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NEWS HIGHLIGHTS

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

APRIL 19, 2021

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OWNER OPERATED COMPANIES

Brookfield Asset Management Inc.
– NextEra Energy

Partners said it would acquire a 391-megawatt (MW) portfolio of four operating wind assets from Brookfield Renewable for US\$733 million, as renewable power takes up a record share of global electricity production.

NextEra Energy Partners, which has interests in U.S. wind and solar projects as well as natural gas infrastructure assets, said the deal would include four wind generation facilities in California and New Hampshire. The Juno Beach, Florida-headquartered company said it expects adjusted core earnings' run rate at the end of 2021 at the upper end of its earlier forecast of \$1.44 billion to \$1.62 billion and cash available for distribution also at the upper end of its previous outlook of \$600 million to \$680 million.

Danaher Corporation announced that it expects first quarter 2021 core revenue growth to be above the high-end of the company's previously communicated guidance range. For the quarter ended April 2, 2021, the company expects revenue growth to be approximately 57.0% and non-GAAP (Generally Accepted Accounting Principles) core revenue growth including Cytiva to be approximately 29.0%. The better-than-expected performance was broad-based across the portfolio, with particular strength in Life Sciences and Diagnostics.

Facebook Inc. - Sources say the social network is planning to announce a series of products under the umbrella of "social audio" on Monday April 19 2021. They include Facebook's take on Clubhouse, the audio-only social network that grew rapidly last year, as well a push into



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COMPANY NEWS**

podcast discovery and distribution, aided by Spotify. Facebook's audio plans include an audio-only version of Rooms, a videoconferencing product that it launched a year ago, when the pandemic spurred massive adoption of Zoom. It is a Clubhouse-like product that will allow groups of people to listen and interact with speakers on a virtual stage, enabling Facebook users to record brief voice messages and post them in their newsfeeds, as they currently do with texts, pictures, and videos along with a podcast discovery product connected to Spotify. Facebook has invested heavily in podcasting over the last few years. Facebook will announce the timeline for the products today. Sources indicate that certain products may not appear even in beta form, until later this spring.

Zuckerberg has made his interest in Clubhouse, which launched at the beginning of the pandemic enjoying rapid growth throughout the last year, quite clear. He has attended multiple chats on the service, including one with Spotify CEO Daniel Ek. Meanwhile, Clubhouse has just announced a new funding round that values the company at US\$4 billion only months after announcing a funding round that valued it at \$1 billion. At the same time, observers have speculated whether Clubhouse, featuring ephemeral, real-time chats for audiences up to 5,000, may have a hard time recapturing the buzz of 2020 and early 2021, while many in the world were locked down and looking for distractions. The app's pace of downloads appears to have slowed down along with its novelty, meanwhile Clubhouse has not updated its user total for its users from February, when it said it had 10 million users. However Clubhouse is currently limited to Apple iPhone users, but when it opens to the world of Android users, we believe its numbers will increase again

Industria De Diseño Textil S.A. – Pablo Isla is chairman of Inditex, the biggest fashion retailer in the world by market value, and he has a lesson for companies across the world - "Proximity sourcing works and can help weather a pandemic" according to Bloomberg. In a year that saw global supply chains punished as factories came to a standstill, ports were hit by bottlenecks and stores were shut for weeks, the Spanish owner of the Zara SA clothing brand saw its inventories only drop by an impressive

9%. Other fashion retailers, such as Hennes & Mauritz AB (H&M) and The Gap, Inc., have seen increases in inventory, and leading sportswear firms such as Adidas AG and Nike, Inc. also struggled during the year. Many had to adjust their supply-chain strategies. Inditex managed to reduce inventory due to a combination of factors, notably a centralized system that makes it easier to track each good from entry into a warehouse to sale. It also managed to deal with a 77% surge in online sales by servicing orders from each of its approximately 7,000 stores that act as a mini-distribution centers. According to Isla, the company did not have to adjust its own supply chains due to the pandemic. Prior to joining Inditex in 2005, Isla headed Altadis, a tobacco firm with a large logistics operation. Inditex's sourcing, logistics and distribution set-up is a pillar of the retailer's success. While most fashion and sportswear firms rely on Asian manufacturing for the bulk of their products, Inditex produces more than half its products in what it calls "proximity" markets, mainly Spain, Portugal, Morocco and, to a lesser degree, Turkey. This proximity to Spain is essential given Inditex's unique distribution arrangement... The retailer handles all distribution from Spanish warehouses, in which all goods are shipped to the European nation by manufacturers and then redirected to stores worldwide. Most other clothing companies have distribution centers in different regions. This helps source about 60% of all products in only a few weeks, compared with approximately 20% to 25% for most European fashion retailers.

Softbank Group – SoftBank Group Corp.'s Vision Fund profit may reach US\$30 billion in the March quarter, almost quadrupling the record it just set, according to people familiar with the matter. Profit in the unit was aided by the initial public offering (IPO) of Coupang Inc., the South Korean e-commerce leader which debuted in New York last month. This will account for the lion's share of what's expected to be between US\$25 billion and \$30 billion in reported gains for the three months ended March 31, explained the people. The markets are delivering their strongest validation yet, even with Masayoshi Son's often criticized strategy of pouring massive amounts of cash into mature start-ups. The Vision Fund's portfolio of over 160 investments will record its third straight quarter of record profits helped by a global IPO rush that has seen companies worldwide raise more than \$200 billion in 2021. Coupang's \$4.6 billion offering was the second largest this year and marks SoftBank's best return since Alibaba Group Holding Ltd.'s listing in 2014. The coming months will also see some of Son's largest and most controversial bets that will test the market, including ride-hailing giants Grab Holdings Inc. and Didi Chuxing. Coupang's stock ended the quarter 41% higher than its mid-March IPO. In November 2018 The Vision Fund invested in a \$2 billion deal that valued Coupang at \$9 billion. That funding followed \$1 billion from SoftBank itself in 2015, valuing the start-up at about \$5 billion. The Japanese conglomerate's 33% stake was worth close to \$28 billion as of March 31. According to the people, SoftBank will also book a valuation gain of about \$2 billion on its stake in Uber Technologies Inc., which rose about 7% in the quarter. The fund sold \$2 billion worth of stock in the ride-hailing company in January, eking out a small profit. Another \$1.2 billion gain will come from its stake in Auto1 Group SE, a German wholesale platform for used cars which went public in February. The Vision Fund will also book a gain on its stake in ByteDance Ltd., the Chinese parent of hit video app TikTok. The people explained that, Softbank owns about 3% of the company, a stake it acquired mostly at a \$63 billion valuation in secondary markets in addition to a direct investment at a \$75 billion valuation, Bloomberg News reported that the company has since hit \$140 billion, according to market researcher CB Insights, and traded at \$250 billion in private transactions.



DIVIDEND PAYERS

Citigroup Inc.
reported Q2 2021

EPS of US\$3.62 and consensus was \$2.44. Results included a \$3.9 billion (\$1.47) credit loss release (\$1.8 billion in Global Consumer Banking, \$1.9 billion in Institutional Clients Group, \$0.1 billion in other), up from \$1.5 billion in the prior quarter. Revenues fell 7% year-over-year and increased 17% linked quarter to \$19.3 billion. Tangible book expanded 2.5% to \$75.50 (1.0x). It posted a 1.39% Return on Assets, 17.2% Return On Equity, and 20.1% Return On Tangible Common Equity. Its Core Equity Tier 1 ratio was unchanged at 11.7%. It repurchased 23 million shares. Average diluted shares declined by 0.7%. Net interest income fell 3%. Average earning assets increased 1%. Securities (+4%), trading assets (+4%) and securities borrowed (+3%) increased, loans were little changed, and deposits with banks (-8%) declined. Period-end loans fell 1% with corporate up 1% and consumer down 5%. Within corporate loans, markets & securities services (+10%) and private bank (+3%) increased, while corporate lending (-3%) and treasury & trade solution (-1%) declined. Consumer saw credit card fall 7% and retail banking decline 2%. The net interest margin declined 5 basepoints to 1.95%. Deposits rose 2%. Fee income rose 52% linked quarter, as principal transactions doubled and commissions & fees also grew. Expenses rose 4% y-o-y and were little changed with Q4 2020 at \$11.1 billion. Relative to Q1 2020, continued investments in its transformation, including infrastructure supporting its risk and control environment, along with other strategic investments were partially offset by efficiency savings. Its effective tax rate was 23%, compared to 19% in Q1 2020. Its nonperforming asset ratio improved 7 basis points to 0.76%. Its reserve/loan ratio declined 44 basis points to 3.29%.



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Coca-Cola reported solid Q1 results with revenue and EPS both coming in ahead of consensus as volume trends improved throughout the quarter. Organic revenue grew +6% (organic revenue was flat excluding 5 extra selling days) versus consensus of flat. Organic revenue included 5% growth in concentrate and 1% growth in price/mix. Year To Date volume was down mid-single digits as of February 10th so trends did improve in the second half of the quarter. Gross margins came in 50 basis points ahead of the street at 60.6%. Consolidated EBIT margins came in at 31.0% vs. consensus of 30.6%. Adjusted EPS (including 2c FX headwind) was 55c vs. consensus of 50c. Coca Cola noted that volume in March was back to 2019 levels as the food at home channel continued to outpace food away from home. The Company updated its 2021 guidance primarily around FX and is now expecting a +1-2% FX tailwind to revenue vs. +2-3% previously. For EPS, FX is now expected to be a +2-3% benefit vs. +3-4% previously. Tax rate was also lowered to 19.1% versus 19.5% previously. Cash flow from operations is still expected to be \$10 billion and Capex guidance is \$1.5 billion implying \$8.5 billion in free cash flow FCF. EPS is still expected to be up high single to low double digits vs. \$1.95 in 2020.

GlaxoSmithKline plc (GSK) - Hedge fund Elliott Advisors has built a “significant” stake in GSK according to the Financial Times. Elliott Advisors is an activist investor, which has a reputation for building significant positions in companies and pushing aggressively for change. This disclosure comes at a time when GSK’s share price has underperformed peers, a period of poor research& development productivity, and disappointing recent business development. The timing coincides with: GSK in the middle of separating consumer; a subsequent dividend cut, and a tough Q1 2021 in our view.

JPMorgan Chase & Co. reported Q1 2021 EPS of US\$4.50. Consensus was \$2.98. Results included a \$5.2 billion (\$1.28) of credit reserve releases and a \$550 million contribution to its Foundation (\$0.09). Excluding these items EPS was \$3.31. Results also included a \$28 million legal benefit and \$14 million of securities more than offset by \$115 million of Mortgage Service Rights risk management losses. Relative to expectations, a lower than expected loan loss provision and higher than anticipated capital market revenues (trading and investment banking) more than offset the lower than anticipated net interest income and higher than forecasted expenses. Revenues increased 14% year-over-year and rose 10% linked quarter to \$33.1 billion. Its Return on Assets was 1.61% and Return on tangible common equity was 29% (ROTCE of 21% ex reserve release and foundation contribution). Tangible book increased 0.7% to \$66.56 (2.3x). Its Core Equity Tier 1 ratio was 13.1%, unchanged with Q4 2020. It repurchased a net \$4.3 billion worth of common stock in Q1 2021. Average diluted shares declined by 0.2%. It noted in Q2 2021 it will have a net buyback capacity of \$7.4 billion after paying its \$0.90 dividend. The net interest income declined 3%. Average earning assets rose 6% with loans (+2%), securities (+2%), trading assets (+1%) and deposits with banks (+25% or \$124bn) all higher. Period-end loans were little changed with consumer (+2%) and wholesale (+1%) higher but credit card (-8%) lower. Period-end deposits rose 6%. Its net interest margin fell 11 basis points to 1.69% (excluding Corporate & Investment Bank -8 basis points to 1.93%). Fee income increased 21% from Q4 2020, led by increases in principal transactions followed by investment banking fees. Operating expenses increased 13% year-over-year, driven by higher volume- and revenue-related expense and continued investments. Its managed overhead ratio was 57%. The effective tax rate was 19.2%, up from 10.7% in Q1 2020 but down from 20.0% in Q4 2020. It posted a loss provision credit of US\$4.2 billion compared to a \$1.9 billion credit in the prior quarter. Results included \$5 billion of net reserve release (\$1.28) and \$1.1 billion of net charge-offs. Last quarter it had a \$2.9 billion reserve release and a similar \$1.1 billion of nonconforming obligations. The Consumer reserve release was \$4.5 billion, and included a \$3.5 billion release in Card, reflecting improvements in the macroeconomic scenarios, and a \$625 million reserve release in Home Lending primarily due to improvements in house price index (HPI) expectations and to a lesser extent portfolio run-off. The Wholesale reserve release was \$716 million reflecting improvements in the macroeconomic scenarios. Its credit reserve now stands at \$25.6 billion and reserve/loan ratio decreased 53 basis points to 2.42%.

PepsiCo. reported solid Q1 2021 results with consolidated organic growth coming in at +2.4% which was in-line with Q1 guidance of up low-single digits. Gross margins came in at 54.8% and adjusted earnings before interest and taxes (EBIT) margins were ahead of expectations at +15.3%. Adjusted EPS (earnings before interest and taxes) beat expectations at US\$1.21. Organic growth is expected to accelerate in the second quarter. The management noted they have “greater confidence” in achieving

their full year guidance. As vaccination and mobility rates improve the company expects its foodservice business to improve which was running down double-digits during Q1. Pepsi reiterated their full year guidance. There was no change to its capital allocation plans with the company continuing to expect \$5.9 billion returned to shareholders (dividends \$5.8 billion / repurchases of \$106 million). They maintained their 2021 guidance including: Organic sales up +mid-single digits; Constant currency EPS up +high-single digits; Tax rate approximately 21%; Dividends ~\$5.8 billion; and Share repurchases ~\$100 million, although this has already been completed.



LIFE SCIENCES

There is no news to report this week.



ECONOMIC CONDITIONS

Canadian wholesale sales fell 0.7% in February to CA\$68.8 billion as the building material and supplies sector and auto industry moved lower. Statistics Canada said the drop was the second move lower in three months, but noted that sales in February were still the second highest on record for the sector. The drop in February followed a gain of 4.0% in January. Wholesale sales were lower in four of the seven subsectors. The building material and supplies subsector fell 6.1% in February as housing starts in Canada fell for a third consecutive month and U.S. housing starts hit a six-month low. Sales of motor vehicles and motor vehicle parts and accessories dropped 2.5% in February as automakers continued to deal with a shortage of computer chips used in a wide range of vehicles. The food, beverage and tobacco subsector fell 0.9%, while the machinery, equipment and supplies subsector lost 0.4%. The farm product subsector rose 4.3% and personal and household goods gained 2.5%. The miscellaneous subsector climbed 4.4% in February. In terms of volume, wholesale sales fell 1.2% in February.

U.S. Homebuilding activity increased 19.4% to US\$1.739 million units annualized in March. That erases the setback in the first two months of the year, with housing starts now at the strongest level since June 2006. In addition, net revisions increased over the prior two months. Single-family home construction, the largest segment of the housing market, climbed 15.3%, while the volatile multi-unit category jumped 30.8%. On a regional basis, housing starts were mostly solid. While the west coast faltered, the Midwest posted the best level since spring 2006. Although rising costs for construction materials remain a key headwind, we believe that the homebuilding sector continue to have room for further growth... As many Americans continue working from home, demand for “more house” remains strong amid still-low borrowing costs. Meantime, super-low inventory in the resale market has kept homebuilder confidence near record highs. Also building permits in March, a leading indicator for starts, climbed 2.7% to 1.766 million units after frigid February weather resulted in an 8.8% drop. And while the gap has narrowed, permits still remain higher than starts, which suggests greater home construction down the road. We believe that Homebuilding activity, which is one driver in the economic recovery, remains well-supported by lean resale supply and strong demand for bigger homes.

U.S. Retail sales increased 9.8% in March, beating expectations, after dipping 2.7% in February amid snowstorms and the fading lift from the earlier rebate cheques. The **March gain puts sales 17.1% above February 2020 levels**. Auto/parts sales accelerated 15.1% in the month, while a spike in gas prices and more driving, fueled a 10.9% increase at service stations. Spending at restaurants and bars rose 13.4% as many states reopened indoor dining, the first material gain since last summer, and carving the industry's pandemic loss to just 4.8%. Even clothing sales racked up a great month, up 18.3%, as workers eyed going back to the office. And sales at non-store retailers rose another 6.0%, stretching their pandemic gains to 35%. The stimulus payments and strong job growth are estimated to have spiked personal income by a record 23% (not annualized) in the month.

U.S. Consumer Price Index (CPI) rose 0.6% in March, the most since 2012, spiking the yearly rate by almost a percentage point to 2.6%. A big 9.1% jump in gasoline prices contributed to about half of the monthly increase, with higher natural gas prices piling on. However, food costs rose just 0.1%, trimming its yearly rate to 3.5%. Core prices also rose more than expected, by 0.3%, lifting its yearly rate by three-tenths to 1.6%, the high-side of an eight-month range. The shorter-term core metrics are mixed, with the 6-month annualized rate at 1.5% but the 3-month rate notably higher at 1.9%. In March, higher prices for auto insurance, used vehicles, hotel rates (as travel kicks into high gear), and home furnishings were tempered by less expensive clothing, a moderate 0.2% advance in residential rent, and subdued medical care costs. Since both headline and core prices declined last spring, we believe the yearly rates could peak near 3 1/2% just over 2%, in May, before easing off in the second half of the year. We expect inflation to trend moderately higher next year.

U.S. industrial production rose 1.4% in March was **below expectations** as it was unable to retrace February's 2.8% drop (revised down from a 2.2% decline), which was thrown by terrible weather conditions. January was also revised lower (to +0.9% instead of +1.1%). **Capacity usage** rose one percentage point to a 2-month high of 74.4%, also below expected and still far from inflation-threatening territory. In March: **Manufacturing** +2.8%, or +3.4% year-over-year; **Mining** +5.7%, or -8.8% year-over-year; **Utilities** -11.4%, or -0.2% year-over-year. Manufacturing's advance is a plus, considering it accounts for 76% of total output. Despite the troubles facing the auto sector (can't meet demand fast enough thanks to shortages of key inputs), output of motor vehicles & parts managed to come back by 2.8% (or +29.7% year-over-year) after taking a 10% dive in the prior month.

China's GDP rose +0.6% quarter-over-quarter against forecasts of +1.4%. March Industrial Production jumped 24.5% year-to-date over year-to-date against forecasts of 26.5%. The softer than expected results also come at a time where the central bank looks to be curtailing liquidity in the system.



FINANCIAL CONDITIONS

The U.S. 2 year/10 year treasury spread is now 1.43% and the U.K.'s 2 year/10 year treasury spread is 0.73%. 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 -could be an early warning of an economic slowdown.

The U.S. 30 year mortgage market rate has increased to 3.04%. Existing U.S. housing inventory is at 1.9 months low of supply of existing houses - well off its peak during the Great Recession of 9.4 months which we consider a more normal range of 4-7 months.

The VIX (volatility index) is 17.08 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 could be encouraging for quality equities.

And finally

"The greatest deception men suffer is from their own opinions"
~Leonardo da Vinci

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Glossary of Terms: 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'GDP' gross domestic product, 'ROE' return on equity, 'ROTE' return on common equity, 'ROTCE' return on tangible common equity. 'conjugate' a substance formed by the reversible combination of two or more others.

1. Not all of the funds shown are necessarily invested in the companies listed

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