund, bringing its total earmarked for the region to US$8 billion, according to a company statement. The fund, which may raise additional capital, plans to invest in technology-related companies from early stage startups to those that have already gone public. SoftBank has found fertile ground in Latin America. In March 2019, it launched a US$5 billion dedicated fund, which has invested US$3.5 billion in 48 companies as of June of 2021 and generated a net internal rate of return (IRR) of 85% in U.S. dollar terms, the company said. With the SoftBank Latin America Fund II, the company said it will focus on e-commerce, digital financial services, healthcare, education, blockchain, and insurance companies from across the region. SoftBank said it has made investments in 15 of the region's 25 unicorns, the term for a startup worth US$1 billion or more, including Colombian delivery company Rappi Inc., Brazilian real estate technology firm QuintoAndar and Latin American crypto unicorn, Mercado Bitcoin. In July, a SoftBank-backed e-commerce software company, VTEX, went public in the U.S.

**SoftBank** - SoftBank Group Corp. sold about US$1.69 billion worth of its stake in Coupang Inc., the South Korean e-commerce giant whose stock surged and then tumbled after its initial public offering in March of 2021. SoftBank sold 57 million shares at $29.685 on September 14, 2021, the company said in a statement to the U.S. Securities and Exchange Commission. The Japanese company is still Coupang's largest shareholder. Masayoshi Son has stepped up sales of stakes in his portfolio of public companies in recent months, funneling the cash into more investments in technology startups. SoftBank sold roughly $14 billion worth of listed stocks last quarter, nearly triple the amount in the previous period. The selloff includes shares in some of Son's biggest IPO hits like DoorDash Inc. and Chinese online property platform KE Holdings Inc. Coupang's debut in March contributed $24.5 billion to SoftBank's profit in that quarter, marking Son's best return since Alibaba Group Holding Ltd.'s listing in 2014.

**Oracle Corporation ("Oracle")** – Oracle last week said revenue rose 3.8% to US$9.73 billion in the fiscal first quarter. Analysts polled by Bloomberg projected $9.77 billion, on average. Profit, excluding some items, was $1.03 a share, while analysts estimated 97 cents a share. Larry Ellison, Executive Chairman, and Safra Catz, Chief Executive Officer, have been investing in services to run users' applications and store their data in the cloud. Still, some customers are holding off shifting critical Oracle databases to the cloud and may opt for the market leaders, Amazon.com Inc. or Microsoft Corp., when they do move. Catz said revenue in the current period will gain 3% to 5% from a year earlier, meeting the average projection of $10.2 billion, or a 4% year-over-year increase. Profit will be $1.09 to $1.13 a share. Analysts, on average, estimated $1.09. In the fiscal first quarter, revenue from cloud services and license support increased 6% to $7.37 billion, falling just short of analysts' estimates of $7.4 billion. That metric includes sales from hosting customers' data in the cloud, but a large portion is generated by maintenance fees for traditional software kept on clients' corporate servers. Cloud license and on premise license sales dropped 8% to $813 million in the period ended August 31, 2021. Analysts had expected $865 million. Oracle said sales of its Fusion application for managing corporate finances rose 32% in the period, compared with 46% growth reported in the fiscal fourth quarter. Revenue from NetSuite Inc.'s financial software, targeted to small-and-mid-sized businesses, rose 28%, after a 26% gain in the previous period. The results marked the fifth straight quarter of year-over-year revenue growth after two consecutive fiscal years of declining sales. Shares, which fell as much as 3.7% after the earnings report, trimmed some of the loss when the forecast was announced. The stock, which closed at $88.89 in New York, hit an all-time high in August 2021 as investors cheered progress in the company's cloud efforts and has gained 37% this year, about double the increase in the S&P 500 Index.

**Brookfield Asset Management Inc. ("Brookfield")** – Australia's AusNet Services (held in the Portland Global Balanced Fund) said it had opened its books to an affiliate of Canadian infrastructure investor Brookfield Asset Management Inc. after it received a higher non-binding buyout proposal of AU$9.57 billion (US$6.95 billion). The deal comes amid a spike in mergers and acquisitions activity over the past year in Australia, with record-low interest rates encouraging institutional investors and companies to chase higher valuations. AusNet, which owns and operates Victorian electricity transmission network, revealed that the revised AU$9.57 billion bid came after it had rejected two unannounced previous bids last month from the Brookfield affiliate that valued it at up to AU$9.38 billion. The revised AU$2.50 per share offer - a 26.3% premium to AusNet's last close - was up from proposals of AU$2.35 and AU$2.45 tabled earlier. That sent shares of the Australian energy infrastructure firm soaring, advancing as much as 20.7% to AU$2.39 and marking their best intraday percentage gain. AusNet said it had agreed to grant Brookfield access to its books and conduct due diligence on an exclusive basis. "Should Brookfield make a binding offer at AU$2.50 per share then ... it is AusNet board's current intention to unanimously recommend that shareholders vote in favour of the proposal in the absence of a superior proposal," AusNet said in a statement. AusNet, owned by Singapore's Temasek Holdings Limited and China's State Grid Corporation, said the deal is subject to foreign investment review board's approval.

**D.R. Horton Inc.** – Largest U.S. homebuilder D.R. Horton Inc. cut its forecast for annual revenue and homes closed, due to lingering supply chain disruptions. The company now expects its revenue for fiscal 2021 between US$27.4 billion and $27.6 billion, below its previous expectation of $27.6 billion to $28.1 billion. D.R. Horton now expects homes closed between 81,300 homes and 81,700 homes, from its prior outlook of 83,000 homes to 84,500 homes.

## DIVIDEND PAYERS

GO TO PORTLAND GLOBAL ALTERNATIVE FUND[1]

GO TO PORTLAND GLOBAL ARISTOCRATS PLUS FUND[1]

GO TO PORTLAND GLOBAL BALANCED FUND[1]

**Canadian National Railway - known as "CNR" (TSE) and "CNI" (NYSE)** is not acquiring Kansas City Southern Railroad Company ("Kansas") after Kansas agreed to be acquired by the much smaller rival Canadian Pacific Railway Limited ("CP") for US$31 billion, thereby terminating its $34 billion deal with CNR which was believed to be unlikely to receive regulatory approval. CNR is entitled to a $1.4 billion termination fee, where Kansas will pay $700 million and will need to return an extra $700 million that was used to end an earlier agreement. CNI hosted a conference call to announce a new strategic plan following its unsuccessful bid for Kansas and amidst its proxy fight against TCI Fund Management Ltd. CNI reiterated its 2021 guidance to target double-digit Earnings Per Share (EPS) growth, and introduced 2022 guidance to grow EPS 20% next year. This implies approximately CA$7.00 of EPS next year, above prior consensus of $6.60. After five straight years of margin declines, CNI is targeting 500-600 basis points of Operational Returns improvement next year to a 57% or, much better prior expectations of 61%. CNI plans to reduce headcount by about 4%, eliminate its use of consultants, and sell off or shut down non-core businesses (e.g. freight forwarding) that generate very low margins. CNI also plans to lower its Capital Expenditure spending from 23% of revenue over the last five years to 17% of revenue going forward. Lastly, CNI will re-evaluate its low-end balance sheet leverage relative to the other rails, and plans to buyback CA$5 billion of stock next year (5% of shares).

**Coloplast A/S's** Chief Executive Officer (CEO), Kristian Villumsen, presented at the Handelsbanken Large Cap Seminar. The company operates on markets with underlying growth of 4-5% which the company has outpaced for six decades. For 2020/2021 estimates, the company has guided for the lower end of the range 7-8% organic growth and upper end of 32-33% Earnings Before Interest and Taxes (EBIT) margin range (before special items). When asked how the CEO would balance between growth and margins going forward, he responded that focus is clearly on growth, given the return on invested capital (ROIC) that the company generates margins at this level. During the last year and a half, Coloplast has won two GPO contracts (Group Purchasing Organizations in an entity that helps healthcare providers – such as hospitals and nursing homes) in the U.S. Market share in the U.S. is around 15-25% and remains well below the group's global average, where wins like these are viewed to be key to accelerate share gains. The CEO pointed to the U.S. being a hospital contract market, where in order to gain share, you need to start winning hospital contracts. He referenced some early wins, which may be an early indicator of what may come in the community setting. Patients discharged from hospitals is normalizing following a steep halt in elective surgeries during the pandemic. The company continues to invest to support share gains. The CEO referenced the patient support program called CARE, plus expansion of the Coloplast team which should be fully up and running in October of 2021. When asked if the company had seen signs of pent-up demand after the pandemic, he responded that the company has not seen much pent-up demand. He suggested that healthcare systems have a lot of backlog to work through and that backlog would be addressed during an extended period of time. When asked about any impact from the Delta variant, the CEO responded that we're not completely out of the woods yet. The incontinence business is lagging a bit behind and on the Interventional Urology side, the company has seen some impact in some southern states in the U.S. He remained hopeful that vaccination programs will be successful while at the same time adding, it's not going to be the same.

**JPMorgan Chase & Co.** will next week open the first overseas retail bank in the company's 222-year history, with the launch of a digital-only lender that aims to upend the UK banking market, as stated by Sanoke Viswanathan, head of JPMorgan's newly formed "international consumer" division (source Financial Times).

**Microsoft Hires Former Amazon Web Services Engineer Charlie Bell to Run Security** – Charlie Bell left Amazon Web Services (AWS) to join Microsoft Corporation a month ago, but his role was kept secret until September 15, 2021, when the announcement was made that he will head the Microsoft Security, Compliance, Identity, and Management org and report directly to CEO, Satya Nadella. This comes after the recent announcement that Microsoft will spend US$20 billion on security over the next five years. This is the first AWS employee that Microsoft has taken since Satya become CEO due to non-compete issues, further emphasizing the importance of Bell's role in our opinion.

**Royal Bank of Canada** ("RBC") has agreed to pay more than US$800,000 to settle charges from a U.S. regulator that the bank improperly allocated bonds in municipal offerings. The U.S. Securities and Exchange Commission (SEC) alleged that over a period of nearly four years, bankers at RBC's New York offices allocated bonds to unregistered brokers that then flipped them for a profit on 41 occasions, when institutional customers and dealers should have had priority according to RBC's internal policies. In three instances, the SEC alleged that RBC violated an issuer's instructions to place retail customers' orders first, instead allocating some bonds to the "flippers" first, and failed to document the reasons why. In bond offerings not underwritten by RBC, the order found that RBC obtained bonds for its own inventory at least 87 times by placing requests with those flippers to purchase bonds through them at a set markup, gaining the bank a higher priority than it would otherwise have had. RBC did not admit or deny the SEC's findings, but agrees to a censure, a US$150,000 penalty, disgorgement of US$552,440, and prejudgment interest of US$160,886 (source Globe & Mail).

**SSE PLC** – Elliott Management Corporation's Activist Hedge Fund confirmed it had taken a stake in SSE and that it is in with discussion with management regarding a split of renewables and regulated business. We would highlight that SSE is the largest UK energy champion in UK offshore wind, and the biggest investor and one of the largest employers in Scotland. As such, we see any potential asset sale needing political support.

## LIFE SCIENCES

GO TO PORTLAND LIFE SCIENCES ALTERNATIVE FUND

**Telix Pharmaceuticals Limited ("Telix")** announced that the United States Food and Drug Administration (FDA) has accepted the Investigational New Drug Application (IND) to undertake a clinical study of the company's investigational kidney cancer therapy, TLX250 (177Lu-DOTA-girentuximab). The STARLITE 2 study is a single arm, investigator-led Phase II study in patients with advanced clear cell renal cell carcinoma (ccRCC), the most common and aggressive form of kidney cancer. TLX250 targets carbonic anhydrase IX (CA9), a protein that is highly expressed in patients that are likely to demonstrate a more limited response to cancer immunotherapy. The study will evaluate TLX250-delivered radiation as an immune system "primer" in combination with the anti-PD-12 immunotherapy Opdivo® (nivolumab). The primary endpoint is to determine the efficacy of combining immunotherapy with TLX250 as assessed by the number of tumours responding to the Telix therapy versus the current standard of care alone. The study is expected to enroll 29 patients. Principal Investigator for the STARLITE 2 study, Darren R. Feldman, MD, Medical Oncologist at Memorial Sloan Kettering Cancer Center (MSK) in New York said, "Each year 76,000 Americans will be diagnosed with kidney cancer, therefore it is important we continue to explore new treatment options. The selective targeting of TLX250 to CA9 delivers radiation therapy directly to ccRCC tumours. Combining this innovative approach with anti-PD-1/PD-L1 therapy could enhance existing immune-based treatments." Telix Chief Medical Officer, Dr. Colin Hayward added, "The introduction of immunotherapy agents has improved the outlook for patients with advanced clear cell renal cancer, but most patients eventually progress. This therapy, along with patient selection and treatment response assessment with our CA9-targeting imaging agent TLX250-CDx may potentially offer a new paradigm of more accurate staging and personalized treatment for kidney cancer patients through a "theranostic" approach."

Telix welcomed the updated National Comprehensive Cancer Network® (NCCN) Guidelines® for prostate cancer, which includes prostate specific membrane antigen (PSMA) positron emission tomography (PET) imaging modalities, including Ga-68 PSMA-11. Telix's New Drug Application (NDA) for its investigational imaging product Illuccix® (Kit for the preparation of 68Ga-PSMA-11 injection) is in the late stages of review by the United States Food and Drug Administration. The NCCN Guidelines® are a recognized standard for clinical direction and policy in cancer care and are used widely by clinicians and payers. The NCCN panel has recognized the increased sensitivity and specificity of PSMA-PET tracers, compared to conventional imaging (CT, MRI) for detecting micrometastatic disease, at both initial staging and biochemical recurrence. The updated guidelines state that the NCCN Panel does not feel that conventional imaging is a necessary prerequisite to PSMA-PET and that PSMA-PET/CT or PSMA-PET/MRI can serve as equally effective, if not more effective front-line imaging tools for these patients. The updated guidelines now include Ga-68 PSMA-11 PET/CT to be considered as an alternative to standard imaging of bone and soft tissue.

Telix announced that it is supplying Illuccix® (an investigational kit for the preparation of 68Ga-PSMA-11 injection) to support prostate specific membrane antigen (PSMA) targeted imaging with positron emission tomography (PET) being used in an Amgen Inc. acapatamab study pursuant to an existing agreement with Invicro LLC, a US-headquartered contract research organization (CRO) and subsidiary of Konica Minolta. Acapatamab (formerly AMG 160) is a half-life extended (HLE) anti-PSMA x anti-CD3 bispecific Tcell engager (BiTE) immunotherapy being investigated by Amgen for the treatment of prostate cancer. Dr. Christian Behrenbruch, Telix Chief Executive Officer, commented, "This agreement demonstrates both the strength and reliability of Telix's supply chain globally and validates the potential of our Illuccix® prostate cancer imaging candidate in support of a wide range of PSMA-targeting therapies."

## ECONOMIC CONDITIONS

**Canada's Consumer Price Index (CPI)** increased 0.2% in August (not seasonally adjusted), one tick above consensus expectations. In seasonally adjusted terms, headline prices increased 0.4% on gains for five of the eight categories. The rise in transportation (+1.6%), alcohol/tobacco (+0.7%), food (+0.6%), shelter (+0.3%), and household operations (+0.2%) more than offset a declines in health/personal care and recreation/education/reading (-0.2% respectively). Clothing and footwear were flat in the month. Year-over-year, headline inflation was 4.1%, up from 3.7 % in July and registered as the strongest print since March 2003. On a provincial basis, the headline annual inflation rate was above the national average in Quebec (+4.4%), and Alberta (+4.7%) while it undershot that mark in Ontario (+4.0%) and British Columbia (+3.5%). Inflation remains elevated across the Maritime provinces. On a 12-month basis, core inflation measures were as follows: 1.8% for CPI-common (versus 1.7% the prior month), 3.3% for CPI-trim (versus 3.1%) and 2.6% for CPI-median (versus 2.5%). The average of the three measures rose from 2.4% to 2.6%, the highest since March 2009. While this strong momentum in prices is perhaps not sustainable, inflationary pressures may well be somewhat sticky in the medium-term. The Canadian Federation of Independent Business (CFIB) data continues to show strong labor shortages in August 2021, with as many as 49% of SMEs reporting that a shortage of skilled labor was a factor limiting production, compared with 37% for unskilled workers. Both indicators were at their highest levels on record, since 2009. This situation is conducive to wage increases that will ultimately be reflected in consumer prices. Moreover, durable goods such as autos are unlikely to become cheaper on the short term as shortages plague the industry. With the pandemic situation far from being over worldwide, supply chain disruptions could keep underlying inflation in the upper band of the central bank target range in 2021 and 2022. Lastly, protectionism/deglobalization as well as the ecological transition are also suggesting a regime change for inflation.

**U.S. Consumer Price Index** advanced 0.3% month-over-month in August after climbing 0.5% the prior month. This result was slightly weaker than the +0.4% print expected by consensus. The energy component rose 2.0% thanks in part to a 2.8% gain in the gasoline segment. The cost of food, increased 0.4%. The core CPI, which excludes food and energy, also came in below expectations, creeping up just 0.1%. Price for ex-energy services were flat as gains for shelter (+0.2%) and medical care services (+0.3%) were offset by drops for motor vehicle insurance (-2.8%) and airline fares (-9.1%). The price of core goods, meanwhile, progressed 0.3%, with decent advances for new vehicles (+1.2%) and apparel (+0.4%). The price of used vehicles faded a bit (-1.5%) after having increased roughly 30% between March and July. Year-over-year headline inflation was 5.3%, down a tick from the prior month. The core index, meanwhile, slipped from 4.3% to a still elevated 4.0%. The monthly gain in inflation was the weakest in seven months but one should be careful not to read too much into it. The deceleration in August was caused by volatile categories which were expected to be moderate. Whether or not inflation remains above the Federal target for longer than expected will depend on other factors like unprecedented surge in money supply and the amount of fiscal help having been rolled out. Producers are having problems coping with the resulting demand and factory gate prices are duly soaring. Meanwhile, shipping costs have skyrocketed, and delivery times have lengthened significantly. Some bottlenecks linked to the reopening process may dissipate relatively quickly, but others could affect production longer like the global chip shortage affecting the automotive industry (among others) right now. Production in this sector is controlled by a handful of big players, which cannot adjust quickly to higher demand (a source NBC Economics).

**U.S. Retail sales** rebounded 0.7%, defying expectations of a similar-sized decline, though this followed a sharp downward revision to the prior month's decline of 1.8% (-1.1% previously). Excluding a near 4% further reversal in auto sales (down four straight months due to product shortages), sales jumped 1.8%, while the control measure that feeds into broader consumer spending leaped 2.5% after sliding 1.9% in July. Strength in general merchandise (3.5%) and furniture (3.7%) was tempered by virtually no change in clothing and food services. The latter was hit by a pullback in indoor dining due to surging caseloads. September retail sales will surely be negatively impacted by the end of the federal emergency UI programs, with some offset from the expanded child tax credit. After surging earlier this year on re-openings and rebate cheques, retail spending pulled back in the spring and early summer due to fading pent-up demand for goods, product shortages, rising prices, and another wave of the pandemic. But, assuming the latter eases, spending should recover later this year in our view, given plenty of household savings, low interest rates, and rising employment.

**U.S. industrial production** rose 0.4% in August (or 5.9% year-over-year), in line with expectations and on the heels of a slight downward revision to July (was 0.9% and is now 0.8%) and upward revision to June (was 0.2% and is now 0.5%). Mining fell 0.6% (potentially impacted by Hurricanes Henri and Ida), while utilities jumped 3.3%. Manufacturing was the biggest component at 75% of the index and inched up just 0.1%, following a 1.6% jump in July. Production of motor vehicles and parts squeezed out a 0.1% increase, but are still down 4.9% year-over-year. But when you don't have enough parts to complete the car, things go on pause. Excluding motor vehicles and parts, output was up a steady 0.4%, or 6.6% year-over-year, which is good news, but the auto sector is a big player in all of this.

## FINANCIAL CONDITIONS

**China:** The Evergrande Group's fears of collapse are escalating in China, as equity investors scramble to get their money out with the property developer struggling to make its debt payments. Even though state banks own the debt, traders are nonetheless worried about a contagion-event spillover. In our opinion, it seems unlikely that the Bank of China would let the company default, and at some point might have to step in, as without intervention to support it looks like it's a full-fledged debt crisis for its own banks.

The U.S. 2 year/10 year treasury spread is now 1.10% 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 2.86%. 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 24.70 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

**And finally:** "Everything must change so that everything can stay the same...."

*Giuseppe Tomasi di Lampedusa*

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**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



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