News Highlights

Owners. Operators. And Insightful Investors.

Phone: 1-888-710-4242
Web: www.portlandic.com
Email: info@portlandic.com

Established in 2007

PORTLAND INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments. May 27, 2019

Owner Operated Companies

Alphabet Inc. – Google LLC said it planned to invest about €600 million ($672 million) in a new data centre in Hamina, Finland. Google, which is owned by Alphabet Inc., already has a data centre in Hamina, where it invested €800 million to convert an old paper mill. Paper firm Stora Enso sold the site, which is close to the Russian border, to Google in 2009. Google said the existing Hamina facility was one of its most advanced and efficient data centres. Its cooling system uses seawater from the Gulf of Finland to reduce energy use. Google's other European data centres are located in the Netherlands, Ireland and Belgium. "The demand for Google services is growing daily and we are building our data centre infrastructure to match this demand," Google's Finland country head Antti Jarvinen said in a statement.

Brookfield Asset Management Inc. is reportedly competing against Blackstone Group LP, Stonepeak Infrastructure Partners and EQT Partners Inc. to acquire railway operator Genesee & Wyoming Inc. The company is seeking at least $110 per share. A deal at that price would value Genesee & Wyoming's equity at $6.2 billion. Some of the investment firms may go in together, while others are partnering with potential co-investors such as pension and sovereign wealth funds. Earlier it was reported that the company was working with an adviser to explore selling all or part of itself and had begun discussions with suitors. Genesee & Wyoming owns or leases more than 100 short line and regional freight railways serving the U.S. and Canada. It does not compete directly with the largest North American railways.

Private equity firms such as **Blackstone, Brookfield Asset Management, Mirae Asset Management Co. Ltd.** and **SoftBank Group Corp.** owned Fortress have reportedly put in bids of up to $5.8 billion for Anbang Insurance Group Co. Ltd.'s portfolio of U.S. luxury hotels business. Seventeen potential buyers have submitted their bids to Chinese authorities unwinding Anbang, which was placed under regulatory control last year after its founder, Wu Xiaohui, was jailed for 18 years on fraud and embezzlement charges. Anbang's overseas portfolio includes properties of Strategic Hotels & Resorts - bought for $6.5 billion from Blackstone in 2016 - such as the Four Seasons Washington and JW Marriott Essex House Hotel in New York. The insurer also owns the Four Seasons Hotel Moscow as well as office buildings Bentall Centre in Vancouver and 70 York St. in Toronto, according to Refinitiv data and media reports.

Energy Sector

Nothing significant to report.

Financial Sector

Canadian Imperial Bank of Commerce's (CIBC) quarterly result of cash operating EPS of $2.97 compares with consensus expectations of $2.98. Results were arguably lower than expected in Canadian Personal & Small Business (lower risk-adjusted margins and negative operating leverage) but higher in Capital Markets (better trading revenue). Provisions for Credit Losses ratio was 27 basis points (23 basis points last year). Core Equity Tier 1 ratio came in at 11.2%; CIBC renewed its Non Course Issuer Bid (share buy back) for 9 million / 2% of shares.

HSBC Holdings PLC plans to add more than a 1,000 jobs this year at its technology development centers in China, as the Asia-focused lender seeks to bolster its presence in the world's second largest economy. The bank will boost headcount at its technology centers in Guangzhou, Shanghai and Xi'an by 14% from a current 7,000-strong workforce, said HSBC Chief Information Officer Darryl West. In recent years the bank has spent $3 billion annually on its group technology operations which employ 40,000 people worldwide, and West said annual investments of $3-$3.5 billion are planned over the next few years. Many global banks set up low-cost hubs in China and India more than a decade ago to maintain their complex worldwide information technology networks, but these centers have now become a core part of their operations. The centers develop and implement risk and fraud management technologies, as well as digital applications that make it easier for banks to attract customers and deliver faster and more secure services. (Source: Reuters)

Morgan Stanley is acquiring a 5.5% stake in French asset manager Tikehau as the Paris-based company looks to tap North American investors and new asset classes. The U.S. bank will invest at least €300 million of fresh equity into the asset manager, together with other existing investors in a deal signed last week. The move is part of a wider trend of asset managers selling minority positions to third parties as they seek permanent capital to expand into new markets and products. "New shareholders bring industry and local expertise," said Mathieu Chabran, co-founder of Tikehau. "All asset managers are looking for long-term capital because they help take the business forward with strategic ideas, opening of new offices and new asset classes." (Source: Financial Times)

The Royal Bank of Canada (RBC) reported Q2-Fiscal Year 2019 adjusted cash EPS of C$2.23, which was slightly above consensus of C$2.21. The quarterly dividend was unchanged at C$1.02/share, while adjusted ROE fell to 17.8% (from 18.5% in Q2 of last year). Canadian Banking results were a bit disappointing as higher-than-expected credit losses more than offset a modest margin increase from last quarter and stable loan growth. Insurance, Investor & Treasury Services and Wealth were also a drag in Q2 relative to expectations. Record results in Capital Markets and loan loss recoveries in International Banking were generally offsetting, although lowered the quality of RBC's results. Aided by the 10% sequential decline in market Risk Weighted Assets the Core Equity Tier 1 ratio at RBC jumped 42 basis points (bps) to 11.82%, which is expected will result in the bank ending April in the top-half of the sector along with The Toronto-Dominion Bank and The National Bank of Canada.

The Toronto-Dominion Bank reported Q2-Fiscal Year 2019 adjusted cash EPS of C$1.75, which was above consensus of C$1.68. The quarterly dividend was unchanged at $0.74/share, while adjusted ROE declined modestly to 17.0% (from 17.6% last year). U.S. retail (+C$0.02/share) and Canadian retail (+C$0.02/share) both modestly beat estimates, while Wholesale was a slight drag (-C$0.01/share). TD reported a Core Equity Tier 1 ratio of 12.0% (flat quarter/quarter), slightly below consensus at 12.2%. Strong internal capital generation (+40 bps) was offset by Risk Weighted Asset increase (-27 bps), share buybacks (-9 bps), and actuarial losses on employee pension plans (-3 bps). TD intends to initiate a new Normal Course Issuer Bid (share buy back) for up to 20 million shares (approx.1% of outstanding shares), subject to regulatory approval. Total bank Provisions for credit losses (PCL) were $633 million (-26% quarter/quarter) vs. consensus of $678 million. PCL on impaired loans were $593 million (-17% quarter/quarter) reflecting lower provisions for U.S. commercial and seasonal trends in U.S. Credit Card and Auto. PCL on performing loans was $40 million (+11% year/year), owing to Canadian personal lending and volume growth in U.S. commercial, partially offset by prior year credit migration in Wholesale Banking. The PCL ratio of 39 bps came in below management's targeted Fiscal Year 2019 range of 40-45 bps.

Activist Influenced Companies

Nothing significant to report.

Dividend Payers

Barrick Gold Corporation announced that it made a proposal to acquire the remaining 36.1% of Acacia Mining PLC based on a share exchange of 0.153 Barrick shares per Acacia share. Barrick owns 63.9% of Acacia. The proposal assumes no further dividends will be paid by Acacia following the date of the proposal. The share ratio is based on the 20-day volume weighted average price between Acacia and Barrick shares. Based on last week prices, the proposed transaction values Acacia at about $767 million on a 100% basis and $274 million for the minority shareholder interest. Analysts note Barrick's proposal is a zero-premium offer with the offer price of US$1.85 per Acacia share, which was below last week's closing price of US$2.04 per Acacia share. It is estimated that the proposed transaction equates to 0.72 times the net asset value (NAV) but analysts believe a large risk discount to the Acacia assets is warranted given the longstanding concentrate ban and tax dispute with the Government of Tanzania (GoT). Barrick's 63.9% interest in Acacia represents 1.6% of the Barrick mining NAV. Barrick has been negotiating with the GoT for the last two years to settle the ongoing disputes and to resume its full operations in Tanzania. Barrick notes that a basis for a settlement has been developed but not finalized. In meetings this past weekend, the GoT stated that it is not prepared to enter into a settlement directly with Acacia. Barrick previously announced terms of a proposed framework for Acacia on October 19, 2017, which included Acacia making a $300 million payment to the government of Tanzania, on terms to be settled by a working group and for economic benefits from Bulyanhulu, Buzwagi and North Mara mines to be shared on a 50/50 basis, with the GoT in the form of royalties, taxes and a 16% free carry interest in Acacia's Tanzanian operations. Barrick's proposal is subject to a number of customary conditions, including receiving the recommendation of the Acacia Board and that the proposal does not impose an obligation on Barrick to make an offer. Under UK law, Barrick has until 5:00 p.m. (UK time) on June 18, 2019 to either announce a firm intention to make an offer for Acacia or announce that it does not intend to make an offer. Acacia's board is considering Barrick's proposal, and will be taking steps to seek clarification of the GoT's position and a further announcement will be made in due course.

Economic Conditions

U.S. new home sales were down a much larger-than-expected 6.9% in April to 673,000 units annualized but there were large upward revisions to the prior six months, especially to March. In fact, March's 723,000 level (8.1% above February's) is the highest since October 2007 (anything over 700,000 is considered 'healthy'). The decline in April was spread out across the country, with only the Northeast trying to be an offset. A still-tight supply of new homes is a likely culprit. Inventories of new homes available to be bought fell for the third straight month, although the months' supply is at 5.9. But interestingly, all of the declines last month were concentrated in more affordable homes; that is, homes priced under $299,999. Sales of homes in the $300,000-to-$399,999 range, and in the $500,000-to-$749,999 range picked up. And note that homebuilders' confidence levels had edged up a touch in April, and then hit a 7-month high in May. Plus, the number of homes that haven't begun construction yet rose to 220,000, the highest since November 2017.

U.S. durable goods slumped 2.1% in April, in line with expectations, as nondefense aircraft and parts took a 25.1% dive (Boeing-related). Excluding transportation, orders were flat. Note that over the past six months, core orders are down 1% annualized, the first negative reading in 2½ years. Clearly the uncertainty over the trade war, the impact of higher tariffs with the prospect of more to come, and tight labour

Phone: 1-888-710-4242
Web: www.portlandic.com
Email: info@portlandic.com

markets, are all coming together to make businesses more cautious and warier of large spending/investment decisions on items that last at least three years. So, analysts believe, businesses are just going to make do with what they have, at least until relations between the two superpowers become less frosty.

Japan's April trade surplus narrowed sharply to JPY60.4 billon (from a surplus of JPY527.8 billion in March and missing Bloomberg estimate of JPY232.7 billion) as exports contracted for the fifth month in a row by 2.4% year/year (the same pace of decline as March and worse than Bloomberg's median estimate of -1.6%) while the rebound in imports was stronger than projected, at 6.4% year/year (from 1.2% in March, and above Bloomberg's median estimates at 4.5%). On a seasonally-adjusted basis, the trade balance turned into a deficit of JPY110.9 billion, from a JPY177.8 billion deficit in March.

U.K. inflation jumped above the Bank of England's target of 2% in April, fueled by rising prices for air fares, gasoline and household electricity and gas. Consumer prices were 2.1% year/year higher than a year ago, as well as higher than March's reading of 1.9% year/year. Expectations were for an increase to 2.2% year/year. Core Consumer Price Index (CPI) held at 1.8% year/year, which was slightly below expectations of 1.9% year/year. On a month-on-month basis, the CPI rose 0.6% in April, also below expectations of 0.7% month/month. Both consumer electricity and gas prices increased between March and April 2019, as energy providers responded to a 10% increase in The Office of Gas and Electricity Market's energy price cap. The timing of Easter was also a factor in pushing up the cost of living, with airlines increasing prices by 26% in response to stronger demand for flights over the holiday period. The cost of fuel for motorists also increased in response to higher oil prices.

Financial Conditions

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 0.31% - 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 2 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 4.06% (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 5.9 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 15.85 (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) per unit 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.

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, 'GDP' gross domestic product, 'netback' is a measure of oil and gas sales revenues net of royalties, production and transportation expenses and is used to compare performance in the oil and gas industry, 'ROE' return on equity, 'ROTE' return on common equity, 'ROTCE' return on tangible common equity.

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

PIC19-031-E(05/19)