

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.

April 8, 2019

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Owner Operated Companies

BlackRock Capital Investment Corporation, the world's largest asset manager, has made changes to its senior leadership ranks aimed at winning more business from top institutional clients and boosting growth of its alternative investing business. BlackRock, with more than \$6 trillion in assets under management, is giving primary responsibility for those institutional clients to executives in local regions. It is also putting Edwin Conway in charge of BlackRock Alternative Investors, a group of complex investment products that Chief Executive Larry Fink thinks can amp up the company's profits. BlackRock, known best for funds that track the stock and bond markets, has been putting more emphasis on so-called illiquid alternative investments, complex investments including private equity and real estate that typically come with higher fees and are more likely to be sold to an institution than a mom-and-pop investor. Conway, previously head of BlackRock's institutional client business, will succeed David Blumer, who is becoming an adviser. The alternative group's chairman is Mark Wiseman, one of several people tipped as Fink's possible successors. As part of the changes, Mark McCombe, another potential Fink successor, takes on a new role as chief client officer to work with global clients, including governments, financial companies and investment consultants that steer money from big clients, such as pension funds. Rob Fairbairn, who is already responsible for some top clients, becomes a vice chairman. Fink, one of BlackRock's founders in 1988, has neither signalled any intention to leave nor publicly named a successor. He told analysts last year that he thinks the alternative investments business can be a source of major growth for the company. The changes "show our commitment to constant reinvention and to the ongoing development of our senior leaders," Fink and BlackRock President Rob Kapito wrote in the memo. "They are also designed to reinvigorate our approach at every level of the firm – and with every employee – at a critical time."

Walgreens Boots Alliance, Inc. reported its second quarter results and cut its 2019 earnings forecast as stubbornly low generic drug prices in a crowded market are taking a toll on the company's profitability. Drug retailers like Walgreens and CVS Health Corporation have been squeezed by reimbursement pressure as their pharmacies receive less for filing prescriptions coupled with a steep decline in generic drug prices for several years. These factors combined led to the "most difficult quarter" for the company since the merger of Alliance Boots and Walgreens in 2014, Walgreens Chief Executive Officer Stefano Pessina said. "While we are not the only company that has been impacted by the marked change in the environment, that's not an excuse," Pessina said. Walgreens reduced its adjusted earnings growth forecast for fiscal 2019 to roughly flat from a range of 7% to

12% growth on a constant currency basis. The company said it would speed up cost cuts, which include shutting stores and consolidating warehouses, to stem some of the losses from the challenging market conditions and expects to save more than \$1.5 billion annually by 2022, up from its previous estimate of \$1 billion. The company has also largely stayed away from big deals, instead focusing on partnering with companies such as Microsoft Corporation and The Kroger Co.

Energy Sector

Nothing significant to report.

Financial Sector

Barclays PLC is reshaping key parts of its investment bank in the wake of executive Tim Throsby's departure, absorbing one of his teams into global markets and moving several senior staff. Fater Belbachir will start in June as head of the global equities desk, people familiar said. He replaces Stephen Dainton, who was named interim global head of markets last week. In addition, the head of its private bank in Europe, Middle East and Africa, Francesco Grosoli, has decided to leave the bank after 12 years, the latest senior departure from the lender following the exit of its investment bank chief last week.

BNP Paribas S.A. announces an equity investment in Forge Global, Inc., a marketplace for pre-IPO securities, in addition to a strategic product collaboration. The collaboration will involve the development and distribution of investment products providing exposure to Pre-IPO / private innovation companies. Angel Rodriguez-Issa, Global Head of Strategic Investments at BNP Paribas Global Markets, joins Forge's board as an observer.

Activist Influenced Companies

Pershing Square Holdings, Ltd. announced that application has been made for 200,343 Public Shares of no par value in the Company to be admitted to the Official List of the FCA (Financial Conduct Authority) and to trade on the Main Market of the London Stock Exchange and Euronext Amsterdam. This application is being made pursuant to the conversion of 185,949 Management Shares by current and former Pershing Square Capital Management employees into 200,343 Public Shares. When issued, these shares will rank pari passu with the existing Public Shares. Following admission, the number of Public Shares that the Company has in issue will be 216,816,437. Pershing Square Holdings, Ltd. is an investment holding company structured as a closed-ended fund that makes concentrated investments principally

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in North American companies and is managed by a team led by Bill Ackman.

Dividend Payers

Nothing significant to report.

Economic Conditions

Canada's commercial real estate market - The Globe & Mail reported on April 7, 2019 that Canada's commercial real estate market is defying expectations, as investors buy skyscrapers in Vancouver, Toronto and Montreal to capitalize on surging demand by tenants for prime urban space. The number of deals was expected to ease this year, due to higher interest rates and concerns over a potential economic slowdown. However, the latest transaction to show that the market is still strong is the sale of Anbang Insurance Group Co., Ltd.'s massive Vancouver office complex to private equity company The Blackstone Group and a Los Angeles real estate trust. While the sale price was not disclosed, it is believed to be one of the biggest Vancouver property deals in recent history. "There is definitely a strong wall of capital for real estate," said Carl Gomez, a senior vice-president with pension-fund real estate company QuadReal Property Group Limited. The sale of Anbang's Bentall Centre, along with other office-building deals and a flurry of equity raises, has kick-started what's expected to be a strong year of investment activity in the top real estate markets of Toronto and Vancouver and up-and-coming Montreal. "The pricing is very strong. The capital-markets environment is still supportive to keep that pricing where it is at. There is nothing out there fundamentally to suggest that the pricing will shift," Mr. Gomez said. Last year, deal activity hit a record high. There were 7,145 transactions worth a total of \$49 billion in the country, according to commercial realtor CBRE, up from the previous year's 7,074 deals worth a total of \$43 billion. That included the \$850 million partial sale of Brookfield Property Partners L.P.'s Bay Adelaide office complex and the \$800 million sale of Bombardier Inc.'s land near Toronto's international airport. This year, in addition to Bentall Centre, there have been other sales of high-profile office buildings in Toronto and Montreal.

Canada employment down fell 7.2k vs expectations of a 6k rise. While the headline was weak the one positive take away was that wage growth firmed to 2.3% year/year from 2.2%, and hours worked recovered with a 1.0% month/month gain after contracting for 3 consecutive months

U.S. Nonfarm payrolls rose 196,000 in March, while the prior month's small gain was bumped up to 33,000. This was better than expected and marked a 102nd consecutive monthly increase, the longest on record. Though taking a step back from the six-month mean (207k) due to a slower economy, the pace of hiring remains healthy at this late stage of the cycle when worker shortages are a pressing issue.

Construction jobs rebounded in March after declining the prior month due to bad weather. Softness in manufacturing and retail was more than offset by strength in education, health and business services. The more volatile household survey wasn't nearly as positive, however, as employment fell 201k, retracing most of the prior month's advance. But due to a pullback in the participation rate, the labour force shrank even more. This **kept the jobless rate at a half-century low of 3.8%**, while the "all-in" rate held at an 18-year trough of 7.3 marking a tight labour market in our view. We believe The Federal Reserve is on hold for a long time. Until wages flare higher, there is little threat of inflation topping the target. At the same time, with the jobless rate likely to grind lower as the economy picks up modestly in the spring, there is no compelling reason to ease policy.

U.K. House prices - The Halifax measure of house prices fell by 1.6% month/month in March, above the consensus, -2.8%. The three-month average of year/year growth in prices rose to 3.2%, from 2.8% in February, also above the consensus, 2.1%. The pick-up in the three-month average rate of year/year growth in Halifax's measure of house prices goes against the grain of all other measures that analysts track, but a sustained period of falling house prices still isn't on the cards. Low unemployment and stable mortgage rates are sustaining housing demand, despite Brexit uncertainty. Looking ahead, business surveys are consistent with a stable unemployment rate, while the willingness of the E.U. to grant a long Article 50 extension has reduced the no-deal Brexit tail risks that have depressed consumers' confidence. We still think the Monetary Policy Committee will raise the Bank Rate before the end of this year, but the impact on mortgage rates looks set to be modest, given that banks are less reliant on wholesale funding than in the past and increasingly price loans off deposit rates, which will rise only modestly alongside Bank Rate. Accordingly, we still expect year/year growth in the official measure of house prices to stabilize at about 1.5% this year.

France - France cut its official 2019 growth forecast to 1.4% from 1.7% and said debt will fall less than President Emmanuel Macron promised during his five-year term.

Financial Conditions

Reserve Bank of Australia (RBA) held its official cash rate (OCR) at 1.50%. The concluding paragraph of the accompanying statement was slightly different from the one in March. The central bank said, "The low level of interest rates is continuing to support the Australian economy. Further progress in reducing unemployment and having inflation return to target is expected, although this progress is likely to be gradual. Taking account of the available information, the Board judged that it was appropriate to hold the stance of policy unchanged at this meeting. The Board will continue to monitor developments and set monetary policy to support sustainable growth in the economy and achieve the inflation target over time." Last week's decision means the cash rate has not moved in 32 months, but there was a change in

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language on the falling house prices. The RBA's 4.75% unemployment target was also absent from RBA Governor Philip Lowe's statement, which conceded that "further progress in reducing unemployment ... is likely to be gradual". In addition, the acknowledgement that growth was soft, and well below the level forecast by the bank, hints it will trim its GDP growth forecasts when next released in May (Statement on Monetary Policy), potentially paving the way for slower progress in lifting inflation and lowering unemployment in the period ahead.

The U.S. 2 year/10 year treasury spread is now 0.16% and the U.K.'s 2 year/10 year treasury spread is 0.40% - 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 4.08% (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 3.9 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 13.52 (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.

Mutual Funds

Portland Investment Counsel Inc. currently offers 8 Mutual Funds:

- [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](#)
- [ITM AG Investment Trust](#)
- [Portland Advantage Plus - Everest Fund](#)
- [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](#)

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.

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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, 'ROE' return on equity, 'ROTE' return on common equity.

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PIC19-023-E(04/19)