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NEWS HIGHLIGHTS

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OUR VIEWS ON ECONOMIC AND OTHER EVENTS AND THEIR EXPECTED IMPACT ON INVESTMENTS

APRIL 27, 2020

OWNER OPERATED COMPANIES

Berkshire Hathaway Inc. – U.S. Bancorp (USB) filed a Form 3 showing Berkshire Hathaway (BRK) indirectly owns 150.1 million USB shares, while BRK CEO Warren Buffett's direct ownership totals 884,000. This put the combined ownership in excess of 10% of USB's shares. Berkshire held an 8.5% stake as of year-end 2019. Berkshire Hathaway is USB's top shareholder.

Facebook, Inc./Reliance Industries Limited – Reliance Industries Limited, Jio Platforms Limited and Facebook, Inc. announced the signing of a binding agreement for an investment by Facebook in Jio Platforms. This investment values Jio Platforms at US$65.95 billion and represents an important recognition of the value of this business. Jio Platforms is a wholly owned subsidiary of Reliance Industries Limited, which brings together Jio's digital services and high speed connectivity under one roof. The connectivity business, known as Reliance Jio Infocomm Limited, provides communications connectivity to over 388 million subscribers in India. The digital platform, known as Jio Digital Life, includes not only video content, but also new generation digital services like Cloud and Edge Computing, Big Data Analytics, Artificial Intelligence, Internet of Things, Augmented and Mixed Reality and Blockchain. Facebook has large user communities in India for its main platforms WhatsApp, Facebook and Instagram. The partnership aims to accelerate the rollout of new services for businesses, particularly for small businesses across India, and to create digital ecosystems to fulfil the needs of Indian people and the Indian economy.

Telix Pharmaceuticals Limited announced it has concluded an exclusive Intellectual Property (IP) licence with Osaka University for a novel radiochemistry technology. The licensed technology is the outcome of a research collaboration established between Telix and Osaka University in 2018 to develop second-generation variants of TLX101 (131I-IPA) that may be suitable for certain advanced cancer therapy applications. The newly developed radiochemistry enables the production of TLX101 with high production efficiency as well as astatine-211 (211At) variants, which may be suitable for other cancer indications. The research collaboration that led to the IP creation was jointly funded over a two-year period by Telix and a grant from the Japan Science and Technology Agency (JST) through its Open Innovation Platform with Enterprises, Research Institutes and Academia (OPERA) program. Astatine-211 (211At), a high-energy alpha emitter is a promising radioisotope for the development of new molecularly targeted radiation (MTR) drugs, due its very short range in tissue (a few cells deep) and its minimal effect on healthy tissues adjacent to cancer cells. President of Telix Japan, Dr. Shintaro Nishimura said, "This novel radiochemistry is a very significant result from the OPERA program and I believe that Osaka University is very well placed to lead the clinical evaluation of astatinated radiopharmaceuticals in the future. I wish to acknowledge Prof Hatazawa, Dr. Shirakami and their colleagues at Osaka University, and the ongoing support from JST through the OPERA program. Together, we are making good progress towards the clinical evaluation of this technology in Japan for the benefit of patients globally".

ENERGY SECTOR

Production Cuts/Oil Prices – The day after U.S. crude prices crashed into negative territory for the first time, two of three Texas oil and gas regulators delayed a controversial vote to force producers to curtail oil output, predicting the move could lead to protracted legal battle. The delay was disappointing, said Matt

Gallagher, chief executive at Parsley Energy Inc., who with Pioneer Natural Resources Company, asked regulators for output curbs. "The situation is urgent and further delays will cripple our state and the industry," Gallagher said. Early last week, the May futures contract for U.S. crude closed at a negative $37.63 a barrel as traders desperate to avoid owning oil paid others to take it. The following day, the contract rebounded from negative territory and expired with a settlement price of $10.01, up $47.64. Oklahoma energy regulators are considering a proposal to curb output and in North Dakota, where about 20% of production has shut in already. While the federal government has little power to influence oil production, state regulators have powers that can include limiting output in their state. Some firms have already started closing wells. Texas regulators set oil output limits starting with a price crash in the 1930s, but lifted them in the early 1970s when Texas production went into a long decline.

FINANCIAL SECTOR

JPMorgan Chase & Co, the largest U.S. lender, said last week it was working on a plan to bring thousands of employees who have been working from home for more than five weeks back onsite in stages, according to an internal memo seen by Reuters. JPMorgan is the first big bank to announce steps to return to normal as debate grows over reopening the U.S. economy after the novel coronavirus shuttered businesses across the country and put a record 22 million people out of work.

ACTIVIST INFLUENCED COMPANIES

Nothing significant to report.

DIVIDEND PAYERS

Compass Group PLC- Organic revenue growth for Half Year 2020 was approximatly.1.6%, within the 0%-2% expected range. Currently around 55% of Compass business is closed due to country lock downs. The impact of government containment measures varies significantly by sector:

	Group revenue (2019 revenues)	Activity (approximates)
Sports & Leisure	13%	100% closed
Education	18%	75% closed
Business & Industry	39%	75% closed
Defence, Offshore and Remote	7%	100% open
Healthcare	23%	100% open
Group	**100%**	**55% closed**

Compass is proactively mitigating their cost base by around £450 million per month by taking a wide range of actions such as: Limited use of variable forms of in-unit labour such as over-time, contractors, and temporary workers; Redeployed or furloughed much of the fixed element of in-unit labour; Reduced salary, hours or furloughed above-unit overhead employees and the Chief Executive has temporarily reduced his salary by 30%, whilst the Group Board and Executive Committee have temporarily reduced their fees and salaries by 25%. The drop through impact of lost revenues on half year operating profit was between 28%-29%, within the anticipated range of 25%-30%. The group is protecting cash flow via: reducing net capital expenditure, which in half year 2020 was around £400 million and is expected to be lower in the second half of the year; Mergers & Acquisition activity has been paused. At March 31, 2020 net debt was around £4.9 billion, including a drawdown of approx. £200 million from the group's Revolving Credit Facility (RCF), and net debt/ EBITDA was between 1.6x-1.7x (on an IFRS 16 basis net debt / EBITDA is around 2.0x). The group has taken significant measures to strengthen liquidity: an additional RCF of £800 million with existing relationship banks so now has total committed credit facilities of £2.8 billion; qualified for the Bank of England's COVID-19 Corporate Financing Facility (CCFF) and drew down £600 million in March; and with the exceptional circumstances that the COVID-19 pandemic represents, the Board has decided not to recommend an interim or a final dividend for the year ending September 30, 2020. The Board will keep future dividends under review and will restart payments when it is appropriate to do so.

Metro Inc. reported adusted. EPS of $0.72 vs. consensus of $0.74/$0.68. Food comparisons were 9.7% (+5.2% ex-COVID-19) and pharmacy comparables were 7.9% (6.4% ex-COVID-19). Gross Margin (GM) increased 10 bps and selling, general & administrative expenses decreased 50 bps, both ex IFRS. Metro realized $15 million ($65 million annualized) in Jean Coutu synergies but will be delayed in achieving its $75 million target. COVID-19 is obviously adding noise as essentials stockpiling was an out-sized tailwind in the last two weeks of Q2 (food comp up >30% and pharmacy up mid-teens, with an overall $125 million revenue/$0.03 EPS lift). However, prior to COVID-19, trends were also robust with food comps +5.2% (vs. a strong +4.3% last year) and pharmacy +6.4%. To this end, Metro was in control of its own destiny even before the COVID-19 demand surge put competitive concerns on the backburner. Along these lines, strong Jan/Feb comparables were driven by improved merchandising, advertising, and in-store execution. Notably, strong pre-COVID sales did not come at the expense of GM, which was down approx..10 bps ex IFRS, mostly attributed to mix/promotions associated with the COVID-19 lift. Looking ahead to Q3, food comps in the first four weeks of Q3 were +25% with the first week up >25% before leveling off into the teens. Front-end pharmacy sales are currently under pressure (initially down ~9% to start Q3 and trending down further recently) due to limitations on customer traffic, but are expected to improve as front-end marketing activities are restored. On expenses, incremental labour/cleaning costs will hit the Profit & Loss in Q3 (incl. wage increases from March 8-May 30), though Metro is confident that increased volumes will be an offset.

Nestlé S.A. - Q1 Organic growth was strong at 4.3% (vs. Unilever 0.0%, Unilever Foods -1.7%, Danone 3.7%). Pricing was slightly negative at -0.4%. There was strong growth in the developed markets at 7.4% thanks to stockpiling in March vs. 0.5% growth in the emerging markets, impacted by a double-digit sales decline in China (strong exposure to out-of-home, Yinlu). Two divisions were strong: Pet care, up 13.9%, and Prepared Dishes, up 7.1%. Other highlights include double-digit growth in Nestlé Health Sciences and mid-single-digit growth at Nespresso (more than 10% in the U.S., negative in Europe). Commitment from Nestlé during current coronavirus crisis: Initiative for a total value of CHF 500 million to help out-of-home and foodservice customers; purchase of agreed milk volumes to help dairy farmers (200,000). Fiscal Year (FY) 2020 guidance maintained for the time being: Continued improvement in Organic Growth from 3.5% in FY 2019 (vs. consenus 2.9%) and in underlying operating profit margin (vs. consensus up 30bp). More than CHF 3.1 billion own shares repurchased YTD. In summary despite the ongoing challenges in supply chain and significant, fast changing consumer needs as well as temporary factory closures, the company was able to deliver strong growth. Stockpiling certainly helped. Nevertheless, the confirmation of the FY 2020 guidance demonstrates the Nestlé's ability to navigate in the crisis. Resilient business model, strong balance sheet, strong cash generation, attractive and safe returns for shareholders.

Roche Holding AG - Group sales of CHF 15.143 billion beat consensus by 2.6%. The beat stems from the Pharma division that performed 3.4% ahead of consensus. Diagnostics sales were in-line with analysts' estimates and 0.8% short of consensus. Products & pandemic: Ocrevus performed 1.8% ahead of estimates and Perjeta fell short by 1.3%. The main 3 cancer drugs were a mixed bag, with Herceptin performing 6.2% better and Rituxan & Avastin falling 2-3% short of estimates. Due to the pandemic, new product launches (Xofluza, Rozlytrek, Polivy) did not perform well, as healthcare systems were busy with COVID-19. Lucentis suffered, as patients are elderly that belong to the COVID-19 risk-group and stayed home. Actemra performed 20% ahead of estimates as it can help patients with severe COVID-19 Biosimilars during Q1 2020: While Europe Union (EU) biosimilars erosion started to moderate, the impact in the U.S. is steeper than earlier assumed - likely more representing erosion rates that have been seen in Europe before. While the pandemic is having had a negative impact on drug launches, which analysts assume to be transient, it helped sales of Actemra and Molecular Diagnostics, with the latter having grown by 29% vs +22% year/year, due to higher demand for cobas Systems. COVID-19 seen as a key opportunity for growing Roche diagnostics. The reported reduction in routine tests (driven mostly by China) in Q1 was offset by increased demand for its COVID-19 polymerase chain reaction diagnostic, where analysts believe Roche is supplying approx. 40% of the market. Furthermore, Roche views COVID-19 as a key catalyst for increasing awareness of the importance of diagnostics and expects this to ignite an increase in spending on diagnostics by healthcare systems globally. Analysts expect the future launch of a COVID-19 serology test should help further drive demand for cobas systems. Roche was bearish on COVID-19 point of care (POC) testing due to reliability concerns; however, it is developing both an antigen and antibody POC test, and the former will likely test for both flu and COVID-19.

ECONOMIC CONDITIONS

U.S. initial jobless claims came in at 4.4 million last week, down from last week's 5.2 million and a third consecutive decline in new claims, though absolute level is still very high. It is wretched to see 26 million Americans file for unemployment in just over a month, hopefully a fair amount of the job losses are temporary and likely to be reversed once the economy re-opens in the coming months, while stimulus checks and beefed up jobless benefits likely bridge incomes for those out of work in the interim.

U.S. existing home sales fell 8.5% in March to 5.27 million annualized units, worse than expected and an early look at the fallout from COVID-19 shutdowns. All regions of the country saw sales decline in the month, with the West (-13.6%) and South (-9.1%) seeing the steepest declines. That left sales barely above year ago levels (+0.8%), but these numbers reflect closings, and mortgage applications really began to plunge in the last 10 days or so of March. As of the April 10th week, purchase applications were down 35% from year-ago and pre-shock levels, which gives a taste of what's to come for sales activity. Prices were still pushing higher in the month on a seasonally-adjusted basis, and the median was up a solid 8.0% from year-ago levels. That speaks to the solid conditions taking shape in the U.S. housing market ahead of the COVID-19 shock. Suffice it to say that such momentum is now broken, and the length of the shutdown and persistence of the economic weakness will dictate where the market goes from here. Some states that are able to ease restrictions earlier will likely see a shorter/shallower correction.

U.S. durable goods orders fell 14.4% in March, somewhat worse than expected, largely due to big declines in aircraft and autos. Neither was surprising given the huge drop-off in air travel and the closure of major auto plants mid-month. Excluding transportation, orders were down just 0.2%. Core capital goods orders (ex-aircraft and defense) were actually up 0.1%, contrasting with expectations of a big tumble. Orders for general machinery slipped just 0.2%, computers were down 0.1%, and electrical components were up 1.5%...as the high-tech sector has benefited from the acceleration in teleworking and online shopping. On the shipments side, core (ex-aircraft) sales of capital goods rose 1.9% (after climbing 1.3% in February) and inventories bounced 0.6% in the month. It's hard to make sense of the data as they are so far away from expectations of underlying weakness given the lockdowns in the second half of the month. Data quality will be an issue until businesses reopen and we believe the economy will take a significant blow in the current quarter.

European Union leaders agreed last week to build a trillion Euro emergency fund to help recover from the coronavirus pandemic, avoiding another all-night bust-up but leaving divisive details until the summer. With the EU's Brussels headquarters under lockdown - along with most of Europe - the 27 leaders held a four-hour video conference to consider proposals, rallying around a bigger common budget for 2021-27 with a recovery programme. At around 1% of the EU's economic output, the multi-year common budget has long been one of the most contentious subjects of debate for its members. Expanding it will not be easy, even if Italy's Prime Minister Giuseppe Conte hailed "great progress" after the summit ended.

Britain may be in the grip of its worst economic slump in centuries, a Bank of England official warned, as the coronavirus lockdown pounded businesses this month with more force than even the most pessimistic forecasters had feared. Interest-rate setter Jan Vlieghe said on Thursday the economy should recover its pre-coronavirus growth pattern once the pandemic is over, but it could take time. Earlier, surveys showed a historic contraction in the economy is all but guaranteed as the government grapples with its biggest public health crisis in more than 100 years. Over 17,000 Britons have died from the novel coronavirus so far. The government will need to issue £180 billion ($223 billion) of debt in the next three months alone to pay for the unprecedented measures launched to stem the collapse of the economy, the Treasury said last Thursday.

FINANCIAL CONDITIONS

Canadian Bankers Association (CBA) says ~710,000 mortgages were in forbearance as of Apr 22, 2020. That represents ~15% of all residential mortgages for the CBA's largest members but is up only modestly from ~14% as of Apr 16, 2020, suggesting perhaps that the ratio may be close to reaching its peak.

The European Central Bank has changed its rules to accept "fallen angel" bonds that lose their investment-grade credit rating to maintain banks' access to its ultra-cheap liquidity during the coronavirus crisis. The move, which was approved by an unscheduled call of the ECB's governing council last Wednesday, is designed to limit the financial turmoil that might otherwise be caused by an expected wave of credit rating downgrades in response to the pandemic. About $275 billion of non-financial corporate bonds could become fallen angels by being downgraded below the triple-B level minimum required for investment grade status within the next year, the OECD estimated in February. (Source: Financial Times)

Bank of Japan decided overnight to leave rates unchanged (short-term rates at -0.1%, 10-year Japanese Government Bonds (JGBs) will hover around 0%) but the Bank deleted its pledge to buy JGBs so that its holdings would rise at an annual pace of around ¥80 trillion, which means it will buy an unlimited amount of JCBs. It will also increase its purchases of commercial paper to ¥500 billion, and corporate bonds to ¥300 billion, with an upper limit of ¥20 trillion. And, it will expand the types of assets it will accept as collateral for its loan program, "Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus".

The U.S. 2 year/10 year treasury spread is now 0.39% and the U.K.'s 2 year/10 year treasury spread is 0.23% - 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 3.33% (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 3.1 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 35.29 (compares to a post-recession low of 18.00 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.

And Finally:

"The best argument against democracy is a five-minute conversation with the average voter." ~Winston Churchill

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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 tangible equity, 'ROTCE' return on tangible common equity.

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