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NEWS HIGHLIGHTS

EST. 2007

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

JUNE 14, 2021

OWNER OPERATED COMPANIES

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PORTLAND 15 OF 15 ALTERNATIVE FUND COMPANY NEWS

Brookfield Asset Management Inc. (Brookfield) – Brookfield Infrastructure Partners filed an application with the Alberta securities regulator to do away with the takeover target Inter Pipeline Ltd's C$350 million (US$289.11 million) termination fee to Pembina Pipeline Corp. ("Pembina"). Brookfield last week raised its hostile offer to buy Inter Pipeline Ltd to C$8.48 billion, topping Pembina's C$8.3 billion all-stock proposal for the Canadian oil and gas transportation company. Brookfield said that, if it was successful in eliminating or reducing the termination fee, it would increase its takeover offer for Inter Pipeline Ltd. by an equivalent amount. Inter Pipeline Ltd. reiterated its recommendation for Pembina's offer over Brookfield's proposal to its shareholders.

SoftBank Group Corporation – SoftBank is in talks with banks for a loan of about US$7.5 billion tied to the Japanese conglomerate's planned sale of Arm Ltd. to Nvidia Corporation (NVIDIA) according to people familiar with the matter. The people who asked not to be identified and not authorized to speak said that Mizuho Bank, Ltd. is coordinating the deal. The people said that the proceeds would provide investment funds for SoftBank's Vision Fund operation, and the collateral would be receivables from the cash portion of the proposed Arm sale. A loan of that size would be among SoftBank's biggest in dollars, following a recent record facility. Earlier this month, people familiar with the company said that Softbank increased a margin loan backed by shares in Alibaba Group Holding Ltd. to $10 billion, people familiar said earlier this month. It also priced the biggest Japanese corporate bond deal of the year last week, when it sold 405 billion yen ($3.7 billion) of debt securities. NVIDIA agreed in September to buy SoftBank's chip division Arm for $40 billion. The deal is awaiting regulatory approval. Last week, NVIDIA's chief executive officer Jensen Huang said he is still confident that regulators will give the green-light to the acquisition. But the semiconductor industry's biggest-ever acquisition faces headwinds: Chinese technology companies including Huawei Technologies Co., Ltd. are lobbying their government against the transaction. The U.K., where Arm is based, said it plans to investigate the implications of the deal on national security grounds. People familiar with the company, said some of the banks that were approached to join the deal expressed concern that the Arm sale would not go through

SoftBank Group Corporation - PayClip, Inc. ("Clip") a payments Fintech business in Mexico targeting small and midsize companies, received a US$250 million capital investment from SoftBank Group Corp.'s Latin American fund and Viking Global Investors LP, achieving a $2 billion valuation, according to Adolfo Babatz, Clip's founder and chief executive officer. Clip is planning to grow aggressively and hire about 320 people in the next 18 months, the CEO said in a video interview from Mexico City. He said acquisitions are possible to attract the best talent possible. The potential is significant as Mexicans have about 1.5 cards per person, on average, but only use them for roughly 40 transactions a year because there are so few places that accept them. He estimated that of the almost 11 million businesses in Mexico, only about 1 million accept card payments, which Clip is trying to fill this gap. Founded in 2012, Clip has 600 employees and offers three different payment devices, including a $7 credit-card reader that fits onto smartphones. Tourist guides, corner stores, street vendors and other small businesses in Mexico have adopted the service as a low-cost way to accept cards. About 85% of Clip's clients accepted only cash before their service was available. Clip sells its services and products online, but also has more than 15,000 points of sale around the country. It can deliver its devices in 24 hours anywhere in Mexico, and in the same day in big cities. In addition to its headquarters in Mexico City, Clip has offices in Guadalajara, Mexico, and Salt Lake City. It opened an office in Buenos Aires earlier this year with a plan to access a global talent pool there, rather than participating in Argentina's payments market. Clip is starting to offer cash advances to clients that are repaid over three or four months, carrying interest rates of 10% to 15%. The firm's platform also features an online catalog for vendors, so they can sell products via the internet and receive payments through the same channel. Before its latest capital injection, Clip had already received about $100 million from investors including General Atlantic LLC, its biggest shareholder, Goldman Sachs Group, Inc., Ribbit Capital, Alta Ventures, Dalus Capital, American Express Ventures and Grupo Financiero Banorte SAB de CV. SoftBank also previously bought a stake. Clip is considering an initial public offering to raise more capital and provide those investors a way to cash out, but it will not happen in 2021.

Inditex SA - Inditex SA, the Spanish owner of the Zara clothing brand, rebounded from its first loss on record to post better-than-expected first-quarter earnings, as the easing of pandemic-lined restrictions allowed them to reopen most shops. Although Europe has been hit by the coldest spring since 2013, sales during both the first quarter, covering February through April, and in the first half of the second quarter were up, Inditex said in a statement. Sales in the first part of the second quarter were also up 5% relative to 2019, before the pandemic started. While first-quarter results were affected by store closures in key markets including the U.K., France, Italy and Portugal, the company now has 98% of its 6,758 stores open. The gross margin, a closely followed metric for the retailer, improved to 59% from 58.4%, beating estimates. So far in the second quarter Inditex's sales indicate a strong improving picture, only confirming the benefits of pent-up demand, according to Jefferies. Better-than-expected gross margin helped offset an increase in operational expenditure. Like all retailers, the lockdowns of the past year meant that Inditex had to face huge uncertainty surrounding inventories. This saw stockpiles in the first quarter rise 5% from a year earlier, though they were down 5% from 2019. Inventory management is the core element in Inditex's strategy, as it sources more than half its products in Spain or nearby countries, rather than Asia.

Key Financial highlights

- Net income rose to 421 million euros (US$513 million) in the quarter through April from a loss of 409 million a year earlier.
- Sales rose to 4.94 billion euros in the first quarter, beating the 4.88 billion-euro analyst estimate.
- Online sales grew 67% in the quarter in constant currencies.
- The second quarter has kicked off positively, with sales between May 1 and June 6 up 102% from 2020, and 5% higher than in 2019.

Altice USA, Inc. - Patrick Drahi bought a 12% stake in BT Group PLC (BT) and pledged to support its high-speed broadband rollout, an unexpected move that marks a return to form by the deal-hungry French-Israeli cable billionaire. Drahi's newly created company Altice UK acquired 1.2 billion shares of BT Group, it said in a statement on Thursday. The stake is worth about 2.2 billion pounds (US$3.1 billion) as of Wednesday's close and makes him the company's biggest shareholder. Drahi has a history of challenging the old incumbents in Europe's telecommunications industry and has often driven far-reaching change and asset sales at the companies he's invested in. More recently, he's taken a break from major deals to focus on paying down debt. The British company has been looking for a partner to help it build out an extra 5 million fiber optic connections by 2026, opening up its infrastructure to an external investor for the first time. Altice said it has no plans to launch a full takeover bid for BT. The shares rose as much as 4% in London on Thursday. So far this year the stock price has increased by about 41%. Drahi established himself by buying and selling on small cable companies in France, then embarked on a debt-fueled acquisition spree that turned his modest cable TV and phone group into one of the world's biggest media and telecom companies. Drahi didn't disclose how he planned to pay for the new stake, which a company spokesman said was acquired over the past few days. He will hold a stake comparable to that of Deutsche Telekom AG. Representatives for BT and Altice declined to give further details on the nature of the new relationship, or how Altice will contribute to the fiber rollout. Although Altice said it would not pursue a full takeover offer for BT for six months.

LIFE SCIENCES

Telix Pharmaceuticals Limited (Telix) – announced the launch of TelixU, a new educational platform focused on radiopharmaceutical research in partnership with leading medical imaging journal, Applied Radiology. This website is specifically designed for healthcare professionals such as physicians and technologists, and features case studies, webinars, and technologist education. The launch of TelixU coincides with this year's Society of Nuclear Medicine and Molecular Imaging (SNMMI) Annual Meeting, and with over 20 sessions on gallium-68 (68Ga)., The website will be a welcome resource for those looking for more information about prostate specific membrane antigen (PSMA) targeted radiopharmaceuticals. "We are proud to support SNMMI and their endeavors to educate physicians and their membership," says Colin Hayward, MBBS FFPM, Chief Medical Officer, Telix Pharmaceuticals. "Our participation in this year's Virtual Annual Meeting is an ideal platform to introduce this valuable resource." TelixU is intended for healthcare professionals only.

Telix also announced the launch of a new website "Gallium Wave" (galliumwave.com), as part of the company's gallium awareness campaign. The website illustrates how Telix, in partnership with suppliers, manufacturers and distributors, is paving a new path to increase future access to gallium-68 (68Ga) based radiopharmaceuticals. Pharmacy-based generators and dose preparation can support the delivery of novel 68Ga diagnostic radiopharmaceuticals "on demand", delivering greater scheduling flexibility and control to the imaging practice. Telix Chief Executive Officer Dr. Christian Behrenbruch noted, "The supply of 68Ga-based radiopharmaceuticals will be a team effort, and our generator and cyclotron partners, as well as distribution partners like Cardinal Health, provide access to the technology needed to ensure greater reach and flexibility. We are excited to launch this educational resource to increase physician awareness of the reliability, flexibility and accessibility of 68Ga." "Preparing the final 68Ga radiopharmaceutical in the pharmacy versus manufacturing it simplifies the overall process. The pharmacy-prepared approach gives providers more flexibility in managing their business operations, as well as expanding patient access," said Luke Augustine, Vice President of Business Development for Cardinal Health Nuclear & Precision Health Solutions. "This website is a much needed physician education resource in radioisotopes."

ECONOMIC CONDITIONS

Wither inflation? This topic is becoming more frequent than the question of whether you have you been vaccinated? How much inflation is there and is this really transitory? Perhaps the right question to ask is, do we want to bet against central bank narratives? We think there is actually lots and lots of inflation out there but because the central banks are mostly controlling the narratives, this isn't being reported correctly. When energy, food and housing costs are excluded from inflation reports then the measurements themselves are wrong to begin with, in our view. Furthermore, when central banks find that they can no longer exclude enough items to "print the desired result", the readings are then labeled temporary and transitory (i.e. don't worry about April headline inflation +4.2%; +4.7% May consensus). The resulting math is what it is and if one waits a really long time, then the annual comparisons will start to look more favorable sometime in 2022. It will lend some credibility to the central bank claims that at some point in 2022 they will be able to factually say that inflation is slowing and they are correct. However, in the meantime can someone else pay for our temporary higher energy, food, and housing costs?

Timing wise, soft guardrails are already in place in terms of tapering a timeline with Federal Reserve Vice Chair Richard H.Clarida, indicating inflation readings would be considered transitory unless sustained into 2022. Given the economy shut down beginning in March 2020, comparisons will turn favorable beginning in March 2022 (i.e. annualized inflation readings should fall). Under this rose-tinted central bank scenario, tapering could be delayed for much longer than the markets expect, especially as current stimulus payments end (i.e. by late spring 2022, GDP readings will face tough comparisons as stimulus checks will not be repeated). But again, if real inflation is still high but lower than now, is that enough to push the Federal Reserve towards tapering? For the time being, 10-year United States Treasury (UST) looks to have stabilized in ~1.45-1.65% range. 5 year over 5 year inflation swap rate +12 basis points year-to-date to ~2.42% but -13 basis point from a month ago, is further evidence that markets are now less willing to challenge central bank narratives. The central bank narrative is also pushing the markets towards the so-called Goldilocks scenario whereby the US economy can have a sustainable expansion with low inflation. The reality under this narrative is that by excluding food, energy, and housing costs, this further increases wealth inequality (employers try to keep wage increases below or in line with headline inflation). In our opinion this is why the idea of universal basic income has become a reality as an offset against central bank narratives which increase social instability as collateral damage. In addition changes are afoot now within other central banks (European Central Bank – Environmental Social Governance initiatives; New Zealand now has to consider housing costs).

U.S. Consumer Price Index (CPI) rose 0.6% in May after climbing 0.8% the prior month. This result was one tick stronger than consensus expectations calling for a +0.5% print. The energy component was flat in the month, with gasoline prices slipping 0.7%. The cost of food, for its part, increased 0.4%. The core CPI, which excludes food and energy, also beat consensus expectations, progressing 0.7% after a 0.9% gain the prior month which was the strongest recorded since April 1982. Prices for ex-energy services rose 0.4% on strong gains for shelter (+0.3%) and transportation (+1.5%), the latter boosted by a 7.0% increase in airline fares. The price of core goods meanwhile, surged 1.8% on gains for used vehicles (+7.3% following a +10.0% print), new vehicles (+1.6%) and apparel (+1.2%). Year on year, headline inflation clocked in at a 13-year high of 5.0%, up from 4.2% in April. The core CPI index, meanwhile, climbed from 3.0% to 3.8%. This was the highest level observed since June 1992.

The "Group of Seven" countries ("G7"): The G7 finance ministers have agreed in principle to two multilateral corporate tax measures: (i) Taxing excess profits. Granting taxing rights on multinationals in the locations where sales are generated and; (ii) Minimum tax. A global minimum corporate tax rate of at least 15%. While the implications are limited for the overall economic picture (only applies to the world's 100 most profitable companies and taxation rights should apply only to profits above a 10% margin) it shows collaboration and has core implications: (i) US may be offering other governments the right to tax US multinationals in return for agreeing not to undercut the US tax rates; (ii) It reduces incentive to shift profits to tax safe havens ; (iii) It reduces the potential for trade disputes among allies and (iv) It could lead to a coordinated approach to tackle climate change. To date this is simply an agreement in principle among the G7 nations which means there is still more to sort out ahead of the Group of Twenty ("G20") in July and getting the Organisation for Economic Co-operation and Development (OECD) onboard.

FINANCIAL CONDITIONS

The Bank of Canada opted to keep the target for the overnight rate at the effective lower bound of 0.25% — a decision fully expected by the market. Following April's taper announcement, which slowed the pace of the bond-buying from CA$4 billion per week to $3 billion per week, the Bank of Canada opted to leave the Quantitative Easing (QE) program unchanged. With no new economic projections presented, the Bank of Canada also left its outcome-based forward guidance on the policy rate effectively unchanged: "We remain committed to holding the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2% inflation target is sustainably achieved. In the Bank's April projection, this happens sometime in the second half of 2022." Guidance on QE was also left intact, noting that further adjustments will be "guided by Governing Council's ongoing assessment of the strength and durability of the recovery."

The U.S. 2 year/10 year treasury spread is now 1.33% and the U.K.'s 2 year/10 year treasury spread is .67%. 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 sign of an economic slowdown.

The U.S. 30 year mortgage market rate has decreased to 2.96%. Existing U.S. housing inventory is at 1.9 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 16.72 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 which could be encouraging for quality equities.

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

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