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 19, 2019

Owner Operated Companies

Brookfield Asset Management Inc. – Australia's Aveo Group announced that Brookfield Asset Management Inc. had offered A$1.27 billion ($859.4 million) in cash to acquire the retirement-home operator. The disclosure is the first time Aveo has put a value on the offer since it first revealed it was in talks with the Canadian firm nearly a month ago. Brookfield's proposal values Aveo at A$2.195 per share, representing an 8.1% premium to the company's last close. Aveo's acquisition would give Brookfield a sizeable chunk of Australia's aged-care industry, which has seen its valuations slide to attractive levels. The offer price would be reduced by the value of any distributions declared by Aveo after entering into an acquisition agreement, the company said.

Brookfield Business Partners L.P. – Genworth Financial Inc. agreed to sell its 57% stake in its Canadian mortgage insurance unit for about C$2.4 billion ($1.81 billion), as the U.S. insurer looks to close its long-delayed sale to China Oceanwide Holdings Group Co., Ltd. Genworth said it would sell the stake in Genworth MI Canada Inc. to investment manager Brookfield Business Partners L.P. for C$48.86 per share, a 4.1% discount to the Canadian unit's previous close. The U.S. insurer had already announced that it would explore a sale for Genworth MI Canada as Canadian regulators are yet to approve the deal with Oceanwide. Brookfield has also agreed to provide Genworth with up to $850 million in bridge financing if regulatory approvals for the deal are not received by October 31.

Liberty Latin America Ltd. (LLA) announced additional build-out plans for its operations in Chile. As LLA enhances broadband connectivity across its markets, revamped plans include adding or upgrading a total of approximately 200,000 homes in Chile this year, an additional 50,000 homes compared to previous expectations. This brings the total estimated additions or upgrades across all of Liberty Latin America's markets to at least 450,000 homes for 2019. The build-out strategy in Chile is consistent with the company's overall ambition to expand the provision of high-speed connectivity across the region, while delivering the highest levels of service for its 3 million LLA fixed-line customers.

Energy Sector

Pattern Energy Group Inc. (PEGI) responded to a request from the Investment Industry Regulatory Organization of Canada to comment on recent media reports. Despite Pattern Energy's policy not to comment on market speculation or rumours, Pattern Energy confirmed that it has drawn interest from third parties and is responding to such inquiries as appropriate. No agreement or arrangement for any transaction has been reached with any such third parties. A transaction may or may not be agreed as a result of any such inquiries or discussions. Pattern Energy has a track record of regularly assessing various types of transactions that may be in the best interests of Pattern Energy and its shareholders, including joint venture arrangements, asset mergers & acquisitions, debt and equity capital transactions, and project debt refinancing. Pattern Energy does not intend to make any further public announcements regarding any rumours or speculation unless it determines that disclosure is warranted or required, and in accordance with the requirements of applicable law.

Financial Sector

Global investment banks are shedding tens of thousands of jobs as falling interest rates, weak trading volumes and the march of automation create a brutal summer for the sector. Almost 30,000 lay-offs have been announced since April at banks including **HSBC Holdings PLC,** Barclays PLC, Société Générale S.A., **Citigroup Inc.** and Deutsche Bank AG. Most of the cuts have come in Europe, with Deutsche accounting for more than half the total, while trading desks have been hit hardest. At the banks that have formally announced cuts so far, the lay-offs amount to roughly 6% of the total workforce. Earlier this month, Barclays said that it had cut 3,000 jobs, or almost 4% of its total workforce, in the second quarter. HSBC announced days later that almost 5,000 primarily senior employees would go, citing "an increasingly complex and challenging global environment" characterized by falling U.S. interest rates, trade conflict and Brexit uncertainty. Citigroup said last month that it would cut "hundreds" of jobs in its markets operations. A person close to the matter described the lay-offs as a "function of market dynamics". The most recent cuts add to the 18,000 job losses at Deutsche, which announced a radical overhaul last month that will reduce the headcount by almost a fifth. The changes will all but eliminate equity trading and cut deeply into the foreign exchange and bond desks. In April, when Société Générale announced that it would shed 1,600 jobs, mostly investment bank positions, it said that it was retrenching to "areas of strength". (Source: Financial Times)

JPMorgan Chase & Co. is poised to collect the largest individual fee to a bank for selling a company, earning $123 million for advising Botox-maker Allergan PLC on a planned $63 billion sale to U.S. pharmaceutical group AbbVie Inc. Assuming the deal completes, the fee would be the largest ever disclosed, surpassing the $120 million paid to **Morgan Stanley** for advising U.S. agribusiness The Monsanto Company on its $66 billion sale to Germany's Bayer AG in 2016, according to data from Dealogic. The details of the fee arrangement

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were disclosed by Allergan this week as it prepares for a shareholder vote on its sale to AbbVie. There has been $2.6 trillion of global mergers and acquisitions so far this year, according to Dealogic data. More than half occurred in the U.S., with $1.4 trillion worth of deals agreed. The pharmaceutical and healthcare sectors have been among the most active with $479 billion worth of transactions announced. JPMorgan sits in second place in global league table rankings for the total value of announced merger & acquisition deals it has worked on this year, behind perennial leader T**he Goldman Sachs Group Inc.** (Source: Financial Times)

Activist Influenced Companies

Pershing Square Holdings Ltd. – Billionaire investor William Ackman, whose portfolio has gained almost 50% this year, said his fund can keep delivering "high, long-term" returns, and he expects that a newly disclosed stake in Berkshire Hathaway Inc. will help boost gains. Ackman, writing in a letter to clients one day after announcing in a filing the purchase of roughly $700 million of Berkshire stock, said the conglomerate is misunderstood. "We believe that Berkshire's share price is likely to increase substantially over the coming years," Ackman wrote in the letter. Ackman, whose $8 billion Pershing Square Capital Management ranks as one of the world's most closely watched activist investment firms, surprised some investors and outsiders alike with the bet on Berkshire, which has a $500 billion market capitalization. "These structural competitive advantages of Berkshire's insurance business are enduring and will likely further expand," Ackman wrote, adding that Buffett should also be known as the "world's greatest insurance company architect and CEO." Pershing Square revealed it liquidated its United Technologies holding in June and Ackman said he had lost confidence in management and called the contemplated deal with Raytheon the "catalyst for our exit." "It was more productive to sell our stock at a small profit and focus our efforts on finding new opportunities," he wrote.

Now that Pershing has gained 48.9% this year through Aug. 13, Ackman felt confident enough to say that there is plenty more money to be made through his brand of activism. But Ackman said he will not necessarily be as public in pushing for changes as he has been in the past and that Berkshire will be a passive investment. One example where a soft touch has worked so far is Starbucks Corporation, an investment Ackman announced late last year and which has been one of his biggest winners. Starbucks stock price has surged more than 50% this year. The Howard Hughes Corporation, the developer of master planned communities whose board is chaired by Ackman, is going through a strategic review. Ackman said no decisions have been reached and a variety of options are being reviewed, ranging from "a sale of the company; a sale, joint venture or spin-off of a portion of the company's assets; a recapitalization of the company; or changes in the corporate structure of the company."

Dividend Payers

GEA Group AG last week announced the receipt of 'several major orders from various industries' at the start of Q3 2019 after Q2 2019 project business order intake was impacted by the deferrals of certain mid- and large-scale orders. GEA's initial estimates suggest that these deferrals have already raised Q3 2019 order intake by about €50 million. Business Area Solutions booked three large-scale orders of between €10 million and €30 million each – two in the field of dairy processing and one in pharmaceuticals – from Latin America, Asia-Pacific and Europe; Business Area Equipment booked parts of a 'double-digit million-euro range' order for separators. This is in line with the company's commentary at an earnings conference last week that its order intake grew 24% year/year in July.

Walmart - EPS of $1.27 vs. consensus of $1.22. Key points: 1) EBIT upside was driven by the U.S. and Sam's West, Inc.; International was below expectations; 2) U.S. e-commerce grew 37% (2-year stack acceleration); 3) U.S. comparables strengthened throughout Q2 2020; 4) there was slight food deflation despite consumable cost inflation (food was deflationary); and 5) Fiscal Year 2020 guidance was increased for U.S. comps., EBIT, and EPS.

Economic Conditions

Denmark Bank now paying customers to borrow money: Last week, the Washington Post reported that Denmark's Jyske Bank has started offering home buyers 10-year mortgages at an interest rate of -0.5 per cent. According to the article, with several major governments and more than 1,000 big companies in Europe now able to effectively borrow from global financial markets at a negative interest rate, Jyske Bank can turn around and lend money at a subzero interest rate, too. The article highlights that negative interest rate debt issued as government or corporate bonds has doubled since December and now totals US$15 trillion. The article notes that the sudden increase suggests that a fast-rising share of investors may be nervous about the future that they're willing to actually lose a little money by lending it to a borrower that is almost certain to pay it back. In a healthy economy, investors would put their money to work in profit-making ventures such as factories or office buildings. Industry observers note that the negative interest rate debt signals a persistent and continuous glut of underutilized capital and there's no place in the advanced world for that capital to be invested without excess risk.

U.S. inflation is warming up a bit, though largely due to the reversal of temporary factors earlier this year. Consumer prices rose 0.3% in July, both headline and core, lifting the respective yearly rates to 1.8% and 2.2%. The upward pressure in July was widespread, with services up 0.3% and medical care up a chunky 0.5%. Computer prices oddly spiked higher (2.8%) after three straight monthly declines. Clothing and used vehicle prices continued to retrace earlier weakness, rising 0.4% and 0.9%, respectively, after bigger advances in June.

U.S. housing starts fell for the third straight month, down a sharp 4.0% in July to 1.191 million units annualized, the lowest level since March. The losses were spread out across most of the country, except for the West. But it wasn't a full-on negative report. Shortages of land and labor are still a problem for builders, as well as higher material costs. And, all of the weakness was in the volatile multi-unit sector (which was down sharply for two months in a row), which is a little surprising given strong demand for these less-expensive homes. Construction of single-family homes was up for two consecutive months to a six-month high, and building these homes is more important (more components used, etc). Also, as an indicator of future ground-breaking, building permits surged 8.4% in the month, the biggest increase in over two years, led by both singles (an 8-month high), and multis. By region, there were more permits in the South, as well as the West, but offset by declines in Northeast and the Midwest.

U.S. Retail sales jumped 0.7% in July, the fifth increase in a row and the most since March. Consumers were spending on things like electronics/appliances, clothing, dining out (the most discretionary of them all), and hitting the department stores, and going online. But spending on sporting goods dropped. And car sales were down, but excluding autos, sales were up a hefty 1.0%. Most importantly, for the purposes of GDP, the control measure (strips out cars, gas stations and building materials) jumped 1% (most since March), and May's 0.6% rise was revised up to 0.8% (no change to June). This implies upside for headline GDP in the quarter.

Japan's preliminary Q2 2019 GDP grew by 0.4% quarter/quarter (1.8% annualized rate) on the back of both private and public domestic demand which more than offset the drag from net exports and private inventories. Despite the better than expected Q2 GDP growth print, global trade uncertainties and significant domestic market weakness in the face of the upcoming October sales tax hike remain the top two challenges for Japan's economy in 2019.

U.K. Employment - Latest figures from the Office for National Statistics (ONS) showed U.K. employment hitting record-highs, boosted by higher numbers of working women and self-employed workers. The number of people in employment rose by 115,000 to 32.81 million in the three months to June, reaching a new high for people in work. However, unemployment also significantly increased, as fewer people were considered economically inactive. The U.K.'s level of unemployment rose 31,000 to 1.33 million for the quarter, as the rate of unemployment increased to 3.9% from 3.8% previously. The rise in unemployment was the biggest the U.K. has seen since 2017.

U.K. retail sales continue to surprise. Since the start of 2019, retail sales in the U.K. beat expectations in almost every month. July print was no exception as it came out at +0.2% month over month while economists' forecasts was for a decline of 0.2%.

U.K. inflation jumped above the Bank of England (BoE)'s target of 2% in July. Annual consumer price inflation rose to a three-month high of 2.1% year/year from 2.0% year/year in June, bucking expectations for a fall to 1.9% year/year. The last time inflation came in above 2% was in April, when it also stood at 2.1% year/year. Core inflation rose to a six-month high of 1.9% year/year versus forecasts for it to hold steady at 1.8% year/year. Contributing to the higher inflation was recreation and culture, as well as restaurants and hotels, whilst clothing and footwear prices eased. These offset downwards contributions from transport services and domestic fuels.

The U.K. is "first in line" for a trade deal with the U.S., President Trump's National Security Adviser has said. John Bolton said the U.S. supported a no-deal Brexit and added that Washington would propose an accelerated series of trade deals. According to Mr. Bolton, deals could be done on a "sector-by-sector" basis, with an agreement on manufacturing being agreed first. His comments came after meeting Prime Minister Boris Johnson at No 10. According to Mr. Bolton, a bilateral agreement or "series of agreements" could be carved out "very quickly, very straight-forwardly". While saying that "both President Trump and I were leavers before there were leavers", he added that a trade deal for financial services and agriculture would not be the first to be agreed. Mr. Bolton said "doing it in pieces" is not unprecedented and the U.S. understood the importance and urgency of "doing as much as we can agree on as rapidly as possible because of the impending October 31 exit date". He argued that there would be enthusiastic bipartisan support in Congress for speedy ratification at each stage. "To be clear, in the Trump administration, Britain's constantly at the front of the trade queue, or line as we say," said Mr. Bolton. (Source: BBC)

Australia's employment surged past expectations in July, despite worries of an economic slowdown. Overall job creation came in at an impressive 41,100, well above the 14,000 markets were expecting. Full-time employment rose by 34,500 whilst part time positions were up by 6,700. However, the unemployment rate was stuck at 5.2% as more people went looking for work. The participation rate — the proportion of the adult population in work or actively looking for a job — rose to a record 66.1%.

Financial Conditions

The U.S. 2 year/10 year treasury spread is now 0.088% and the U.K.'s 2 year/10 year treasury spread is -0.023% – 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.

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Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 3.60% (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 6.4 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 17.48 (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.

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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, '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.

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