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NEWS HIGHLIGHTS

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

JULY 8, 2024

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OWNER OPERATED COMPANIES



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COMPANY NEWS

Reliance Industries Ltd. (Reliance Industries)– Reliance Industries has started testing the country’s first indigenously developed smart television operating system (OS) developed by it for a possible commercial launch of televisions running on it by Diwali, two industry executives said. The Jio TV OS, which will be based on Google LLC’s Android platform, will compete against top television manufacturer OS such as Samsung’s Tizen OS, LG Corp’s webOS, Skyworth Group Co. Ltd.’s Coolita OS and Vidaa OS by Hisense Group. Reliance has provided its TV OS to some home-grown TV manufacturers for beta testing for feedback and fix bugs, the executives said. In addition to launching its own line of Jio OS-powered smart TVs in 4K and full HD, Reliance is also negotiating licence deals with other domestic TV producers. Smart TVs are sold by Reliance under the BPL and Reconnect brands. The majority of these models will be in the entry-level market, as reported by Economic Times. According to a business executive, Jio will be able to bundle its broadband connections, drive revenue through advertising, and bundle other apps like JioCinema with the Jio smart TV OS.

Samsung Electronics Co Ltd (Samsung)- Samsung posted its fastest pace of sales and profit growth in years, reflecting a recovery in memory chip demand as artificial intelligence (AI) development accelerates globally. The world’s largest maker of memory chips and smartphones posted a 15-fold surge in operating profit to 10.4 trillion won (\$7.5 billion) in the June quarter, outstripping analysts’ projections. Sales grew around 23%, the biggest rise since Covid-era highs clocked in 2021. The results underscore how the \$160 billion memory market is bouncing

back this year from a severe post-Covid downturn, driven by a boom in data centers and AI development. That demand pushed average memory chip prices 15% higher from the previous quarter, CLSA estimates, helping Samsung’s largest division reverse losses last year. Both Dynamic Random Access Memory (DRAM) and NAND prices were lifted by demand for AI servers and enterprise data storage, helping to reverse inventory valuation losses. South Korea’s government said this week the country exported the most semiconductors on record in June, driving its trade surplus to \$8 billion, the largest since 2020. Samsung is slated to announce final earnings with divisional breakdowns on July 31. Samsung is unveiling results days before union organizers plan to stage a three-day walkout among its 28,000-plus members, including at key chip plants, over a pay dispute. The proposed action follows a strike involving a small number of staff last month that was the first in the company’s 55 years. It’s unclear for now how many employees intend to participate in Monday’s walkout. Longer term, Samsung’s focus remains on winning more business in AI memory, while at the same time allaying fears of oversupply.

Altice USA Inc. (Altice)- Patrick Drahi’s planned sale of a controlling stake in his French fiber optic company SFR FTTH Network Holding (XpFibre) is stalling due to disagreements over price, people with knowledge of the matter said. Some potential buyers made offers valuing XpFibre at around €6 billion (\$6.5 billion) to €7 billion including debt, according to the people. Drahi, who owns 50.01% of XpFibre through Altice France Inc., has been seeking a valuation of about €8 billion or more, the people said. Negotiations have hit an impasse for now due to the wide gap, they said, asking not to be identified because the information is private. Private equity firms KKR & Co. (KKR) and Global Infrastructure Partners (GIP) were among those pursuing the XpFibre stake, the people said. French investment firm Ardian Holdings (Ardian) also studied the business, according to the people. Deliberations are ongoing, and it’s possible that Altice will still be able to reach an agreement with a bidder. Representatives for Altice, Ardian, GIP and KKR declined to comment. The rest of XpFibre is owned by

a consortium led by OMERS Infrastructure, which acquired a 49.99% stake in 2019 for €1.7 billion, valuing the unit at €3.4 billion, according to a statement at the time.

Brookfield Corp (Brookfield) – confirmed it held exploratory discussions with certain reference shareholders of Grifols in relation to a potential joint take private offer for Grifols, S.A. (Grifols) shares. Grifols is a Spain-based global specialty pharmaceutical company developing, manufacturing and distributing a broad range of biological medicines based on plasma derived proteins. Brookfield and partners have entered into an exclusivity agreement to further evaluate a potential transaction.

DIVIDEND PAYERS



LIFE SCIENCES



Arvinas Inc. (Arvinas) – has named Andrew Saik its new chief financial officer and treasurer. Saik has more than 20 years of biopharma finance experience, most recently serving as chief financial officer at Intercept Pharmaceuticals Inc (Intercept). While at Intercept, he led the effort to recapitalize the balance sheet by selling the international division for \$450 million and then repurchasing \$390 million in convertible debt with a combination of cash and stock. Prior to Intercept, Saik was CFO of Wyne Therapeutics Inc. He replaces Sean Cassidy, who left Arvinas in February.

Lantheus Holdings Inc. (Lantheus) – has appointed Jamie Spaeth as Chief People Officer. Spaeth, who brings nearly 20 years of Human Resources (HR) experience in the biotech and pharmaceutical sectors, will join Lantheus' Executive Team to enhance its inclusive culture. Previously, Spaeth served as Chief People Officer at Corium International, Inc. and held significant HR roles at SAGE Therapeutics Inc and Shire plc. She also advises the Kristine Pettoni Foundation. Spaeth holds a Bachelor of Science in Hospitality and Tourism Management from the University of Massachusetts and a Master of Science in Human Resources from Suffolk University.

NUCLEAR ENERGY

Constellation Energy Corp – is reportedly in discussions with Pennsylvania state officials about potentially funding the restart of part of the Three Mile Island nuclear power facility, which shut down in 2019. The current conversations have been described as “beyond preliminary” by sources familiar with the matter and would involve reviving a unit separate from the one that experienced the 1970s meltdown. The move is driven by increased power demand from industries and the pursuit of carbon-free energy sources.

ECONOMIC CONDITIONS

U.S., nonfarm payrolls rose 206,000 in May, more than the median economist forecast calling for a +190,000 print. However, this positive surprise was more than offset by a 111,000 cumulative negative revision to the prior months' results. Employment in the goods sector rose 19,000 as a 27,000 gain in the construction segment was only partially offset by an 8,000 decline for manufacturing. Jobs in services-producing industries, meanwhile, expanded 117,000, with notable increases for health/social assistance (+82,000), wholesale trade (+14,000) and leisure/hospitality (+7,000). Alternatively, payrolls contracted in the professional/business services (-17,000) and retail trade (-9,000) segments. The temporary help services category showed massive job losses (-49,000). In total, 136,000 jobs were created in the private sector, compared with 70,000 in the public sector, the latter split between federal (+5,000) and state/local (+65,000) administrations. Average hourly earnings rose 3.9% year over year in May, down from 4.1% the prior month and in line with consensus expectations. Month on month, earnings progressed a consensus-matching 0.3% following a +0.4% print the prior month.

Released at the same time, **the U.S. household survey** painted a slightly less upbeat picture of the situation prevailing in the labour market, with a reported 116,000 increase in employment. This small gain, combined with a one-tick increase in the participation rate (to 62.6%) and a 277,000 increase in the size of the labour force, resulted in an increase in the unemployment rate, from 4.0% to a 31-month high of 4.1%. Full-time employment retraced 28,000, while the ranks of part-timers increased 50,000.

U.S. service sector contracted in June. The ISM Services Index slipped 5.0 points to 48.8, below all forecasts in the Bloomberg survey. The services sector has now contracted in two of the last three months, after expanding for fifteen months in a row to March 2024. The business activity index, which is analogous to the ISM manufacturing output gauge, plummeted 11.6 points, the biggest drop since April 2020. New orders shrank for the first time since December 2022, while new export orders plunged 10.1 points to 51.7, suggesting weaker overseas demand. Service sector employment contracted for the fifth consecutive month, and the backlog of orders index tumbled back into contraction territory after expanding in April and May. The one silver lining in the report was the prices paid index, which slipped 1.8 points to 56.3, pointing to a gradual moderation in services inflation. This was a uniformly weak report that is consistent with our forecast for slower economic growth in the second half of the year which should allow the Fed to reduce interest rates in September.

Australian retail sales jumped +0.6% in May (cons: 0.3%, Apr: 0.1%), surprising most though it was largely due to “bargain hunting” by households. In the details, the biggest drivers to the m/m beat in retail was clothing & household (+1.6%) and household goods (+1.1%) as well as food retailing (+0.7%). The Australian Bureau of Statistics emphasized that the jump in these categories were due to “early end-of-financial year promotions and sales events” while the rise in food-retailing was due to a rebound in liquor spending after the big drop last month. Thus, retail sales next month could mean-revert given May's front-loading of sales. The Reserve Bank of Australia may not be convinced that aggregate demand is picking up again this retail print as discretionary spending is still on shaky ground, evident from the fall in department stores spending

(-0.9%) and cafes/restaurants/food services spending (-0.1%). In summary, we suspect the Bank won't pay much attention to this retail print and focus should be on the Q2 CPI print on July 31 ahead of the August 6 policy decision.

FINANCIAL CONDITIONS

The U.S. two year/10-year treasury spread is now -0.35% and the U.K.'s two year/10-year treasury spread is -0.01%. A narrowing gap between yields on the two 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 6.95%. Existing U.S. housing inventory is at 3.7 months supply of existing houses as of May 31, 2024 - well off its peak during the Great Recession of 11.1 months and we consider a more normal range of 4-7 months.

The volatility index (VIX is 12.39 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

And Finally: *"Success is stumbling from failure to failure with no loss of enthusiasm."* - Winston Churchill

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

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

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