

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.

January 28, 2019

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Owner Operated Companies

Facebook, Inc. said it will strengthen its rules and safeguards around political adverts to prevent foreign interference in elections, including those in Europe this year. Fears about misinformation and interference have intensified with elections due this year for the European Parliament and several E.U. countries including Belgium and Finland. “We will require those wanting to run political and issue ads to be authorised, and we will display a ‘paid for by’ disclaimer on those ads,” Facebook’s recently-appointed head of global affairs Nick Clegg told a news conference. Clegg, a former British deputy prime minister hired by Facebook in October last year, said the new tools to be launched in late March aim to help protect the integrity of European Union elections due to be held this spring. Facebook said that the transparency tools for electoral ads would be expanded globally before the end of June, while the tools would be launched in India in February before its elections and in Ukraine and Israel before polls in both. “We now have more than 30,000 people working on safety and security across the company, three times as many as we had in 2017,” the company said in a statement. The new tools are similar to those adopted for the U.S. mid-term elections, Clegg said, with all political ads stored in a publicly searchable library for up to seven years. This will contain information such as the amount of money spent and the number of impressions displayed, who paid for them and the demographics of those who saw them, including age, gender and location. The new tools will also cover ‘issue ads’ which do not explicitly back one candidate or political party but which focus on highly politicized topics like immigration. Facebook said it will also set up two new regional operations centres focused on monitoring election-related content in its Dublin and Singapore offices. Clegg also addressed allegations that Facebook sells user data, saying this was not the case. Facebook has no plans to swap its ads-only business model for a fee-paying service, Clegg said, responding to calls by some as a way to stave off privacy issues. “We want Facebook to be a universal service. We believe that anyone should be able to connect to anyone else. The best way to do this is to offer the service for free - and that’s what the advertising model allows us to do,” he said.

Facebook’s Chief Executive Mark Zuckerberg is reportedly planning to unify the underlying messaging infrastructure of the WhatsApp, Instagram and Facebook Messenger services and incorporate end-to-end encryption into these apps. The three services will, however, continue as stand-alone apps. Facebook said it is working on adding end-to-end encryption, which protects messages from being viewed by anyone except the participants in a conversation, to more of its messaging products, and considering ways to make it easier for

users to connect across networks. Integrating the messaging services could make it harder for antitrust regulators to break up Facebook by undoing its acquisitions of WhatsApp and Instagram.

Liberty Latin America Ltd. announced that it has terminated conversations with Millicom International Cellular S.A. regarding a potential transaction. The Company remains focused on its growth strategy to deliver value for shareholders and provide market leading products and services to its customers.

Energy Sector

Crescent Point Energy Corp. announced that the Toronto Stock Exchange (TSX) has accepted its notice to implement a normal course issuer bid (NCIB) to purchase, for cancellation, up to 38,424,678 common shares, or seven percent of the Company’s public float, as at January 14, 2019. The NCIB is scheduled to commence on January 25, 2019 and is due to expire on January 24, 2020. “We believe share repurchases provide an accretive form of returning capital to shareholders at current share prices,” said Craig Bryksa, President and CEO of Crescent Point. “We will be disciplined during the execution of this repurchase program, which will be funded within cash flow. In the current commodity price environment, the Company plans to allocate excess cash flow to debt reduction, share repurchases or a combination thereof.” As of January 14, 2019, the Company had a public float of 548,923,981 common shares and 550,611,816 common shares issued and outstanding. Crescent Point will not acquire, through the facilities of the TSX, more than 1,022,228 common shares during a trading day, being 25% of the average daily trading volume of the Company’s common shares on the TSX for the six calendar months prior to the date of approval of the NCIB by the TSX and, in addition, will not acquire per day on the NYSE more than 25% of the average daily trading volume for the four calendar weeks preceding the date of purchase, subject to, in both cases, certain exceptions for block purchases.

Financial Sector

Barclays PLC and Banco Santander, S.A. have taken stakes in British fintech group MarketInvoice Ltd. in a sign of established lenders’ growing willingness to team up with technology-driven challengers. Barclays and Santander InnoVentures, the venture capital arm of Santander, jointly led a £26 million equity investment in the London-based technology group. The companies declined to comment on valuation, but documents filed with Companies House suggest the deal valued MarketInvoice at about £85 million. Big banks and fintechs have become increasingly keen to work together despite

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sometimes competing for the same customers. Smaller firms such as MarketInvoice benefit from access to banks' long-established customer bases, while banks can exploit smaller players' specialist knowledge or ability to develop products more quickly. (Source: Financial Times)

Standard Chartered PLC's largest investor Temasek Holdings Private Limited has grown frustrated with the slow pace of chief executive Bill Winters' turnaround and is stepping up pressure on the U.K.-listed bank ahead of his pivotal strategy update in February. The Singapore state-backed investment company, which owns about 16% of the emerging markets lender, is understood to have asked for more frequent and detailed briefings from top executives and even floated the prospect of taking a board seat in a meeting last year. That would be an unusual step for the \$300 billion group, which rarely takes non-executive positions or gets involved in the day-to-day operations of its portfolio companies, indicating the level of their concern, the people said. The bank's share price has fallen almost 40% since Mr. Winters took over in June 2015 — deeply underperforming most rivals — and trades at about £6 today compared with a price of £15.24 when Temasek first bought in during 2006. (Source: Financial Times)

Activist Influenced Companies

Nothing significant to report.

Dividend Payers

Barrick Gold Corporation (GOLD) (pre-merger) delivered slightly better than expected Q4 2018 production results, finishing the year at the low end of guidance: GOLD announced Q4 2018 production for former Barrick assets of 1.26 Million ounces (Moz). The 2018 total of 4.53Moz puts the company ahead of the bottom end of guidance. Q4 2018 sales lagged slightly at 1.23Moz. A better than expected performance at Barrick Nevada offset softer than expected production results at Pueblo Viejo and Lagunas Norte. Q4 2018 copper production of 109 million pounds (Mlb) was also exactly in-line with estimates, bringing 2018 annual production to 382Mlb, in the middle of the 2018 guidance range. GOLD cash costs for former Barrick assets are expected to be in-line with Q3 2018 results (\$587/oz). GOLD stated that its expected tax rate increased from a range of 48-50% due to lower than anticipated sales from operations in lower-tax jurisdictions and higher than anticipated sales in higher tax jurisdictions.

BHP Billiton PLC delivered a reasonable set of Q2 2019 production numbers under the circumstances, retaining guidance for all divisions despite a tough first half of fiscal year 2019. Oil is now expected to be towards the top of the range and copper was nominally increased by 35 Kiloton (kt) although this purely reflects the re-inclusion of Cerro

Colorado, which had been assumed to be sold. The retained guidance leaves a big second half of fiscal year 2019 required for iron ore and met coal in particular, while the cost impact of the various operational issues in the first half of fiscal year 2019 will be felt in the numbers – again fiscal year 2019 unit cost guidance was retained but the first half of fiscal year 2019 will be above that level due to the volume weighting towards the second half of fiscal year 2019. BHP also presented a laundry list of cash-flow items that will need to be calibrated, but the majority relate to tax (\$700 million cash impact plus effective rate slightly above 30-35% range) and minority dividends (\$620 million). Overall, we expect consensus cash-flow forecasts to come under pressure in the run-in to results on February 19.

Roche Holding AG - Immuno-oncology (I-O) harnesses a patient's own immune system to fight cancer and has rapidly emerged as a \$20 billion+ revenue opportunity. Virtually all I-O approvals to date have been in the metastatic setting, when cancer has spread. Arguably a bigger I-O revenue opportunity is in the 'adjuvant' setting where a patient's tumor is caught early, surgically removed and drugs are used to prevent relapse. Adjuvant benefits from a large patient pool and longer duration of therapy versus metastatic. Credit Suisse Group AG analysts have modeled the adjuvant opportunity across 8 key tumor types and concluded the market represents a \$29 billion peak sales opportunity. Lung, triple-negative breast, head & neck and bladder are the biggest opportunities. The opportunity is closer than many investors realize. Data in neo/adjuvant breast cancer is expected in 2019 with lung, bladder and esophageal data in 2020. Bristol-Myers Squibb Company has the highest exposure, Roche in second place. Bristol Myers Squibb is uniquely positioned in Liver, Gastric and Esophageal and fast follower in Bladder, Head & Neck and Kidney. Roche's position is based on its lead in triple-negative Breast and Bladder.

Economic Conditions

Canada – Canadian retail sales retreated a larger than expected 0.9% in November 2018, relative to a negative 0.6% consensus view, which more than offset October 2018's 0.3% improvement. Even when excluding sales of vehicles and parts, the result for the month was underwhelming, down 0.6%. Much of the pullback was driven by a drop in gasoline stations sales due to lower prices. Sales of general merchandise, furniture and electronics provided support during the month.

Global growth - The International Monetary Fund (IMF) dropped its projections for global growth to 3.5% (3.7% in October) for 2019 and 3.6% (3.7% in October) for 2020. The IMF cut its forecasts on the back of increased trade tariffs between China and the United States and mentioned weakness for German auto manufacturing due to new fuel emission standards and soft domestic demand in Italy due after recent sovereign and financial risks. The IMF also highlighted

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weakening sentiment in the global financial markets and a contraction in Turkey that is now projected to be deeper than anticipated. The IMF projects advanced nations will grow at 2% this year and 1.7% in 2020. Emerging economies are projected at 4.5% in 2019 and 4.9% in 2020.

Sales of previously owned homes in the US fell more than expected last month to the lowest level since November 2015, data on Friday showed. Existing home sales — which represent completed sales of single-family homes, town houses, condominiums and co-ops — declined 3.4% month-on-month in September 2018 to an annualized pace of 5.15 million units, the National Association of Realtors said. That was steeper than the 0.7% drop to an annualized pace of 5.3 million that economists had forecast, according to a survey of economists by Thomson Reuters. It also marked the sixth consecutive monthly decline in home sales — the longest such streak since January 2014. “A decade’s high mortgage rates are preventing consumers from making quick decisions on home purchases,” said economist Lawrence Yun. “All the while, affordable home listings remain low, continuing to spur underperforming sales activity across the country.” (Source: Financial Times)



Financial Conditions

The U.S. 2 year/10 year treasury spread is now 0.14% and the U.K.’s 2 year/10 year treasury spread is 0.51% - 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 4.45% (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 19.27 (compares to a post-recession low of 9.52 achieved in early November 2018) 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 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](#)

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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