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# NEWS HIGHLIGHTS

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

SEPTEMBER 21, 2020

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## OWNER OPERATED COMPANIES

**Berkshire Hathaway Inc.** – The BNSF Railway Company, the railroad unit of Warren Buffett's Berkshire Hathaway Inc., named Kathryn Farmer as its new chief executive officer, making her the first female CEO of a major U.S. railroad. Farmer, 50, has worked at BNSF for 28 years, most recently as executive vice president of operations. She will succeed Carl Ice, who is retiring after 42 years at the company, on Jan. 1, 2021. Both will remain on the railroad's board of directors. "Carl has been critical to BNSF's success for a very long time. I thank him for his leadership and his accomplishments," Buffett said in a statement. "We look forward to Katie's leadership and more success. She possesses all of the qualities that make us excited about the future." BNSF is one of Berkshire's biggest units, generating \$5.48 billion, or 23%, of its operating profit and about 9% of its revenue in 2019. In the second quarter, profit fell 15% and revenue fell 22% from a year earlier, as the coronavirus pandemic hurt shipping volumes. Berkshire acquired BNSF in 2010, paying \$26.5 billion for the 77.4% it did not already own. It was at the time Buffett's largest acquisition. Farmer's promotion is the latest in a series of high-level changes at Omaha, Nebraska-based Berkshire, which had long been overseen by Buffett, 90, and Vice Chairman Charlie Munger, 96. In 2018, Berkshire tapped Greg Abel and Ajit Jain as vice chairman, making them top candidates to eventually succeed Buffett as CEO. They oversee Berkshire's dozens of operating businesses, with Abel overseeing BNSF. Last December, Berkshire tapped Todd Combs, one of Buffett's portfolio managers, to run the Geico auto insurer, giving him experience managing a business as well as money.



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COMPANY NEWS**

**Oracle Corporation** – On September 20, media reports announced that ByteDance Ltd. has received tentative approval for an agreement with the U.S. Government to resolve the outstanding issues, which will now include Oracle and Walmart Inc. together investing to acquire 20% of the newly formed TikTok Global business. As a part of the deal, TikTok is creating a new company called TikTok Global that will be responsible for providing all TikTok services to users in United States and most of the users in the rest of the world. Oracle becomes TikTok's secure cloud provider. TikTok Global will be majority owned by American investors, including Oracle and Walmart. TikTok Global will be an independent American company, headquartered in the U.S., with four Americans out of the five-member Board of Directors. All the TikTok technology will be in possession of TikTok Global, and comply with U.S. laws and privacy regulations. Data privacy for 100 million American TikTok users will be quickly established by moving all American data to Oracle's Generation 2 Cloud data centers. Based on decades of experience securing the world's most sensitive data, Oracle's Generation 2 Cloud fully isolates running applications and responds to security threats autonomously. This unique technology eliminates the risk of foreign governments spying on American users or trying to influence them with disinformation. In addition to its equity position, Walmart will bring its omni-channel retail capabilities including its Walmart.com assortment, eCommerce marketplace, fulfillment, payment and measurement-as-a-service advertising service. TikTok Global will create more than 25,000 new jobs in the United States and TikTok Global will pay more than 5 billion in new tax dollars to the U.S. Treasury. TikTok Global, together with Oracle, SIG Asia Investment LLP, General Atlantic LLC, Sequoia Capital, Walmart and Coatue Management LLC will create an educational initiative to develop and deliver an AI-driven online video curriculum to teach children from inner cities to the suburbs, a variety of courses from basic reading and math to science, history and computer engineering. TikTok Global will have an Initial Public Offering (IPO) in less than 12 months and be listed on a U.S. exchange.

**SoftBank Group Corp.** – On September 15, SoftBank Group Corp. (SBG) announced the status of the repurchase of its own shares conducted from August 4 to August 31, 2020. During the period, SBG did not repurchase any of its own shares as it determined that there were facts that could be classified as non-public material facts under insider trading regulations. However, there is no change to the program (the “JP¥4.5 Trillion Program”) announced in “SoftBank Announces JP¥ 4.5 trillion (US\$41 billion) Program to Repurchase Shares and Reduce Debt” dated March 23, 2020. Share repurchases of up to JP¥ 2 trillion (JP¥1.5 trillion unexecuted as of August 31, 2020) under the JP¥4.5 Trillion Program was originally intended to be executed over four quarters from the time of the initial announcement. In light of the uncertainty in market trends and other factors, however, it is possible that the repurchase may not be completed by the end of March 2021, which was originally scheduled.

**SoftBank Group Corp.** – On September 17, SoftBank Group Corp. announced that it has entered into a definitive agreement with Brightstar Capital Partners L.P. (BCP), a U.S.-based private equity firm focused on partnering with founders, entrepreneurs and management teams, whereby SBG will sell all of its shares in Brightstar Global Group Inc. (BGG), a wholly owned subsidiary of SBG and the sole parent company of Brightstar Corp., a business focused on end-to-end device lifecycle solutions for carriers, retailers, and enterprises, to a newly formed subsidiary of BCP, for a consideration consisting of cash proceeds and a 25% stake in a newly formed subsidiary of BCP, which will hold all of BGG shares. The transaction is subject to regulatory approvals and other customary closing conditions. The transaction is expected to close before the end of SBG’s fiscal year ending March 31, 2021. Upon completion of the transaction, BGG and Brightstar will cease to be subsidiaries of SBG and will no longer be consolidated into SBG’s financial results.



## DIVIDEND PAYERS

**Citigroup Inc.** has hired a Bank of America Corporation executive to run compliance for its Institutional Clients Group (ICG). Jennifer Taylor will start as chief compliance officer for the ICG in December and will be based in the U.K., according to a memo signed by Chief Compliance Officer Mary McNiff and ICG Chief Executive Officer Paco Ybarra. (Source: Reuters)



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**JP Morgan Chase & Co.** - An article on Reuters this week titled “‘FinCEN’ documents reportedly show banks moved illicit funds - BuzzFeed, ICI” saying several global banks moved large sums of allegedly illicit funds over a period of nearly two decades, despite red flags about the origins of the money, BuzzFeed and other media reported on Sunday, citing confidential, leaked suspicious activity reports (SARs) filed by banks with the U.S. Department of Treasury’s Financial Crimes Enforcement Network (FinCEN). The SARs, which the reports said numbered more than 2,100, were obtained by

BuzzFeed News and shared with the International Consortium of Investigative Journalists (ICIJ) and other media organizations. In all, the ICIJ reported that the files contained information about more than \$2 trillion worth of transactions between 1999 and 2017, which were flagged by internal compliance departments of financial institutions as suspicious. The SARs are in themselves not necessarily proof of wrongdoing, and the ICIJ reported the leaked documents were a tiny fraction of the reports filed with FinCEN. It stated among the five global banks that appeared most often in the documents were JPMorgan, The Bank of New York Mellon Corporation and HSBC Holdings PLC. Among the types of transactions highlighted by the report were funds processed by JPMorgan for potentially corrupt individuals and companies in Venezuela, Ukraine and Malaysia.

**Walmart Inc.** has issued a press release with respect to its potential investment in TikTok. No deal has been finalized, but per the release Walmart and Oracle plan to acquire 20% of a newly formed “TikTok Global” company, which will essentially encompass TikTok’s U.S. operations. Walmart’s stake is expected to be 7.5%. Analysts see this as the next stage of Walmart’s ongoing evolution to be even more relevant for all things consumer in an omni-channel environment - one which now clearly and importantly also includes social commerce. While this stake is relatively small, the integration of Walmart’s e-commerce/digital ad platforms into TikTok should substantially enhance the prospects for these businesses and has the potential to be a game-changer for Walmart, as it continues to evolve, with a focus on being much more involved in consumers’ “ecosystems”. To this end, Walmart is once again improving the relevance of its digital platforms with this deal, which follows up on the Walmart+ launch last week. Per several media reports, ByteDance is asking for an approximate \$60 billion valuation, which would put Walmart’s 7.5% stake at approximately \$4.5 billion. While the profit and loss impact in the near term, if any, is unclear (and will also depend on how the deal is accounted for), it will likely be small. For context Walmart had \$16.9 billion cash & equivalents on its balance sheet at the end of Q2 (vs approximately \$9 billion on average in Q2 over the last 5 years), has an Enterprise Value of approximately \$442 billion, and generated EBITDA of approximately \$32.4 billion in Fiscal Year 2020. So the deal is relatively small today, but analysts think has the potential to be a game-changer in the future for several reasons: TikTok has approximately 50 million daily active users in the U.S. Analysts believe at least 1 in every 15 videos on the platform involves direct product promotions from influencers. These products can now be fulfilled either directly by Walmart or through Walmart’s Marketplace; Walmart is uniquely well equipped to handle additional fulfillment; The deal increases Walmart’s relevance for a new customer demographic as the TikTok U.S. user is generally younger than 35 years old, a demographic for which Walmart is currently under-penetrated; and relevance with TikTok users means the number of products available on the Marketplace should increase. Finally, the deal should result in a big boost to Walmart’s growing advertising business.



## LIFE SCIENCES

**Telix Pharmaceuticals Limited** announced that the first two patients have been dosed in a phase I study of the novel lung and ovarian cancer theranostic APOMAB™, at the Royal Adelaide Hospital (RAH). The clinical study, which is being conducted by the Central Adelaide Local Health Network



(CALHN) is co-funded by Telix and strategic partner, AusHealth®. The study, which is being led by RAH Cancer Clinical Trials Unit Head Professor Michael Brown, is a two-arm trial of an antibody that targets the La/SSB protein (APOMAB™) initially labelled with Zirconium-89 (89Zr-APOMAB) to enable the biological and targeting properties of the agent to be evaluated using positron emission tomography (PET). The target of APOMAB, the La/SSB protein, is specifically expressed by cancer cells that have been treated with chemotherapy and/or radiation, and the research objective of the study is to evaluate how well APOMAB is able to potentially deliver diagnostic and therapeutic targeted radiation to advanced lung or ovarian cancers. The trial will enrol 18 patients in total. The trial's principle investigator Professor Michael Brown said "The dosing of these first patients is the culmination of more than a decade of fundamental research around a novel oncology target, and enables the evaluation of the potential of APOMAB as a targeting agent for imaging and therapy." Telix CEO Dr. Chris Behrenbruch said "This clinical proof-of-concept study will test the suitability of the APOMAB technology to deliver targeted radiation to lung and ovarian cancers, two areas of cancer care where there is a significant unmet medical need to provide patients with additional therapeutic options. We believe that APOMAB has the potential to be used for multiple cancer indications and we're particularly pleased to be supporting an Australian researcher of the calibre of Professor Brown, who is highly recognised as a pioneer in this field."



## ENERGY SECTOR

Nothing significant to report.



## ECONOMIC CONDITIONS

**Canadian retail sales** increased by a modest 0.6% in July, a sign that pent-up demand has been satisfied after blowout gains in the early weeks of reopening. Higher sales at auto dealers and gasoline stations helped to drive July's gain. After removing those components, retail sales fell 1.2% as home-improvement and sporting-goods stores – two areas of strength during the COVID-19 pandemic – saw buying sprees fade. Despite a slower pace of spending, further gains are expected. In a preliminary estimate, Statistics Canada said last week that retail sales rose 1.1% in August. During the month, scorching gains for many retailers began to dissipate. Sales at building supplies and gardening stores fell 11.6% in July, but were still 4.7% higher than a year earlier. Sporting goods, hobby and book stores dropped 8.8%, but were 11.4% higher than the previous July. Grocery sales fell for a fourth consecutive month, but remained stronger than before the outbreak. The auto sector enjoyed a solid month. Vehicle dealers tallied a 3.5% gain in July, with used-car dealers rising 11.5%. Gas stations were lifted 6.1% because of higher fuel prices and more car trips. Clothing stores continued their rebound, with sales rising 11.2% to \$2.5-billion in July. However, revenue was still weaker than before the pandemic. (Source: Globe & Mail).

**The U.S. budget deficit** has hit a record high of more than \$3 trillion, driven by the government's massive spending on coronavirus relief. The federal government spent more than \$6 trillion in the first 11 months of its financial year, including \$2 trillion on coronavirus programmes, the

Treasury Department said. The figure outpaces the \$3 trillion it took in from taxes. The shortfall is more than double the previous full-year record, set in 2009. At the time, Washington was grappling with the aftermath of the 2008 housing financial crisis. (Source: BBC)

**U.S. retail sales** plunged over 20% during the pandemic, then surged in the month that the country reopened +18.3% in May, +9.6% in June, +0.9% in July (revised from +1.2%), and now, just +0.6% in August. Indeed, the latest month was about half of what consensus was expecting but areas where consumers might cut back if they were extremely worried were still up solidly, including food services & drinking places (+4.7%), even with the social distancing measures put in place, building materials & gardening equipment, autos (+4.5%) and gasoline stations (+0.4%). A bit disconcerting was the second straight drop in sporting goods/book stores (-5.7%). So the gains are clearly slowing and the 0.6% increase in core sales (which include food but strip out cars, gas stations and building materials) was the fourth straight gain, and still points to a solid rise in real personal spending, as long as job creation continues.

**U.S. housing starts** fell 5.1% in August, weaker than expected and the lowest level since May. There were upward revisions, on net, to the prior two months though .... July to 1.492 million (was 1.496) and June to 1.265 (was 1.220). And, all of the decline was in the multi-unit category (-22.7%); single-family homes, which account for over 70% of total starts rose for the fourth consecutive month to its highest level since February. Building permits unexpectedly slipped, down 0.9% to 1.47 after surging 17.9% in the prior month. But this barely dents the massive increases that were racked up over the past three months. Plus, all of the permits being applied for were for singles (again), while multis fell.

**U.S. industrial production** was disappointing in August, though it was understandable. Total production rose just 0.4%, which was about half of what consensus was looking for. However, the upward revisions to the prior three months made up for it.... July's 3.0% gain is now 3.5%; June's 5.7% increase is now 6.1%, and May's 0.9% rise is now 1.0%. It was a tough month, weather-wise as with hurricanes Isaias, Kyle, Laura, and Marco, while the wildfires on the West Coast likely also had an impact. Of the three major categories, **mining** and **utilities** took a hit, down 2.5% and 0.4%, respectively. **Manufacturing**, however, which weighs in at a hefty 76% of the index, managed to increase for the fourth straight month, though the 1.0% improvement was the smallest increase of the bunch.

**Employers in Britain** are planning more than twice as many redundancies than they did at the height of the last recession, new figures show. About 180,000 job cuts were planned from January to March 2009, while 380,000 were planned from May to July this year. Completed redundancies could reach 735,000 this autumn, researchers say. The figures were obtained by an Institute for Employment Studies (IES) Freedom of Information request. (Source: BBC)

**The U.K. economy** grew by 6.6% in July, according to official figures, but remains far below pre-pandemic levels. It is the third month in a row that the economy has expanded. But the Office for National Statistics (ONS) said that the U.K. "has still only recovered just over half of the lost output caused by the coronavirus". Hairdressers, pubs and restaurants contributed to growth after companies were allowed to reopen in July. (Source: BBC)



**The U.K. has struck its first major post-Brexit trade pact** after signing a deal with Japan that aims to boost trade between the countries by about £15 billion. International Trade Secretary Liz Truss said it was a “historic moment”. She said it would bring “new wins” for British businesses in manufacturing, food and drink, and tech industries. Critics said while the deal may be of symbolic importance it would boost U.K. GDP by only 0.07%, a fraction of the trade that could be lost with the EU. (Source: BBC)

**Australia** had an encouraging employment report week adding +111,000 jobs vs. expectations of a decline of -50,000 while the unemployment rate fell much more than expected to 6.8%.

**The Asian Development Bank (ADB)** says the COVID-19 pandemic has pulled the region’s developing economies into recession. It is the first time in six decades that “developing Asia” - a designation that includes 45 countries - has seen a regional slump. The ADB says developing Asia’s economy will shrink by 0.7% in 2020. But the region is expected to rebound strongly in 2021, growing by 6.8% next year. (Source: BBC)



## FINANCIAL CONDITIONS

**The Bank of England** has warned that the rising rate of coronavirus infections and a lack of clarity over the U.K.’s future trade relationship with the EU could threaten the economic recovery. It said much of output lost during lockdown had been recovered but the outlook remained “unusually uncertain”. The U.K. is still in a deep recession, while COVID-19 infections are at their highest level since mid-May. Citing the uncertainty, the Bank held interest rates

at 0.1%, a historic low. It added that it would continue its monetary support for the economy, but stopped short of increasing its bond-buying programme or reducing interest rates further. (Source: BBC)

The U.S. 2 year/10 year treasury spread is now 0.52% and the U.K.’s 2 year/10 year treasury spread is 0.28%. 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 2.87. 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 30.24 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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### 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.

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PIC20-057-E(09/20)



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