

News Highlights

Owners. Operators. And Insightful Investors.

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PORTLAND
INVESTMENT COUNSEL®

Established in 2007

Our views on economic and other events and their expected impact on investments.

August 20, 2018

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Owner Operated Companies

Alphabet Inc. plans to invest \$375 million in Oscar Insurance Corporation (Oscar Health), helping it expand to more markets and business segments, including Medicare Advantage in 2020, the health insurance start-up said. The investment comes months after Oscar Health raised \$165 million in a funding round. Among the participants of that funding, CapitalG and Verily Life Sciences LLC were financed by Alphabet. Alphabet would now own roughly 10% of the privately held Oscar, which offers technology-driven services for individual consumers, according to a wired.com report.

Berkshire Hathaway Inc. boosted its investments in The Goldman Sachs Group Inc. and Israel's Teva Pharmaceutical Industries Ltd during the second quarter and confirmed it has expanded its already huge bet on iPhone maker Apple Inc. The changes were disclosed in a regulatory filing detailing Berkshire's U.S.-listed stock holdings as of June 30. Investors closely watch Berkshire's quarterly stock listings for signs about where Buffett and his investment managers Todd Combs and Ted Weschler might see value. The filings do not say which managers bought which stocks. Berkshire spent \$6.08 billion on equities in the quarter. Berkshire boosted its Goldman stake by 21%, owning roughly 13.3 million shares worth \$2.92 billion on June 30, up from 11 million shares on March 31. That stake had its origins in a profitable investment in Goldman preferred stock that Berkshire made during the 2008 financial crisis. The Teva stake grew 7% to 43.25 million American depositary receipts worth about \$1.05 billion. Berkshire also said its Apple stake swelled to about 252 million shares worth close to \$47 billion, up 5% from 239.6 million shares three months earlier. Berkshire owns roughly 5% of Apple, whose market value surpassed \$1 trillion last week.

Energy Sector

Nothing significant to report.

Financial Sector

NN Group NV - A strong set of results with €508 million pre-tax operating result a considerable beat adjusts to be at least 2% ahead of consensus underlying. The biggest driver is Dutch Life with a small contribution from non-life as well. The Dutch non-life combined ratio is a positive surprise for a change. The Solvency 2 ratio of 226% seems strong and comfortably ahead of consensus, albeit thanks to markets (capital generation is in line). The capital management figures (holding cash capital, dividend) €1.8 billion are in line with

consensus. NN Group has announced a small acquisition in Central and Eastern Europe from Aegon CEE B.V. and some changes to its management board. Both seem consistent with the group's evolution. €0.66 per share dividend in line with consensus.

Royal Bank of Scotland Group PLC (RBS) - The Department of Justice have announced the finalization of the Retail Mortgaged Backed Securities settlement with RBS. The USD \$4.9 billion settlement is in line with the agreement in principle in May, of which RBS took the charge in Q2 so there shouldn't be any incremental provisions. This now gives a green light to the interim dividend payment (ex-dividend on August 23rd) and RBS have formally declared the 2 pence dividend.

Activist Influenced Companies

Nothing significant to report.

Dividend Payers

Pattern Energy Group Inc., a renewable energy company, has completed the acquisition of 51% stake in Mont Sainte-Marguerite Wind Farm LP situated in the Chaudiere-Appalaches region south of Quebec City, Canada, from Pattern Energy Group LP (Pattern Development), a related alternative energy development company, for a purchase consideration of USD \$40 million. The total installed capacity of the power plant is 143 megawatts (MW) consists of 46, 3.2 MW Siemens wind turbines. The transaction implies a deal value of USD \$0.55 million per MW. Mont Sainte-Marguerite Wind facility is expected to generate enough power for approximately 28,000 Quebec homes annually. The power is expected to commence commercial operations in late 2017 and operate under a 25-year power purchase agreement with Hydro-Quebec. The transaction is funded using available liquidity. Concurrently, Public Sector Pension Investment Board (PSP Investments) has acquired 49% stake in Mont Sainte-Marguerite wind farm, from Pattern Energy Group.

Economic Conditions

U.S. consumer sentiment, as measured by the University of Michigan, fell to 95.3 index points in August, compared to 97.9 in July and an expected 98.0 points reading.

U.S. industrial production advanced 0.1% in July, falling short of the expectations for a 0.3% improvement, while capacity utilization

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tightened one notch, to 78.1% from 78.0% in the same month, though falling also short of expectations for a 78.2% reading. Growth in the manufacturing sector was offset by a weaker result from the countries extractive industries and utilities.

U.S. retail sales rose 0.5%, much more than expected in July, which removes the sting from June's downward revision to +0.2% (was +0.5%). That was the second largest gain in five months and leaves sales up 6.4% year/year, the highest in over 6 years (or since February 2012). Auto unit sales slowed in July but motor vehicle sales still managed to rise. Excluding autos, sales were also up a solid 0.6%. What were Americans buying more of? Clothing, electronics, groceries and general merchandise. Interestingly, online sales do not always reflect Amazon Prime Day(s) but in July, non-store retailers jumped 0.8%, the most in three months. Also, there was more fine dining/fast food. Consumers felt positive enough to frequent more food establishments, which is a good sign in our view.

U.S. housing starts rose just 0.9% in July to 1.168 million units annualized, the second lowest level in nearly a year. And on top of that disappointment were downward revisions to the prior two months. For July, the increase was spread out between both singles and multi-family starts but the gain was not broad-based across the country. Only the South (which accounts for half of all starts) and the Midwest rebounded, while the West and the Northeast slumped (heatwave related, perhaps?). But the underlying trend is more evidence that supply side issues (lack of construction workers, costlier materials and land) and emerging demand side issues (higher prices, higher borrowing costs) are slowing the housing sector. It looks like housing has peaked in our view.

Canada's consumer price index (CPI) rose 0.5% (not seasonally adjusted) in July, allowing the year/year inflation rate to climb from 2.5% to 3.0%, i.e. well above the 2.5% expected by consensus. In seasonally adjusted terms, CPI rose 0.5%, thanks to increases in seven of the eight broad categories only clothing went in the other direction by dropping 0.4%. Excluding food and energy, CPI rose 0.5% (not seasonally adjusted), pushing the year/year print up to 2.3%. On an annual basis, the CPI-trim rose to 2.1% while CPI-median and CPI-common remained unchanged at 2.0% and 1.9%, respectively. The CPI data was much stronger than expected. Headline annual inflation now stands at 3.0%, its highest level since 2011 and right on the higher bound of the central bank's inflation target. All in all, this report does not alter our view that the Bank of Canada will want to wait until October for its next rate hike to get more visibility on the Canadian fiscal update, trade uncertainty and global developments.

U.K. inflation rose to 2.5% in July, after holding steady at 2.4% in the previous three months, as the cost of transport and computer games increased. It was the first jump in the CPI measure since November and was in line with forecasts. Meanwhile the Retail Prices Index (RPI) measure of inflation fell to 3.2%. The Department for Transport uses the RPI figure to set the maximum annual increase

for regulated rail fares. Despite the rise for CPI, wage growth is still outstripping inflation. Last week, the Office for National Statistics said that average earnings, excluding bonuses, rose by 2.7% for the three months to June. (Source: BBC)

Financial Conditions

Turkey - currency weakened again over the weekend, weighed by downgrades to Turkey's credit rating on Friday.Standard & Poor's to B+ from BB- with a stable outlook, and Moody's to BA3 from BA2 with a negative outlook, although that can hardly be a shock to market observers. The currency fell to as 'low' as 6.15 at one point today but is currently retesting the 6.00 mark. Still, this is a lot better than the record low 7.24 hit a week ago.

The U.S. 2 year/10 year treasury spread is now 0.24% and the U.K.'s 2 year/10 year treasury spread is 0.52% - meaning investment banks remain constrained from profiting from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above costs of capital. Also, the 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.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 4.53% (was 3.31% end of November 2012, the lowest rate since the Federal Reserve began tracking rates in 1971). Existing U.S. housing inventory is at 4.0 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, economic recovery, job creation, and low prices are still supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now at the low end of a more normal range of 4-7 months.

The VIX (volatility index) is 12.52 (compares to a post-recession low of 9.52 achieved in early November) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

And Finally:

Venezuela performed one of the greatest currency devaluations in history over the weekend with a 95% devaluation of the Bolivar. The official rate will go from 285,000 per dollar to 6 million per dollar. The government is redenominating the currency as well by lopping off five zeros and introducing a new name for the currency. In addition, the new bolivar's value will be linked to a crypto currency called the "Petro" with is backed by crude oil and valued by the government at \$60. The Petro will fluctuate and be used to set prices for goods. Inflation is currently rising at an annualized rate of 108,000% and forecasted to hit 1 million%.

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- [Portland Advantage Fund](#)
- [Portland Canadian Balanced Fund](#)
- [Portland Canadian Focused Fund](#)
- [Portland Global Income Fund](#)
- [Portland Global Banks Fund](#)
- [Portland Global Dividend Fund](#)
- [Portland Value Fund](#)
- [Portland 15 of 15 Fund](#)

Private/Alternative Products

Portland also currently manages the following private/alternative products:

- [Bay & Scollard Development Trust](#)
- [Portland Advantage Plus - Everest and McKinley Funds](#)
- [Portland Focused Plus Fund LP](#)
- [Portland Focused Plus Fund](#)
- [Portland Global Aristocrats Plus Fund](#)
- [Portland Global Energy Efficiency and Renewable Energy Fund LP](#)
- [Portland Global Sustainable Evergreen Fund](#)
- [Portland Global Sustainable Evergreen LP](#)
- [Portland Private Growth Fund](#)
- [Portland Private Income Fund](#)
- [Portland Special Opportunities Fund](#)
- [Portland Value Plus Fund](#)

Individual Discretionary Managed Account Models - [SMA](#)

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