PORTLAND INVESTMENT COUNSEL®

NEWS HIGHLIGHTS

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

AUGUST 10, 2020

OWNER OPERATED COMPANIES

Ares Management Corporation reported financial results for its second quarter, which included GAAP net income attributable to Ares of $56.4 million. On a basic and diluted basis, net income attributable to Ares per share of Class A common stock was $0.36 and $0.35, respectively. After-tax realized income, net of Series A preferred stock dividends, was $105.3 million or $0.39 per share. Fee related earnings were $97.0 million for the quarter. “Despite the volatile markets, we are pleased to see the durability and resiliency of our business deliver strong growth across our core metrics for the second quarter, including 26% growth in our fee related earnings and 18% growth in our fee paying AUM,” said Michael Arougheti, Chief Executive Officer and President of Ares. “With more than $15 billion in gross capital raised organically year to date, our clients continue to entrust us with greater amounts of capital, which puts us on track to have one of our best fundraising years yet.” “In the second quarter, we generated our 13th consecutive quarter of sequential fee related earnings growth and our fee related earnings margin reached a post IPO high,” said Michael McFerran, Chief Operating Officer and Chief Financial Officer of Ares. “With a record amount of available capital, we are well positioned to continue to drive growth in management fees and fee related earnings in the years ahead.”

Berkshire Hathaway Inc. announced second quarter results, which included net income surging by 87% because of gains in stock investments such as Apple Inc. as markets rebounded. Operating profit fell 10%, cushioned by a temporary bump at the GEICO auto insurer, as the pandemic caused “relatively minor to severe” damage to most of Berkshire’s more than 90 operating businesses. Berkshire announced a $9.8 billion write-down and 10,000 job losses at its Precision Castparts aircraft parts unit, affected by the coronavirus pandemic. Berkshire, which paid $32.1 billion for Precision in 2016 in its largest acquisition, and which Buffett at the time called a steep price, said COVID-19 caused airlines to slash plane orders, significantly curbing demand for Precision’s products. Buffett himself soured on airlines during the quarter, selling $6 billion of their stock and telling shareholders on May 2 the industry’s future had become “much less clear to me.” Berkshire said Precision, which also makes industrial parts, saw revenue fall by one-third and plans an “aggressive restructuring” to shrink operations. Precision ended 2019 with 33,417 employees, and has shed 30% of its workforce. During the quarter, Buffett took advantage of Berkshire’s underperforming shares by repurchasing $5.1 billion of stock. Berkshire businesses suffering from the pandemic also include the BNSF Railway Company, which saw lower shipping volumes, and retailers including See’s Candies, Inc. that temporarily closed stores. Companies in which Berkshire recently made large investments have also been struggling. Berkshire recorded a $513 million loss on its 26.6% stake in The Kraft Heinz Company, after the food company took several write-downs including for Maxwell House and Oscar Mayer Ltd. Berkshire’s overall quarterly net income rose to $26.3 billion, or $16,314 per Class A share, from $14.07 billion, or $8,608 per share, a year earlier. That followed a $49.75 billion first-quarter loss. Second-quarter operating profit fell to $5.53 billion, or about $3,463 per Class A share, from $6.14 billion, or $3,757 per share, a year earlier. Revenue fell 11% to $56.8 billion, though some businesses saw gains, including Duracell batteries, which rose 16%. GEICO’s pre-tax underwriting profit increased fivefold to $2.06 billion because people drove less, resulting in significantly fewer accident claims. Berkshire ended June with a record $146.6 billion of cash and equivalents, and bought just $797 million of equities in the quarter. Buffett has since deployed some cash, agreeing to buy some Dominion Energy, Inc. gas assets for $4 billion and adding more than $2 billion of Bank of America Corporation stock.

Facebook, Inc. - On August 5, Facebook-owned Instagram launched Reels, which is its answer to the popular karaoke app TikTok. Reels enters the short video social media fray as TikTok, threatened with a ban because of its Chinese ownership, has opened negotiations to be acquired by Microsoft Corp. Reels is the first product Instagram has created that focuses more on creators than everyday users. Reels' video distribution algorithm will resemble TikTok's: users will see the most popular videos at the moment, rather than a selection tailored to their individual profile. The new product will be embedded within Instagram, so that the app's 1 billion+ user base can tap into it and help it achieve wide adoption. The product was launched in over 50 countries on August 5, including the U.S., India, Brazil, France, Germany, the U.K., Japan, Australia and others. It will allow users to create 15-second videos using editing tools that are embedded in Instagram's camera, like a countdown clock, a timer and a new align tool, which gives users an easy way to string together different video cuts. It will include music from a big library of titles that Instagram has recently licensed from music labels. Reels differs from TikTok thanks to Instagram's augmented reality effects, which let users overlay images and filters onto their videos. Reels gives Instagram an opportunity to tap into a new creative community, one that's more focused on talent than the beauty-and-aesthetics topics that dominate Instagram today. What creators like about TikTok is that they can amass huge audiences quickly if their video gains traction. Instagram says creators will be able to share Reels videos privately with their friends and followers via direct messages or on their Stories, but they also now have the opportunity to be discovered by Instagram's massive audience within its Explore tab if they wish to do so and if their accounts are set to public. Reels videos will live in a dedicated space within the Explore tab called the Stage. Because Instagram doesn't have a "share" button, it's been hard for content on Instagram to go viral to lots of people fast.

Nomad Foods Ltd. reported financial results for the second quarter of 2020, which included reported revenue increased by 11.4% to €599 million, organic revenue growth of 12.3%, reported profit for the period of €63 million, adjusted Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) increased by 21% to €119 million and adjusted EPS increased by 26% to €0.34. Stéfan Descheemaeker, Nomad Foods' Chief Executive Officer, stated, "We experienced continued robust demand throughout the second quarter, even as restrictions were relaxed across Europe beginning in early May. Frozen food has proven to be one of the most durable consumer categories throughout the COVID-19 pandemic, a testament to its role in offering families quick and nutritious meal solutions at home. These are values, which we believe will transcend beyond this acute period and appeal to a broader set of consumers in a post-COVID-19 world. As Europe's leading frozen food company, we believe Nomad Foods is uniquely positioned with the strategy, resources and execution discipline to accelerate growth and drive sustained value creation for our stakeholders." The company raised its 2020 guidance, which now includes approximately €10 million of incremental strategic investments to fuel brand building activity, drive targeted retention of new consumers, and further accelerate the growth of Green Cuisine. 2020 Adjusted EBITDA is now expected to be in excess of €460 million. Adjusted EPS, which does not reflect the potential outcome of the proposed tender offer, is now expected to be in excess of €1.27 EPS. Full year guidance now assumes organic revenue growth at a high-single digit percentage range versus the prior expectation of mid-single digit organic revenue growth. Nomad announced its intention to commence a "modified Dutch auction" tender offer to purchase, with cash, up to $500 million of its ordinary shares at a range expected to be between $23.00 and $25.50 per share as soon as reasonably practicable, which would represent 11% of the Company's market capitalization (based on the Company's close price on August 5, 2020 of $23.34).

Reliance Industries Ltd. - Saudi Aramco said it's still working on a deal to buy a $15 billion stake in Reliance Industries Ltd.'s refining and chemicals business, even as lower oil prices force it to slash other investments. In mid-July, Chairman Mukesh Ambani said a transaction had been delayed "due to unforeseen circumstances in the energy market and the Covid-19 situation". A deal with India's Reliance would help the world's biggest crude exporter join the ranks of the top oil refiners and chemical makers. State-owned Aramco, which bought chemical firm Saudi Basic Industries Corp. for $70 billion this year, is already a major supplier of crude to India, while Reliance sells petroleum products such as gasoline to the kingdom. In an interview on August 9, Aramco Chief Executive Officer Amin Nasser said that the work is still on for a deal with Reliance.

Aramco reported on Sunday that second-quarter net income was down almost 75% from a year earlier. The coronavirus pandemic halted travel and business, slashing demand for crude and fuel. After the Organization of Petroleum Exporting Countries cut production, Brent prices rebounded from a low of about $16 a barrel in April to nearly $45, though they're still down 32% this year. Aramco's downstream unit narrowed its loss in the second quarter. The loss before interest and taxes for the business was $344 million, compared with $866 million a year earlier. Mr. Ambani said last year that Aramco was set to buy a 20% stake in his company's refining and petrochemicals business, valuing it at $75 billion. The Reliance transaction would help Aramco reach its goal of more than doubling refining capacity to between 8 million and 10 million barrels a day.

DIVIDEND PAYERS

GO TO PORTLAND GLOBAL ALTERNATIVE FUND

GO TO PORTLAND GLOBAL ARISTOCRATS PLUS FUND

GO TO PORTLAND GLOBAL BALANCED FUND

Ares Capital Corporation (ARCC) reported Q2 2020 core net investment income per share of $0.39, slightly higher than our estimate of $0.38 per share and in-line with the consensus of $0.39. Book value per share at $15.83 was up modestly quarter/quarter as credit spreads tightened during the quarter relative to March wides and partially reversed unrealized losses from Q1, though ARCC marked down additional investments in the quarter due to the impact of COVID-19. In addition, non-accruals increased quarter/quarter to 4.4% of the portfolio at amortized cost, from 3.1% last quarter, but still at manageable levels in our view. ARCC had $867 million of new commitments during Q2, of which 69% were in first lien, 18% were in senior subordinated loans, 7% in second lien loans, 6% in other equity and preferred securities. Against that, ARCC had $1.5 billion of exits. The portfolio mix at quarter end was 44% first lien (vs. 48% previously), 30% second lien (vs. 28%), and 6% in certificates of the Senior Direct Lending Program (vs. 6% previously). Overall yield on debt and income producing securities at amortized cost was flat quarter/quarter at 8.9%. **Balance Sheet** Leverage was approximately 1.12x debt to equity, down from 1.24x the prior quarter.

BCE Inc. Q2 2020 results - consolidated revenue of $5,354 million was just ahead of consensus $5,296 million and down 9.1% year/year. Adjusted EBITDA was $2,331 million and down 9.4% year/year, in line with expectations given the fact that the company moved out the data centers (to be sold to Equinix) into discontinued items. It's estimated this amounts to $20-22 million in EBITDA. The company also noted $85 million in COVID-19 related incremental costs. Thus, adjusted EPS of $0.63 was down from $0.93 last year and lower than consensus of $0.66. The company also took a $425 million non-cash write-down on Media, which sharply lowered reported EPS. **Wireless** – EBITDA down 9.2% due to lighter service revenue – BCE's wireless segment saw genuine pressure in Q2 with lower service revenues dragging down profitability. Adjusted EBITDA was down 9.2% to $879 million. Service revenues were down 6.3%. Postpaid net adds came in at 21,600 (consensus 18,000) and sharply lower than 103,000 last year. Postpaid churn ticked down 24 basis points to 0.82%. Wireline operating revenue of $3,043 million was down 1% year/year. EBITDA of $1,279 million was down 5.3%. In reality, analysts believe that wireline actually beat forecasts due to the aforementioned transfer of the data centers to discontinued items. Internet retail net adds of 19,000 compared to 19,000 last year. Meanwhile IPTV (retail) net adds were negative at -3,600, compared to +17,000 last year. Media revenues were down 31% to $579 million due to steep ad declines, but also subscriber revenue declines. EBITDA came in at $173 million (-32%).

Brookfield Property Partners LP (BPY) reported results that were materially impacted by COVID-related shutdowns and are not reflective of the long-term profitability of the portfolio, in our view. However, much of its asset base is currently facing a challenging environment, and it is not clear how long it will take for cash flow to recover. For the quarter, company funds from operations (FFO) per unit was $0.18 in Q2 2020, down from $0.35 in Q2 2019 ($0.38 including gains). The most significant driver of the decline was from the hospitality assets, although there was also weakness in the office and retail portfolios. NAV per unit estimates are now about $11.98, down from $12.60 previously, noting this NAV estimate is highly sensitive to changes in cap rate and net operating income, especially for the retail portfolio. Utilizing a 7.0% cap rate to value the retail portfolio, is materially higher than the cap rate utilized by BPY in calculating International Financial Reporting Standards NAV (5.2%). Should the cap rate be reduced by 1%, the NAV estimate would rise by $3.91 per unit (approximately 33%). During the quarter, BPY repurchased 2.6 million units under its normal course issuer bid (NCIB) at an average price of $8.45 for a total investment of $22.3 million. In addition, pursuant to BPY's recently announced substantial issuer bid (SIB) which is set to expire on August 28, Brookfield Asset Management (BAM) and its partners will be funding the purchase of up to US$ 1.0 billion of BPY units at US$ 12.00 per unit. This would increase BAM's ownership stake from 55% to 63%, and we believe serves as a sign of confidence in BPY's long-term value.

LIFE SCIENCES

Roche Holding AG reported its **IMpower-131 study**, which assessed Tecentriq in combination with paclitaxel, failed to show progression free survival (PFS) benefit in untreated (1L) PD-L1 positive TNBC. These results come as a surprise given Tecentriq is already approved in TNBC in combination with a different chemo backbone, nab-paclitaxel, based on results from the IMpower-130 study. This study, in addition to meeting its primary endpoint of PFS, has also shown a survival benefit (OS) and the chemo combo is the current standard of care in PD-L1+ TNBC. We view IMpower-131 results as a small negative given less flexibility in the choice of chemo in this setting. Impassion132 study of Tecentriq + gemcitabine in 1L PD-L1+ TNBC is ongoing, with data expected in 2023. Roche is also assessing Tecentriq in combination with ipatasertib (AKT inhibitor) in both PD-L1+ and PD-L1- 1L TNBC, with results expected to readout in 2nd Half 2020.

Roche Holding AG - The FDA has approved Evrysdi (risdiplam) for the treatment of spinal muscular atrophy (SMA) in adults and children 2 months and older. Evrysdi, an oral once-daily splicing modifier, is the first and only medicine for SMA that can be taken at home. SMA is a rare degenerative neuromuscular disease in which patients progressively lose muscle function. SMA patients can have SMA with different degrees of severity, typically classed type 1, 2, or 3, with type 1 being the most severe. Evrysdi showed clinically-meaningful improvements in motor function across two clinical trials (FIREFISH in symptomatic infants aged 2 to 7 months; SUNFISH is the first and only placebo-controlled trial to include adults with Types 2 and 3 SMA) in people with varying ages and levels of disease severity, including Types 1, 2, and 3 SMA. Evrysdi is the third SMA treatment, after Biogen's Spinraza (intrathecal injection) and Novartis' Zolgensma (gene therapy). Despite being late to market, Evrysdi's clinical data together with its oral formulation should allow it to successfully compete in the market.

Roche Holding AG - Etrolizumab met its primary endpoint for patients with ulcerative colitis in only two of three phase 3 studies and will not be pursued in this indication. However, etrolizumab continues to be studied as an investigational treatment in patients with Crohn's disease. This news is disappointing - particularly as patients with ulcerative colitis need new drugs to treat this difficult to treat disease.

ENERGY SECTOR

Canadian Natural Resources Ltd. posted a smaller-than-expected quarterly loss as improved natural gas prices and cost cuts helped cushion the blow from the COVID-19 pandemic on its operations. Oil producers have cut spending plans in response to the novel coronavirus, and Canadian Natural, like most of its peers, reduced budget and cut drilling activity to deal with the challenging commodity price environment. Canada's biggest oil producer said average prices for its natural gas, a byproduct of crude production, rose 2.5% to C$2.03 per barrel in the reported quarter. The company said North American natural gas operating costs averaged C$1.11 per thousand cubic feet (Mcf) in the quarter, a decrease of 3% from a year earlier, as it took steps to control expenses. Overall expenses fell 13.3% to C$3.48 billion (US$2.62 billion). Canadian Natural, which cut roughly 14% of its production in May, also signaled support for the Alberta government's mandatory output limits designed to help the industry in Canada's main oil-producing province, home to the world's third-largest reserves. The company reported a 13.6% jump in second-quarter output after restoring most of the curtailed volumes in June, and said prices continue to improve due to reduced activity in the Western Canadian Sedimentary Basin, production declines through curtailments and shut-ins. Average realized prices for crude and natural gas liquids, however, plunged over 70% to C$18.97 per barrel in the second quarter, before risk management. On an adjusted basis, the company lost 65 Canadian cents per share in the second quarter ended June 30, while analysts expected a loss of 80 Canadian cents per share.

Diamondback Energy Inc. posted a quarterly loss from a year-ago profit, as the Permian Basin producer took a $2.54 billion impairment charge against its oil and gas properties after crude prices plummeted. Diamondback said average realized hedged prices fell about 35% to $35.21 per barrel of oil. The Midland, Texas-based company's quarterly average production stood at 294,126 barrels of oil equivalent per day (boepd), compared with 280,365 boepd last year. With oil prices having rebounded from a dip into negative prices in April, producers have started restoring some of their shut-in drilling. The company said it has brought back 5% of the oil production which was curtailed during the second quarter, as it is now receiving significantly higher realized prices. Diamondback said net attributable loss to the company was $2.39 billion, or $15.17 per share, for the second quarter ended June 30, from a profit of $349 million, or $2.11 per share, last year. Excluding items, it posted a profit of 15 cents per share, above average analysts' estimate of 2 cents per share.

EOG Resources, Inc. – U.S. oil and gas producer, EOG Resources Inc., reported a bigger-than-expected quarterly loss as the COVID-19 pandemic drastically affected crude prices and eroded demand for fuel. Oil prices plunged to historic lows earlier this year as travel and business restrictions sapped demand, while oversupply forced producers to slash output. EOG, which also operates in Trinidad and Tobago as well as China, said average crude and condensate price fell nearly 66% to $20.40 per barrel in the second quarter. Total output fell 23.3% to 623,400 barrels of oil equivalent per day (boepd), after the company shut in production of about 73,000 barrels of oil per day (bopd) during the quarter. However, EOG said it started to restore curtailed production in June as oil prices recovered from their April lows, and it expects nearly all shut-in wells to begin production before the third quarter ends. The Houston-based company said net loss was $909.4 million, or $1.57 per share, for the second quarter ended June 30, from a profit of $847.8 million, or $1.46 per share, last year. Excluding items, it posted a loss of 23 cents per share, bigger than analysts' average estimate of 5 cents loss per share.

Parsley Energy, Inc. announced financial and operating results for the second quarter, which included net oil production lower by 11% quarter-over-quarter and increased 30% year-over-year to 112.6 million barrels of oil per day. Total second quarter net production averaged 183.2 million barrels of oil equivalent per day. In light of improved oil pricing and reduced volatility, Parsley is revising its baseline capital budget assumption from a $20-$30 West Texas Intermediate (WTI) oil price to a $35 WTI oil price for the remainder of 2020. In this context, the company is narrowing its 2020 capital budget to $650-$700 million from less than $700 million. With regional oil prices trading below $20 per barrel during a portion of Q2 2020, Parsley suspended all new drilling and completion activity during May and June. In recent weeks, with regional oil prices trading consistently above the company's baseline capital budget assumption of $35 per barrel, Parsley has reactivated two rigs and two frac spreads. Parsley's future activity plans will continue to be driven by unhedged return profiles. Parsley remains committed to free cash flow generation and, in the context of $35 WTI oil prices for the remainder of the year, is now targeting at least $350 million of free cash flow in 2020, which is an increase of $50 million from the company's prior target.

Pembina Pipeline Corporation reported quarterly earnings per share of $0.39 for the second quarter, on revenues of $1.27 billion. Total volumes of 3,427 million barrels of oil equivalent per day for the quarter represented a 1% increase over the same period in prior year. At midpoint, Pembina is on track to realize a reduction in the capital investment plan of approximately $1.1 billion. Its capital program is now expected to total approximately $1.5 billion.

Pioneer Natural Resources Company posted a quarterly loss that was smaller than estimates, as the U.S. shale producer reined in costs to cushion a blow from the coronavirus-induced plunge in oil prices. The company said it cut costs and expenses by more than a third. The Permian Basin producer's average sales volume rose to 374,563 barrels of oil equivalent per day (boepd) in the second quarter, from 334,167 boepd a year earlier. Pioneer also raised its full-year production forecast to between 356,000 boepd and 371,000 boepd after cutting it in May, joining an expanding list of U.S. producers restoring some of their shut-in drilling. Still, the company expects about 6,000 barrels of oil per day (bopd) production to remain curtailed in the current commodity price environment. Pioneer had reduced about 7,000 bopd of net production during the second quarter. Pioneer posted an adjusted quarterly loss of 32 cents per share, smaller than analysts' estimate of 35 cents. Pioneer Natural Resources and Devon Energy Corp plan a variable dividend. The payment could be a new model for a volatile industry out of favour with investors, said Pioneer's CEO Scott Sheffield. Pioneer's variable dividend would be paid on top of its regular dividend, likely quarterly, though plans would be laid out next year, according to Mr. Sheffield. The oil industry has "destroyed value whether growing too fast or buying stock at very high prices," Mr. Sheffield said. Pioneer is looking at how other S&P 500 companies pay variable dividends.

ECONOMIC CONDITIONS

Canada - Bloomberg reported last week that more than half of Canadians are afraid to go back to their workplaces and 77% are worried their colleagues might show up infected with the coronavirus, according to research from consulting firm KPMG. About six in 10 say they will refuse to go back if they believe their place of work is not safe enough and 57% are concerned about sharing meeting rooms and other common areas. The survey polled more than 1,000 Canadians online and was conducted July 22 to 24. In the KPMG survey, 71% said they were worried about using public transportation for their commute. In Ontario, the figure was 78%. Ontario also had the highest percentage of people who said they were "afraid of returning" to the workplace, at 64%. Nationally, the number was 54%.

U.S. nonfarm payrolls continued to grow in the third month after the lockdown, adding 1,763,000 jobs in July, beating consensus. There were **revisions** and they were, on net, higher. June's +4,800,000 is now +4,791,000. May's +2,699,000 is now +2,725,000. The **private sector** had a similar gain, adding 1,462,000 jobs in the month. The gains were quite broadly based, from **construction, health care & education, government** (all levels, despite the budgetary challenges), **retail, manufacturing and transportation/warehousing**. While momentum is slowing and the U.S. is still down 12.9 million jobs from the pre-COVID era, the number of permanent losses appears to be easing a bit. Still, all of this is highly dependent on containing the virus.

U.S. initial claims unexpectedly fell in the week to the start of August, down 249,000 to 1,186,000, the first decline in three weeks, the biggest drop since early June, and to the lowest level since COVID-19 noticeably started. Ditto for the **not seasonally adjusted** series… down 222,800 to 984,200, the first sub-1,000,000 reading since mid-March. Those who stay on Unemployment Insurance, aka **continuing claims**, also took a big step back, plunging by 844,000 to a 15-week low of 16,107,000. And so, job growth is continuing, just not at the same pace as we saw as soon as the economy reopened.

The U.S. President Trump administration has issued its recommendations to ban Chinese companies that do not comply with U.S. accounting standards from listing on American stock exchanges. The proposals — announced by a working group that included Steven Mnuchin, the Treasury secretary, and Jay Clayton, the chairman of the Securities and Exchange Commission — would force Chinese companies to delist from U.S. stock exchanges unless regulators get access to their audits. President Donald Trump in June gave his team 60 days to come up with the recommendations, and their release on Thursday marks another point of growing friction between the U.S. and China, as relations between the countries plummet to their lowest point in decades. (Source: Financial Times)

FINANCIAL CONDITIONS

The Bank of England voted 9-0 to keep rates unchanged at 0.1% and to keep the asset purchase target at GBP 745 billion. The Monetary Policy Committee (MPC) reiterated its previous forward guidance that the remaining asset purchases would completed “by the end turn of the year” which means that weekly purchases will fall under GBP 4.5 billion which is much lower than the GBP 13.5 billion weekly pace at the height of the crisis. The MPC forecasts has output falling -21% in Q2 and a rebound of +18% in Q3, leaving 2020 forecasts at -9.5% versus the -14% forecasted in May. The BOE says it does not see GDP returning to pre-COVID levels until the end of 2021. On unemployment, it sees the rate peaking at 7.5% (compared to 10% in May) and peaking towards the end of this year. The MPC does not see inflation moving above 1% until Q2 of 2021 and expects inflation to move back to the 2% target in two years’ time. The MPC seemed clear that negative rates would be the last resort tool but the possibility to move the lower bound down to zero is still likely if the economy needs more support. The BOE’s forward guidance is that it: “does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably”.

The U.S. 2 year/10 year treasury spread is now 0.43% 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 2.88. 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 22.45 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

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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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