

News Highlights

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

June 12, 2017

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Owner Operated Companies

Alphabet Inc. – SoftBank Group Corp. said it would buy two firms that build walking robots from Google's parent company, Alphabet Inc., adding to the Japanese company's growing artificial intelligence portfolio. SoftBank said it would buy Boston Dynamics and Tokyo-based Schaft Inc., which design and manufacture robots that simulate human movement, but did not disclose the terms of the transactions. Schaft, a University of Tokyo spinoff, develops bipedal robots designed to negotiate uneven terrain. Boston Dynamics was acquired by Google in 2013 during a robotics shopping spree led by Android creator Andy Rubin, but the team struggled to find its place within the tech giant after Rubin's departure.

Berkshire Hathaway Inc. – An anonymous fan of Warren Buffett agreed to pay \$2,679,001 at an online charity auction to have lunch with the billionaire chairman of Berkshire Hathaway. The winning bid came in the closing seconds of the five-day eBay auction, which drew 41 bids before ending on Friday night. It was lower than the record \$3,456,789 bid in similar auctions in 2012 and 2016. Money will go to Glide, a San Francisco charity that provides food, health care and other services to the homeless, the impoverished, and people struggling with substance abuse. The successful bidder and up to seven friends will dine with Buffett at the Smith & Wollensky steak house in Manhattan. All topics are fair game apart from where Buffett will invest next. Buffett has held 18 annual auctions for Glide, raising about \$26.3 million. He became involved with Glide after his first wife, Susan, became a volunteer, prior to her death in 2004. Buffett, 86, is the world's fourth-richest person, worth \$76.2 billion according to Forbes magazine. He is donating virtually all of his fortune to charity. Past auction winners have included hedge fund manager Ted Weschler, who paid a combined \$5.25 million to win two auctions. He later became one of Buffett's investing deputies, and along with fellow deputy Todd Combs is likely to oversee Berkshire's stock investments after Buffett departs.

Energy Sector

U.S. land rig count increased by 13 rigs to 902 rigs, which is the 21st week of consecutive gains. The rig count was driven by gains in Horizontal Gas (+8, largest gain since October 2016), Vertical Oil (+5), Directional Oil (+2), and Horizontal Oil (+1), slightly offset by declines in Vertical Gas (-2) and Directional Gas (-1). Total horizontal land rig count is down 43% since the peak in November 2014. The Permian currently makes up 51% of all oil rigs.

U.S. horizontal oil land rigs increased by 1 rig to 634 as gains in Permian (+4), Granite Wash (+1), Mississippian (+1), and Woodford

(+1), were offset by declines in "Other" (-3). Eagle Ford (-2), and DJ-Niobrara (-1), while Williston remained flat week/week.

U.S. horizontal gas land rigs increased by 8 rigs to 146 led by gains in Marcellus (+2), Utica (+2), and Haynesville (+1). This is the largest weekly gain since October 2016 (+8) and before that October 2014 (+11).

Canadian rig count increased by 33 rigs, and is up 98% from the level this time last year.

U.S. Gulf of Mexico offshore rig count decreased by 2 rigs to 21 and is down 61% since June 2014.

International rigs averaged 957 in May, with land rigs flat and offshore rigs up 1 month /month, led by gains in Latin America (+5 land, +3 offshore), Europe (flat land, +4 offshore), and Middle East (+6 land, -4 offshore), offset by declines in Asia Pac (-4 land, -4 offshore) and Africa (-7 land, +2 offshore).

Financial Sector

Standard Chartered PLC - CEO Winters Says Time to Consider Dividend. The bank's capital is adequate and it is time to look into resuming dividend, Hong Kong Economic Times reports, citing the bank's CEO Bill Winters in an interview. Standard Chartered last month reported common equity tier 1 ratio of 13.8% as of end-March. Bill Winters doesn't consider fundraising is necessary unless the economic activities worsen and continues to study selling non-core assets.

Activist Influenced Companies

Nomad Foods Limited announced that it has entered into an agreement to repurchase 9,779,729 of its shares beneficially owned by funds advised by Permira Advisers LLP (Permira) at a purchase price of \$10.75 per share, which represents a 25% discount to the closing price of Nomad Foods ordinary shares on June 9, 2017. The transaction, which is 6% accretive to earnings per share (EPS), relates to a final settlement of indemnity claims against an affiliate of Permira, of legacy tax matters that predate its acquisition of Iglo Group in 2015. The aggregate purchase price of approximately \$105.1 million will be funded from the Company's cash on hand and the shares will be retired. Stefan Descheemaeker, CEO of Nomad Foods, said, "Today's announcement represents a unique opportunity for Nomad Foods to create value for its shareholders. We continue to have significant cash on hand and financial capacity to

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execute acquisitions, a strategic priority, and remain encouraged by the positive momentum in our business.”

Also, today Nomad Foods announced that Chief Financial Officer Paul Kenyon has resigned to accept another opportunity outside of the food industry. Mr. Kenyon has been CFO with the company for five years, joining in 2012 as CFO of Iglo Group and then CFO of Nomad Foods since 2015. He will continue to serve in his current role until August and will remain on the Board as a Non-Executive Director following his departure. The company has commenced an external search for his replacement. Stefan Descheemaeker, CEO of Nomad Foods, said, “On behalf of everyone at Nomad Foods I would like to thank Paul for his significant contributions to the company and wish him success in his new opportunity. I am particularly grateful for his personal support since I joined as CEO two years ago. Paul has built a talented team around him and leaves behind an organization that has made great strides, as evidenced by our return to organic revenue growth and recently raised revenue, earnings before interest, taxes, depreciation and amortization (EBITDA) and cash flow guidance for 2017.”

Canadian Dividend Payers

Nothing new to report.

Global Dividend Payers

Novartis AG - Since March 2017, we have known that the MONARCH 2 data was positive and now we have seen the efficacy and – most importantly – the safety data. The treatment is effectively an inhibitor in metastatic breast cancer. The question about the future success of abemaciclib is, in our view, heavily dependent on the drug’s side effect profile. Specifically, diarrhea was clearly higher with abemaciclib compared to the other two CDK4/6 inhibitors, Pfizer’s palbociclib and Novartis’ Kisqali (ribociclib). We believe that palbociclib is likely to maintain its dominant first-mover market leader position and that, owing to its more differentiated drug profile compared to palbociclib, abemaciclib represents a clearer alternative to palbociclib than Kisqali. For the time being we therefore see no need to reduce expectations of Novartis’ Kisqali sales. CAR-T is a cell therapy in which T-cells are genetically modified to express a chimeric antigen receptor (CAR) that recognises and promotes the killing of tumour cells. CAR-Ts have shown impressive response rates in trials of hard-to treat blood cancers (e.g. r/r NHL, DLBCL and ALL). Widespread use is limited by recognition of blood tumours only, risk of severe toxicities, a highly complex manufacturing/logistics and a high expected drug cost (USD 260,000-400,000E). Novartis & Kite are competing neck-and-neck to launch the first CAR-T. Novartis also expects to file for r/r DLBCL (30% of r/r NHL) with the same CAR-T in 2H17. r/r DLBCL is more interesting than r/r ALL in our view given a >20x larger population of about 14,000 patients (market approximately \$ 5 billion). Novartis’ r/r DLBCL full interim data

(JULIET) will be presented on June 14 and will help define its competitive position in this disease against Kite and Juno (potential launches in Q1 2018 and 2020 respectively). Although we know that Novartis’ JULIET is positive (press release June 7), the key question is how the full interim details will compare to Kite’s and what the fully matured data will look like.

Roche Holding AG - On March 2, 2017, Roche communicated that the all-important APHINITY study met its primary endpoint. Since then, there has been almost endless speculation of whether statistical significance also means clinical relevance. On June 6, the APHINITY data was finally presented in a late-breaking session of the 2017 American Society of Clinical Oncology. The APHINITY study is a randomized comparison of chemotherapy plus trastuzumab plus placebo versus chemotherapy plus trastuzumab plus pertuzumab as adjuvant therapy in patients with HER2-positive early breast cancer. We believe that clinical relevance is given, but only for high-risk patients, i.e. those patients with node positive or hormone receptor negative HER2+ breast cancer. These patients account for roughly 65-75% of patients currently treated with Herceptin. The trial showed that the adjuvant treatment with the combination of Perjeta + Herceptin + chemo significantly reduced the risk of breast cancer recurrence or death by 19% in people with HER2+ breast cancer compared to Herceptin + chemo alone. The APHINITY data shows more clearly than anticipated that usage will likely be restricted to high-risk patients. Given the current environment of high price sensitivity, we believe therefore it will take longer for this drug to reach peak patient penetration, likely by one year, which will disappoint investors with higher expectations. Roche remains confident in the potential of Perjeta as 75% of Herceptin use today is in high risk patients.

Economic Conditions

Canada – Canadian economy added 54,500 new positions in the month of May, significantly ahead of the expectations which were calling for 11,000 new jobs. The number included 77,000 full-time jobs being added, with manufacturing, natural resources sectors, professional services, transportation and retail contributing the most. The headline unemployment rate moved one tenth higher, to 6.6%, as expected, as labour participation rate jumped to 65.8%.

House starts in Canada slowed down more than expected, at 194,700 units annualized in May, from 213,500 units annualized in April. Building permits meanwhile were 0.2% lower in the month of April, adding to the 4.9% pull-back for March.

House prices in Toronto slipped across the board in May, suggesting that authorities are succeeding in efforts to deflate a market pumped up by ultra-low interest rates and flows of foreign money. Prices for homes in Canada’s biggest city have risen steadily for more than two decades, supported by strong immigration and controls on

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development within the city's perimeter. But a pick-up in price gains in recent years - along with a big spike in the latter half of 2016 - prompted the regional government to produce a 16-point plan to take some pressure out of the market in April. (Source: Financial Times)

U.S. services sector is showing signs of weakening activity, at least according to the Institute for Supply Management's (ISM) non-manufacturing purchasing managers index (the NMI). The NMI retreated to 56.90 index points in May, from 57.50 in April and falling one tenth shorter of the expectations.

U.S. consumer credit expanded by just \$8.2 billion in April, against the consensus expectations calling for \$15.5 billion to be added to consumer credit and a significant slowdown compared to March's \$19.5 billion build-up of consumer credit.

U.K. employment - a survey of recruitment consultants, for May shows growth accelerated in the month with permanent placements increasing to their highest rate since April 2015 and temporary billings also at the highest level since March 2015. There was another marked fall in candidate availability with EU citizens said to be leaving the U.K. Overall, the U.K. jobs market remains solid in our view with demand for staff reaching a twenty-one month peak. We see some potential for weaker trends if business confidence is negatively impacted by the UK's negotiations with the EU over the terms of its exit.

U.K. Election now short of an overall majority, the Conservatives will still form a government combining with the Ulster unionists (DUP - 10 seats), while Sinn Fein (7 seats) have already confirmed absence from Parliament (reduces majority benchmark to 622). Also, the dramatic fall in the Scottish Nationalist Party vote likely pushes a second Scottish independence referendum off the agenda for the foreseeable future. However, little else looks clear, with uncertainty the theme (whether the Prime Minister remains, whether another election is required, how 'Brexit' negotiations with European Union progress).

France saw the lowest voter turnout on record with less than half of the registered voters casting ballots. Nonetheless, President Macron's party looks set to sweep the Parliament with 28% of the vote and the next candidate with only 16%. Le May's National Front party fell flat and received only 13% of the vote. Jean-Christophe's Socialist Party was decimated with only 7.5% of the vote. Macron will now likely see a relatively weak opposition to his all-powerful Presidency. His agenda to start reforming French Labour laws and implement a code of ethics in politics looks to start in a few weeks.

Japan's 1st Quarter 2017 GDP grew by a slower 0.3% quarter/quarter (down from the preliminary report of 0.5% quarter/quarter) while Q4 2016 growth was unchanged. Despite the downward revision, it was still the fifth straight quarter of sequential expansion, the longest stretch of GDP expansion in 10 years, since 2006 when Japan was under the former Prime Minister Junichiro Koizumi. That said, the revision came as a surprise as the Bloomberg median

forecast was looking for a slight improvement to 0.6% quarter/quarter. Compared to the same period one year ago, the Japanese economy grew by 1.3% year/year in Q1 (down from preliminary report of 1.6% year/year) while the Q1 2016 growth was also revised slightly lower to +1.6% year/year (from +1.7% previously).



Financial Conditions

The U.S. 2 year/10 year treasury spread is now .87% and the U.K.'s 2 year/10 year treasury spread is .89% - 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 their costs of capital.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 3.89% (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 4.2 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 11.50 (compares to a post-recession low of 10.7 achieved in early June) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

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- [Portland Value Fund](#)
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- [Portland Private Growth Fund](#)
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