PORTLAND INVESTMENT COUNSEL®

NEWS HIGHLIGHTS

EST. 2007

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

AUGUST 4, 2020

OWNER OPERATED COMPANIES

GO TO PORTLAND 15 OF 15 ALTERNATIVE FUND

Alphabet Inc: Google's Q2 Core Properties revenue declined for the first time in Google's history, contracting approximately 8% year/year in Q2 (vs. +11.6% in Q1 2020) but came in slightly above consensus as COVID-related headwinds from marketers negatively impacted results, although ad trends gradually improved throughout the quarter as searches returned to more commercial topics. Within Properties, user search activity gradually returned to more commercial topics as the quarter progressed. After exiting Q1 with declines in the mid-teens, Search had recovered to essentially flat year/year exiting June. YouTube revenue increased 6% year/year during Q2, as healthy growth in direct response was offset by declines in brand, and growth improved in July. While Google's core Search business appears to have troughed and has begun to recover, management cautioned against carrying forward current trends into the second half, as it still could be too early to gauge the durability of the broader economic recovery. Google Play was a bright spot this quarter with app and game downloads up more than 35% year/year. Cloud's momentum continued in Q2, growing 43% year/year on the heels of a strong Q1 and finishing Q2 with $15 billion in backlog. Google may continue to face near-term advertising headwinds as a result of macroeconomic uncertainty heading into the back half of the year. **Expense growth likely weighted towards the second half**: total costs as a percentage of ad revenue expanded by approximately 10 basis points year/year to 22.4%, and other Cost Of Goods Sold grew approximately 18% year/year (vs. approximately26% in Q1 2020), primarily reflecting costs associated with data centers and content acquisition for YouTube TV and other YouTube subscription offerings. Sales and Marketing expense came in much lower than expected, down 7.4% year/year as Google paused marketing spend and shifted to virtual formats for its flagship events. Management reiterated its expectation for the pace of headcount growth to decelerate this year, although Q3 additions are expected to be seasonally higher as the company onboards new graduates, and continues to hire aggressively in focus areas such as cloud. Google also expects a modest year/year decrease in Capital Expenditure as it slows the pace of ground-up construction of new data centers and office facilities due to COVID-19.

Altice USA Inc. - On July 31, Altice USA jumped the most in about four months after delivering a strong performance in the second quarter, spurring a flurry of price target increases from the sell side analysts. Among the brokerages announcing increased target prices for Altice USA were Cowen, Bernstein, Evercore ISI and Deutsche Bank. Total Revenue grew +1.0% year/year in Q2 2020 to $2.47 billion, driven by Broadband revenue growth of +14.2% year/year. Residential revenue grew +0.8% year/year, Business Services grew +2.2% year/year, and News and Advertising revenue declined -15.6% year/year. Net income attributable to stockholders was $111 million for Q2 2020, or $0.19/share (compared to a net income of $86 million, or $0.13/share, in Q2 2019). Adjusted Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) increased +2.5% year/year in Q2 2020 to $1.11 billion with a margin of 44.7% (growth of +3.7% year/year and a margin of 45.8% ex-mobile). Cash capital expenditures (capex) of $229 million in Q2 2020 represented 9.2% of revenue, down -27.8% year/year partly due to delayed permitting in the company's Fiber To The Home rollout (running fiber lines to a central node and from there through existing lines to the customer). Free Cash Flow of $707 million in Q2 2020 increased +49.8% year/year. Share repurchases were approximately $631 million in total in Q2 2020 and $1.4 billion year-to-date. The company has reinstated guidance for revenue and Adjusted EBITDA growth for 2020, and maintained guidance for capex of less than $1.3 billion for the year. The company retained its year-end leverage target of 4.5-5.0x and continues to expect to complete $1.7 billion in share repurchases in 2020.

Altice USA, Inc. – On July 28, 2020 Altice USA, Inc. announced that it has agreed to sell 49.99% of its Lightpath fiber enterprise business to Morgan Stanley Infrastructure Partners (MSIP) for an implied enterprise value of $3.2 billion. Altice USA will receive total gross cash proceeds of approximately $2.3 billion from the sale and related financing activity (net cash proceeds of approximately $1.1 billion after tax and initial debt repayment as described below). Altice USA will retain a 50.01% interest in Lightpath and maintain control of the company. The introduction of MSIP as a strategic investor will support ongoing and new growth initiatives at Lightpath, improve operational performance and provide strategic and financial flexibility, enabling Lightpath to focus on the distinct opportunities for value creation and long-term growth. The transaction is currently expected to close in Q4 2020 following customary regulatory approvals. Upon closing, Lightpath will be financed independently. A portion of the net proceeds after tax are expected to be used by Altice USA to repay debt such that the transaction is at least leverage-neutral. Remaining proceeds may be used for additional debt paydown and/or repurchase of Altice USA shares.

Amazon.com Inc. - Total revenue grew approximately 40% year/year to $88.9 billion (vs. 26% in Q1), approximately 9% above consensus and representing the highest level of top-line growth for the company since Q1 2018. Online stores revenue growth accelerated to approximately 48% year/year (vs. approximately24% in Q1) as Amazon continued to see elevated demand for household essentials and groceries (up approximately 300% year/year) along with increasing purchases within the hardlines and softlines categories. 3P Seller Services also saw impressive growth, with revenue increasing 52% year/year to $18.2 billion (vs. 30% in Q1), approximately 17% ahead of consensus. Amazon expanded its fulfillment capacity throughout the quarter, adding 175,000 new employees to help meet the surge in demand, and the company has seen some recovery in shipping times over recent months, although they still remain longer than pre-COVID. Amazon Web Services (AWS) revenue grew approximately 29% year/year in Q2 to $10.8 billion (vs. approximately 33% in Q1), approximately 2% below consensus, while AWS operating margin expanded 100 basis points quarter/quarter to 31.1%, largely due to the benefit from an extension of the useful life of its servers. AWS continues to see healthy adoption and usage overall, with strength from verticals such as video conferencing, gaming, remote learning, and streaming video as a result of the pandemic. Management noted that it is working with customers in industries which have been negatively impacted by the pandemic, such as travel and hospitality, to help them scale down usage and save costs where possible. The AWS backlog grew 65% year/year and 21% sequentially, with the average contract remaining over 3 years in length. Other revenue, which primarily consists of advertising revenue, grew approximately41% year/year during Q2 (vs. approximately 44% in Q1), and this higher-margin business continues to contribute to the company's overall profitability. GAAP operating income set a company record at $5.8 billion despite spending approximately $4 billion on COVID-related safety and fulfillment investments. Amazon's Q3 revenue outlook was well above expectations and implies approximately29% year/year growth at the midpoint. GAAP operating income guidance of $2.0-5.0 billion came in above consensus of $3.0 billion and assumes more than $2.0 billion of costs related to COVID-19.

D.R. Horton Inc. reported a better-than-expected quarterly profit and forecast current quarter revenue above estimates, as record-low mortgage rates and a shift towards suburban living caused by the coronavirus crisis boosted sales. New home sales raced near a 13-year high last month, underpinned by borrowing costs at their lowest in almost half a century, with 30-year fixed mortgage rates averaging just above 3%. Work from home and home schooling have fueled demand for spacious homes in less densely populated areas, boosting home sales further for U.S. builders. D.R. Horton said it was seeing strong demand from the millennial, who have delayed forming households in comparison with the prior generations. "It is a very, very, good market right now," Chief Executive Officer David Auld said. "There's just a whole lot of people out there that I think are going to be looking for housing over the next five-plus years." The company, which withdrew its full-year outlook in April, said it expected to deliver between 18,000 and 19,000 homes in the fourth quarter, above analysts' expectation of 15,469 deliveries. D.R. Horton said orders, an indicator of future sales, jumped 38% to 21,519 homes in the third quarter ended June 30, beating Wall Street's estimate of 14,853 units. Its home sales rose 10.5% to 17,642 homes in the quarter, topping analysts' expectation of 17,068 units. Total revenue rose 10% to $5.39 billion, also beating estimates of $5.13 billion.

Facebook Inc. - In Q2, Facebook generated $18.7 billion in revenue, up from $16.9 billion a year earlier and above analysts' expectations of $17.34 billion, according to data from FactSet. The 11% growth is a deceleration from the average gain of nearly 25% for the preceding four quarters. Profit for the second quarter nearly doubled to $5.18 billion or $1.80 a share, exceeding Wall Street estimates. Facebook shares gained more than 7% after results announcement. The results once again show the resilience of Facebook's business in the face of the pandemic impact on the economy and the temporary add boycott announced by some of its clients. The CEO used the company's earnings call to make a different case: that Facebook is a vital social good and that overly broad regulatory efforts to hobble it would be counterproductive. Mark Zuckerberg also suggested that restricting how Facebook collects and deploys data about its users could be harmful in helping small businesses with personalized advertising which is a in important lifeline for the Small and Medium-sized Enterprises struggling to survive social-distancing mandates. Q2 was the first quarter to reflect the full weight of the coronavirus pandemic which upended normal economic activity but fueled usage of Facebook's products. Average monthly users of the Facebook platform rose to 2.7 billion, from 2.6 billion in the first quarter. More than three billion people now use at least one of Facebook's products on a monthly basis. The ad boycott, which was rooted in frustrations from civil-rights groups about how Facebook handles hate speech, began in July and thus didn't affect second-quarter results. The month-long boycott was scheduled to end on July 31, though some advertisers may continue to limit spending on Facebook's platforms. While Facebook cited the boycott as a headwind in Q3, both CEO and COO played down its impact on the company's actions. They indicated that Facebook would continue engaging with civil-rights groups and working to combat hate speech not because of pressure from advertisers, but because it is the right thing to do. Facebook gross margin in Q2 was 32% compared with 31% for the first quarter and 27% in last year's second quarter. The management guided that the margin would drop throughout 2020 as the company used its financial strength to invest in new products and employees. Over the past few months, the company has rushed to release new products in major markets, including a customizable shopping feature aimed at small business, a video chat product called Rooms and Instagram Reels, which copies many of the features popularized by rival social-media platform TikTok.

LVMH Moet Hennessy Louis Vuitton SE – The world's biggest luxury goods group said sales momentum picked up in June and had especially improved in China, after store closures sparked by the COVID-19 pandemic affected the Louis Vuitton owner's second-quarter sales. Like rivals, LVMH temporarily closed stores and paused manufacturing. In an encouraging sign for the sector, LVMH's sales momentum improved across Asia excluding Japan in the second quarter, with comparable revenue falling by 13% versus a 32% slump in the previous three months. But it remains exposed to travel restrictions, affecting its duty free stores in airports, while many of the shoppers it targets in cities such as Milan or Paris are tourists. Overall, LVMH's revenues came in at 7.8 billion euros (US$9.2 billion) in the April to June period, down 38% on a like-for-like basis, which strips out the impact of currency swings and acquisitions. The group increased prices at its most resilient labels, hiking them again by 5% at Vuitton at the end of June - the third price increase at the brand since March. Profit from recurring operations came in at 1.67 billion euros in the first six months of 2020, down 68% from a year ago.

Reliance Industries Limited. - On July 30, RIL reported record net profit of Rs 13,248 crore in June quarter after one-time gain from stake sale in Reliance Retail to British Petroleum (BP). Strong telecom revenues cushioned COVID-19 hit earnings from refining, petrochemical and retail segments. The net profit in April-June was 30.6% higher than it was in the same period a year back, and bettered the company's previous best of Rs 11,640 crore earning in October-December 2019. RIL posted a one-time gain of Rs 4,966 crore from the sale of 49% in its fuel retailing venture to BP plc. The gain from the stake sale together with 183% jump in Reliance Jio's standalone net profit to Rs 2,520 crore covered up the drop in earnings from old economy segments. The consolidated net profit was 89% higher than the average of 12 brokerage analyst estimates of Rs 6,994 crore according to Bloomberg. Digital services business took the lead when physical operations of oil-to-chemical (O2C) and retail faced restrictions. Telecom arm Jio contributed over 33% of consolidated EBITDA to become the single-largest business segment by contribution to the total. Closure of stores and restrictions on operations across the country due to COVID-19 contributed to a decrease in EBITDA of Retail business. This was partially offset by an increase in EBITDA of Digital services business due to improved margins and continued subscriber momentum. RIL Chairman Mukesh Ambani commented: "The severe demand destruction due to global lockdowns impacted our hydrocarbons business but the flexibility in our operations enabled us to operate at near normal levels and deliver industry-leading results". At a post-earning investor call, Anshuman Thakur, President, Reliance Jio, said Jio Platforms will retain Rs 22,981 crore out of the Rs 1,52,056 crore raised from stake sale to 13 investors and the rest would go to parent RIL. The firm's ecommerce venture, JioMart has scaled up to 200 cities, delivering essential grocery needs of customers. Reliance Jio, the group's telecom arm, saw subscriber base swell to 398.3 million from 387.5 million at March-end. Earning per subscriber rose to Rs 140.3 per month from Rs 130.6 per month in the previous quarter. Total wireless data traffic for Jio was 30% higher than the previous year.

SoftBank Group Corp. - On August 3, SoftBank Group announced that it spent 398 billion yen ($3.8 billion) buying back 63.2 million shares between July 1 and Aug. 3.The latest purchases bring the total spent on buybacks since March to 1 trillion yen ($9.5 billion). SoftBank has approved a further two tranches totalling 1.5 trillion yen which will continue until July 2021. SoftBank shares closed up 5% on Monday, August 3 in Tokyo and have risen almost 160% since their March trough.

Stryker Corporation reported second quarter results which beat profit and revenue estimates, including reported adjusted EPS of 64 cents, versus estimate of 55 cents and revenue of $2.8 billion versus estimates of $2.59 billion. Stryker has beat EPS estimates for at least 20 straight quarters. "Our second quarter results were negatively impacted by COVID-19, but I am pleased with the resiliency and creativity that our team displayed in supporting our customers and continuing to advance our new product pipelines," said Kevin A. Lobo, Chairman and Chief Executive Officer. "We were encouraged to see increased sales momentum through the quarter and into July and are poised to capitalize on the broader resumption of deferrable surgeries."

DIVIDEND PAYERS

GO TO PORTLAND GLOBAL ALTERNATIVE FUND

GO TO PORTLAND GLOBAL ARISTOCRATS PLUS FUND

GO TO PORTLAND GLOBAL BALANCED FUND

Clorox Co – Fiscal Q4 2020 Core EPS of **$2.41** which compares to Consensus $1.99. Of the beat, $0.15/share came from below the line items. Total company organic was up +24% (vs. Consensus of +17%). Gross margins were up +170 basis points (vs. Consensus of +70 basis points). Advertising was up +50 basis points. Continued pressure in Minerals & Supplements (Renew Life & Nutranext), we believe, with both businesses down. As expected, Clorox posted very strong Fiscal Q4 results with 21% volume growth driving +175 basis points of gross margin expansion. Reinvestment spending was likewise up. 2021 guidance places EPS in line with current consensus but includes a large 1x gain (as is company practice) related to the increased stake in its Saudi Arabia JV and off a higher EPS base in Fiscal 2020 than reflected in Consensus models. The company's outlook, in analysts' view, is something between conservative and disappointing. Also, the company announced that Linda Rendle, currently President, will be promoted to the CEO role in mid-September and that Benno Dorer will remain Executive Chair of the company's Board of Directors.

Colgate-Palmolive Company – Q2 2020 Core EPS **$0.74** which compares to Consensus of $0.70. Total company organic sales growth of +5.5% (vs. Consensus approximately3%) with 1 point stronger volume/mix and 2 points stronger price. Hill's organic sales were +11.5%; North America organic sales +11% with +11.5% volume/mix, with gross margins up +120 basis points. Latin America organic sales were +4.5% with volume/mix down -4.5% and significantly higher pricing (+9%). Europe organic sales were -1.5% with weaker volume/mix (-1.5%).

Compass Group PLC Q3 Trading update – Group Organic revenue: Q3 2020 -44% YTD -14%; Operating margin: Q3 2020 -6.3% YTD +3.9%. In a quarter when lockdown measures were at their most severe in Compass major markets, the steps taken to contain the spread of the virus impacted its sectors in different ways. Performance in Healthcare and Defence, Offshore & Remote was good. Its Education and Business & Industry sectors were mostly closed in April and May, and started to cautiously reopen in June, while Sports & Leisure remained fully shut. By the end of June, about 60% of Compass business was open, compared to 55% by the end of May. Retention was robust at 95% and Compass has started to see attractive new first-time outsourcing opportunities. The group has begun to adjust its business to the new trading environment. Encouragingly, the Group's operating margin improved within the quarter. As a result, the Group's operating margin was (6.3%) in the third quarter and 3.9% for the nine months to June 30, 2020. Due to the different containment measures at the state level in the U.S., operations in North America have been slightly more open than in Europe. In the Rest of World, most of the group's business was open at the end of June. This is mainly due to the group's higher exposure to Offshore & Remote which has not been significantly impacted by lockdowns. The operating margin was slightly positive as a result of the good performance in Offshore & Remote in Asia Pacific combined with swift labour cost actions in South America. Group free cash flow in the third quarter was an outflow of £260 million, which included capital expenditure of £130 million, and was mainly contractually committed investments. Working capital was an outflow of £100 million, flattered by tax deferrals of around £220 million and a significant improvement in the collection of receivables. Net debt was £3.2 billion at June 30, 2020. Proceeds from the £2 billion equity raised on May 19, 2020 were used to repay £600 million of the Bank of England's COVID Corporate Financing Facility (CCFF), repay £201 million drawn credit facilities and repay £42 million maturing Commercial Paper. As of June 30, 2020, group total liquidity was £5.0 billion. The group states its solid financial position will allow it to weather the crisis whilst continuing to invest in the business to strengthen our competitive advantages and support our long-term growth prospects.

Nestlé SA was able to sustain ongoing momentum in sales increase with 1.3% organic growth in Q2 after 4.3% in Q1. Overall, sales increased 2.8% organically in the first half of the year with material variation between geographies, product categories and sales channels (out-of-home was significantly lower, e-commerce was up 49%). Nestlé improved the underlying trading operating profit margin by 30 basis points to 17.4% (the market was expecting a 10 basis points decrease). More importantly, the underlying Free Cash Flow (FCF) continued to be strong and lower capital expenditures (down 19%). The underlying FCF adjusted for the delay of a dividend payment by an associate company was up 40 basis points to 9.3%. Nestlé paid out a dividend of CHF 7.7 billion in the first half, and repurchased for CHF 4.2 billion of own shares. Moreover, there was a net cash inflow of CHF 2.2 billion from disposals / acquisition. Fiscal Year 2020 guidance: Organic sales growth of between 2% and 3% (vs consensus 2.7%) and margin improvement (vs. up 10 basis points).

The Procter & Gamble Company – Fiscal Q4 2020 Core EPS of $1.16, which compares to Consensus $1.01. Total company organic sales growth +6% (rounded down), vs. guidance of 0-2% with Fabric & Home the real standout +14% organic. Health Care organic sales +2% despite Personal Health Care growing double-digits. Operating profit margin +140 basis points with 440 basis points of cost savings and 190 basis points of operating leverage even as reinvestment spend was 70 basis points stronger than estimated. Adjusted Free Cash Flow productivity 161% and 114% for the full year, well ahead of the company's upwardly revised +100% target for the year. Health Care organic sales +2% despite Personal Health Care growing double-digits. Guidance: Fiscal Year 2021 EPS: +3-7% year/year growth (Implied $5.27-$5.48). Current Consensus assumes +6% year/year growth and $5.23 EPS. Though the COVID environment did drive higher demand across many of the company's categories, analysts would point to this being more P&G-specific with significant market share gains in the U.S. thanks to the strength of the supply chain and positive underlying brand momentum coming into this environment.

Red Electrica Corporacion S.A. reported net Income in line with expectations at €331 million (versus consensus at €330 million), while they reported EBITDA at €766 million in line with Bloomberg consensus estimate at €770 million. The results are not comparable to last year due to the first consolidation of satellite affiliate Hispasat, which contributed to 8% of total sales. Operating expense and depreciation also included Hispasat, while EBITDA included equity consolidated activities for the first time. Consequently, EBIT was reported slightly below expectations at €509 million (versus consensus forecasts at €512 million). Net Debt was reported at €6.3 billion, in line with expectations. Red Electrica has proved to be resilient in the COVID-19 crisis, although the press release flags temporary delays in new projects in Spain and LATAM but expects the initial investment amounts to be partially recovered in the second half. Capital expenditures in Q2 2020 increased by 16% year/year to €110 million, but this increase reflects more consolidation changes than underlying growth in capex.

Walmart Inc. is understood to be eliminating "hundreds" of corporate jobs, specifically in areas such as store planning, logistics, and merchandising. To analysts, this reflects the continued optimization of Walmart's business and is a natural extension of U.S. CEO John Furner's desire to create a more agile, efficient, and nimble organization, specifically as a result of the combination of Walmart's physical and digital support operations, which was already discussed/announced, but hadn't yet been acted on in terms of consolidating roles/functions – largely because COVID meant "all hands on deck" for the better part of the last 4 months. For example, there is simply no need to have one merchant working on the digital business and another working on the brick & mortar side – there should be one view of the customer and one omni-channel experience. Analysts believe other eliminations are the result of the continued evolution of Walmart's business away from, for example, physical store growth.

LIFE SCIENCES

Roche Holding AG - Actemra did not meet the primary endpoint in the phase 3 COVACTA trial in hospitalized patients with severe COVID-19 associated pneumonia. The drug will be explored in other treatment settings, including in combination with an antiviral. For COVID-19 patients in need for an effective treatment, last week's news is disappointing. From an investment perspective, analysts never assumed a pandemic-driven long-term increase of Actemra revenues. Analysts expect to see moderately heightened revenues of the drug until other treatment options will be available - or the drug will have shown to be effective in combination use. However, last week the FDA approved Tecentriq + Cotellic + Zelboraf for the treatment of BRAF V600 mutation-positive advanced melanoma patients. This approval is based on results from the phase 3 IMspire150 study, in which the addition of Tecentriq to Cotellic and Zelboraf helped people live longer without their disease worsening or death (PFS), compared to placebo plus Cotellic and

Zelboraf. This is good news for patients with this difficult to treat disease.

Siemens AG/Varian Medical Systems Inc. – German health group Siemens Healthineers announced the acquisition of Varian Medical Systems Inc. of the United States for $16.4 billion in a deal that seeks to create the global leader in cancer care solutions. The deal is the first major growth move by Healthineers since it was spun off and floated in 2018 by Siemens. Under the agreed transaction, Healthineers will acquire all shares in Varian for $177.50 each in cash, representing a 24% premium to the U.S. company's closing price on Friday and 42% above its 30-day weighted average. Healthineers highlighted a long-term rise in the incidence of cancer - from 14 million cases worldwide in 2010 to a forecast 25 million in 2030, with more than 50% of all cancer patients undergoing radiotherapy. That translates into an addressable market of $20 billion that is forecasted to grow at an annual rate of between 6% and 10%, the company said in a presentation on the deal. The transaction underscores the strategic importance of the radio-molecular paradigm for oncology. With significant growth in therapeutic innovations at the same time driving demand for personalized diagnosis and therapy planning, implementation, and monitoring. ITM Isotopen Technologien München AG is central to these therapeutic innovations for oncology, driving this growth and we believe will benefit from the ever more sophisticated eco system of hardware and digital analytics and services supporting the efficient delivery of diagnostics and facilitation of therapeutic success.

ENERGY SECTOR

Enbridge Inc. – Canadian pipeline operator Enbridge Inc. posted a quarterly profit slightly higher than analysts' estimates and said it sees volumes growing across the Mainline, North America's biggest oil pipeline network. Enbridge's profit was 5% lower than last year as it transported reduced oil volumes after a plunge in demand for gasoline and jet fuel, caused by pandemic-related lockdowns. Mainline throughput was 400,000 barrels per day (bpd) lower in the second quarter sequentially. The company expects Mainline volumes to be under-utilized by 200,000 to 400,000 bpd in the third quarter and by 100,000 to 300,000 bpd in the fourth, before reaching full utilization in early 2021. The company transported 2.44 million bpd of crude on its Mainline during the quarter, down from 2.66 million bpd last year.

Valero Energy Corporation – Independent U.S. refiner Valero Energy Corp reported a smaller-than-expected quarterly loss, adding that it saw "a rapid recovery" in demand for its products as the quarter progressed. "While the impact of the pandemic and the ensuing global economic downturn so far this year has been significant, we saw a rapid recovery in demand for refined products as we moved through the quarter," Valero's Chief Executive Officer Joe Gorder said. Valero forecast current-quarter throughput, or the volume of crude processed by its refineries, to be about 2.43 million barrels per day (bpd), down more than 18% from a year earlier. Throughput for the second quarter dropped 22% to 2.3 million bpd, while refining margins fell 58% to $1.08 billion.

ECONOMIC CONDITIONS

Canada's real GDP jumped 4.5% in May, better than the +3.5% print expected by consensus and marks the steepest monthly increase on record. This result followed a massive 11.7% decline in April and brought the total decline in output since the beginning of the COVID-19 crisis to 15%. Statistics Canada also provided a preliminary reading for June showing a 5.0% increase. Despite this 2-month rebound, the Canadian Economy was still 10% below its February peak, which means that it is far from being out of the woods. Indeed measures put in place to contain the spread of the coronavirus took a heavy toll on the Canadian economy in Q2, with real GDP shrinking 41% annualized. With the reopening of the economy and a lower starting point due to more stringent public-health policies, the rebound may be stronger in Canada compared to U.S. The resurgence of COVID-19 cases in the United-States and the looming fiscal cliff suggest a bumpier road in the U.S. at this point in our view.

Canada - The Financial Post highlighted last week that it's unclear what lessons forecasters should take from the past few months as they project toward the end of the year and into 2021 and 2022. The federal wage subsidy is scheduled to stop in December, and the $2,000-per-month payments to unemployed Canadians are set to end in October. According to the article, the general consensus is that the economy will have recovered enough by then that private spending will take over as the main driver of growth. However, industry observers note that while that should happen, it seems likely that we will have to accept a slower expansion than we would like. Earlier this month, the Bank of Canada predicted in its Monetary Policy Report that the bounce from stimulus and the easing of lockdowns will give way to a more subdued and bumpy "recuperation" period. Corporate bankruptcies will pick up pace as owners run out of ways to keep their businesses open amid capacity constraints forced by social distancing. That will weigh on hiring. So will weaker exports and lower commodity prices. The global recovery will become fitful, as new outbreaks of COVID-19 force new restraints, as is happening now in the United States. Further, stock markets likely will become more volatile, which could test confidence. Canada's high levels of household debt will operate as an anchor on the recovery by limiting the amount of disposable income that can be used to create new demand.

U.S. Q2 GDP quarter/quarter fell 32.9% annualized, the lowest on record, which was actually slightly better than the consensus estimate of a 34.5% contraction. Initial jobless claims rose for the second week in a row, reporting 1.43 million, but slightly below the analyst forecasts of 1.44 million. Continuing claims higher as well, rising to 17 million, ahead of the 16.2 million projected.

U.S. consumer confidence took a larger step backwards in July, likely driven by the return of more restrictive movements and the resurgence in coronavirus cases. The Conference Board's consumer confidence index fell 5.7 points this month to 92.6, erasing about half of June's increase. (Sizeable setbacks in **California, Texas** and **Florida** were offset somewhat by pickups in **New York** and **Pennsylvania**). Americans' confidence about the **present situation** grew for the second straight month, up 7.5 points to a 4-month high of 94.2. What was not encouraging was how Americans are seeing the future. The **expectations** component took a 14.6 point dive to 91.5, the biggest decline since March, and to the lowest level since March's 4-year low. In other words, it nearly—but not quite—erased all of the improvement since the lockdowns. The economic recovery will depend largely on the virus' path and the sheer number of cases out there. And that will influence how confident consumers will be to resume their normal daily activities. Clearly, the acceleration in cases is now understandably shaking confidence.

U.S. durable goods orders jumped 7.3% in June, the second increase in a row and bettering expectations. Orders are still down over 20% from year-ago levels but after being nearly completely shut out in March and April, this is another step to returning to 'normal' / more activity. **Excluding transportation**, orders were up 3.3%, which was a little disappointing but still decent. **Core inventories** fell for the first time since February. Opening up the country brought life back into the economy, and the return of jobs, which is critical. However, opening up also brought the virus back into communities and that, alone, is the biggest risk to this recovery.

Eurozone GDP down 12.1%, sharpest fall in 25 years, following a record decline of 3.6% in the first quarter. The Spanish economy fell 18.5%, taking its total contraction in the first 6 months to 22% wiping all gains made in the 7 years since its last recession. France reported a 13.8% fall, its largest contraction since the Second World War, taking total reduction in output this year to 19%. Italy's economy shrank 12.4%, the steepest in four decades. By contrast, Germany fared better recording a 12% contraction so far in 2020.

FINANCIAL CONDITIONS

U.S. Federal Reserve Open Markets Committee: At the close of its 2-day monetary policy meeting—set amidst a backdrop of elevated uncertainty, resurgent virus case counts, potentially stalling economic activity and record low U.S. Treasury yields—the FOMC opted to keep the target range for the federal funds rate unchanged at 0.00-0.25%. This maintains the lower effective band which was established after March's unscheduled back-to-back rate cuts. Last week's "no change" policy decision was both expected and unanimous (i.e., no dissenters). The interest rate paid on excess reserve balances (IOER) was likewise left unchanged at 0.1%.

The E.U.'s new €750 billion recovery fund will revitalise long-stalled efforts to complete the eurozone's banking union, according to central bankers who predict it will be a vital step towards the creation of a common deposit insurance scheme. Olli Rehn, head of the Finnish central bank, told the Financial Times that the E.U. plan to become one of the region's largest bond issuers to fund its coronavirus recovery package "may create conditions for a genuine European safe asset". "This is potentially one of the most significant effects of this European recovery fund," said Mr. Rehn, a former E.U. commissioner for economic and monetary affairs. "Some cynics would say that is a long stretch — but analytically it can help pave the way for a eurozone deposit insurance scheme and a fiscal backstop." (Source: Financial Times)

The U.S. 2 year/10 year treasury spread is now 0.42% and the U.K.'s 2 year/10 year treasury spread is 0.16%. A 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.

The U.S. 30 year mortgage market rate has increased to 2.99. Existing U.S. housing inventory is at 3.1 months supply of existing houses - well off its peak during the Great Recession of 9.4 months and we consider a more normal range of 4-7 months.

The VIX (volatility index) is 24.52 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

Portland Investment Counsel Inc. currently offers Mutual Funds & Private/Alternative Products - visit www.portlandic.com

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

Portland Investment Counsel Inc. **portlandinvestmentcounsel** **Portland Investment Counsel Inc.** **@PortlandCounsel**

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.

This research and information, including any opinion, is based on various sources including corporate press releases,annual reports, public news articles and broker research reports and is believed to be reliable but it cannot be guaranteed to be current accurate or complete. It is for information only, and is subject to change without notice. This Newsletter is not an offer to sell or a solicitation of an offer to buy any security nor is it necessarily an indication of how the portfolio of any Portland Fund is invested. The securities discussed in the Newsletter may not be eligible for sale in some jurisdictions. The views expressed by any external links and subsequent media, including but not limited to videos, are not necessarily those of Portland Investment Counsel Inc. and are provided for general information purposes only. Portland Investment Counsel Inc. assumes no responsibility for the information provided by external sources.

RISK TOLERANCE

Risk tolerance measures the degree of uncertainty that an investor can handle regarding fluctuations in the value of their portfolio. The amount of risk associated with any particular investment depends largely on your own personal circumstances including your time horizon, liquidity needs, portfolio size, income, investment knowledge and attitude toward price fluctuations. Investors should consult their financial advisor before making a decision as to whether this Fund is a suitable investment for them.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. The indicated rates of return are the historical annual compounded total returns including changes in units [share] value and reinvestment of all distributions [dividends] and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. The rates of return are used only to illustrate the effects of the compound growth rate and are not intended to reflect future values of the mutual fund or returns on investment in the mutual fund. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Information presented in this Newsletter should be considered for background information only and should not be construed as investment or financial advice. As each individual's situation is different, you should consult with your own professional investment, accounting, legal and/or tax advisers prior to acting on the basis of the material in the Newsletter. Commissions, management fees and expenses may be associated with investment funds. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. Please read the prospectus or offering document before investing.

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

PIC20-044-E(08/20)