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NEWS HIGHLIGHTS

EST. 2007

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

NOVEMBER 19, 2021

OWNER OPERATED COMPANIES

GO TO PORTLAND 15 OF 15 ALTERNATIVE FUND

PORTLAND 15 OF 15 ALTERNATIVE FUND COMPANY NEWS

SoftBank Group Corp. ("SofBank") - NVIDIA Corporation ("NVIDIA"), the world's largest chipmaker by market value, jumped as much as 11% on Thursday morning after reporting a strong third quarter and boosting its sales outlook for the rest of the year. Revenue in the fiscal fourth quarter will be about US$7.4 billion, the company said Wednesday. The shares hit a record intraday high of $326.07 in New York. NVIDIA, whose roots are in graphics chips for gaming systems, has pushed into processors that run servers used in cloud computing and corporate networks. Revenue from that segment jumped 55% in the third quarter to $2.94 billion, well ahead of the $2.69 billion estimated by analysts. Sales to the auto industry, were disappointing, hurt by supply constraints. NVIDIA has averaged about 57% revenue growth over the last eight quarters. That performance has helped push its market capitalization above $730 billion, making it more than three times the size of Intel Corporation, a company that has triple NVIDIA's annual revenue. NVIDIA is now one of the top 10 companies by market value in the S&P 500 Index. NVIDIA is more than a year into the process of trying to acquire Arm Ltd., a designer of chips used in smartphones and myriad other technologies. It's still trying to obtain regulatory clearance for the deal in multiple jurisdictions around the world. The transaction would give Jensen Huang, Chief Executive Officer of NVIDIA, the most widely used underlying technology in the chip industry and spread the company's reach into many devices, including smartphones. If the deal is approved, SoftBank would become the largest shareholder of NVIDIA.

Reliance Jio Inforcomm Ltd. ("Reliance") - The JioPhone Next smartphone, developed by the Reliance Industries-Google combine, has "received extremely encouraging response from retailers and customers" in both urban and rural areas, said Reliance Retail which is overseeing the device's sales. In its first comments since the 4G smartphone's launch around Diwali, Reliance Retail indicated that there is no device in the market which is as rich in functionality available for an upfront payment of ₹1,999, which it said has attracted millions to the handset. The device comes locked with the SIM of Reliance Jio, the telecom arm of Reliance Industries. Retailers are currently taking bookings for the smartphone and deliveries are expected to start in the coming weeks. Pragati OS is the operating system co-developed by Jio and Google for the JioPhone Next. The smartphone was launched just before Diwali with the aim of helping Reliance Jio target a bulk of India's over 300 million featurephone users. The device is priced at ₹6,499, but can also be bought for an upfront payment of ₹1,999 and a processing fee of ₹500, with the rest to be paid in monthly instalments of over 18 or 24 months. Analysts had seen the success of the new smartphone to be crucial for Jio as it targets a 500 million user base.

DIVIDEND PAYERS

GO TO PORTLAND GLOBAL ALTERNATIVE FUND[1]

GO TO PORTLAND GLOBAL ARISTOCRATS PLUS FUND[1]

GO TO PORTLAND GLOBAL BALANCED FUND[1]

JPMorgan Chase & Co. has sued Tesla Inc. ("Tesla") for US$162 million alleging Tesla failed to make a contractually required payment in lieu of having to adjust the warrants the bank had bought on Tesla stock to help the company manage potential dilution from a convertible bond. Effectively the strike price of the hedge was moved when Elon Musk announced in March 2018 that he was taking the company private … obliging the bank to amend the pricing … whereas Tesla contend the adjustment was unreasonably swift and represented an opportunistic attempt to take advantage of changes in volatility in Tesla's stock.

SSE plc ("SSE") reported an adjusted earnings per share (EPS) 10.5 per share results beat versus company guidance of 7.5-10 EPS. Operating profit performance was slightly better in networks at £335 million, renewables were at £25 million, and other was at £16 million profit. Outlook "…expect to report full year adjusted earnings per share at a level at least in line with consensus of analysts…" forecasts of 83. SSE will provide further guidance later in the financial year. SSE have announced a significant increase in investment with capital expenditures to 2026 now at £12.5 billion (it was £7.5 billion for the five years to 2025) which reflects potential international expansion of offshore wind. SSE to enable over a quarter of the UK's 40 gigawatt (GW) offshore wind target by 2030, and over 20% of upcoming UK electricity networks investment. And so, this £12.5 billion is split 40% networks, 40% renewables and 20% other. This split understates renewable spend as it includes debt financing in networks but does not in renewables. Economical investment, with approximately 60-65% leverage in the joint ventures (JV), would be closer to 25% networks, 62% renewables. On renewables SSE is now looking to invest 4GW of net renewables with a hurdle of 10% equity returns and a 50 Terawatt-hour (TWh) net output by 2031 target (was 30TWh). A divestment of 25% of its networks is expected. Assuming a replacement asset value (RAV) of £9 billion, a 25% divestment could add a further 20-30% premium to its regulatory asset base (RAB). SSE have grasped the nettle and cut dividend from 2023/24 to a 60 per share new base. This should free up around £200-250 million per annum of equity investment (£500-600 million including leverage) and position the company to a higher growth scenario. SSE estimate that including £3 billion of dividends and less than £3 billion of interest and tax, cash needs out to 2026 is around £18 billion. Around 65% of this is expected to come from operational cashflow and sell-downs, 25% from asset disposals and 10% from an increase in net debt. SSE expects to maintain a net debt/EBITDA of 4.5 times (with networks proportionally consolidated, JVs EBITDA adjusted slightly, but not debt – which remain off balance sheet).

ECONOMIC CONDITIONS

Canada - Immigration: Bloomberg reported comments from Sean Fraser, Canada's new immigration minister, that the government is on track to exceed its goal of offering permanent residency to 401,000 people this year. In an interview with Bloomberg, Mr. Fraser said he's even prepared to increase immigrant targets -- currently set at 411,000 for next year -- if he deems additional newcomers are needed to fill labor shortages. While the immigration minister noted that increasing targets is something the government is open to, no decision has been made yet on future targets. Any pick-up in numbers will be conditional on appetite from businesses and communities for more workers, he said. The article notes that Canada has been relying heavily on international migration as its top economic driver, with foreign-born workers making up almost the entirety of employment gains over the past decade. More recently, October data from Immigration Canada show 46,315 people were granted permanent residency, a monthly record that brought new immigrant numbers so far this year to 313,838. Canada needs to offer permanent residency to 44,000 newcomers in each of the final two months of 2021 to achieve its target.

Canada – Port of Vancouver: Bloomberg reported that with no rail access to Port of Vancouver, Canada's biggest port, a couple of hundred thousand tons of grain are stuck in transit. As a result, some exporters may even be forced to declare force majeure to avoid penalties as they won't be able to make deliveries on time. The article notes that Canada is one of the world's largest grain exporters and about half of its shipments go through Vancouver. The disruption comes during the busiest time for grain shipping and as global supply chains are already struggling with congestion and backlogs. According to Quorum Corporation, a company that monitors Canada's grain transportation system, there is only enough grain at export terminals to continue shipments for the next four to seven days, as all rail lines and highways into the port terminal are currently cut off. On Thursday, the federal government said that it's working with industries to reopen the westernmost province's supply chain so that essential goods can be transported, and it has met with representatives of railways, the trucking industry and the Vancouver port. Industry observers point out that while the rail line outages may be resolved in the coming weeks, the impacts of the stoppage will last for months. Locally in British Columbia, with major trade corridors in and out of Vancouver cut off, this has led to consumers stocking up on groceries and other household items.

Canadian retail sales fell 0.6% in September. Most sectors were weaker, with the biggest declines in clothing (-5.9%), miscellaneous stores (-2.8%) and autos (-1.6%). Solid gains in food/beverage and furniture, both up 1.3%, helped limit the damage. Excluding autos, retail sales were down just 0.2%, while ex. autos & gas it was an overall fall of -0.3%. Despite the decline, sales are up 4.8% year-over-year and nearly 10% above pre-COVID levels. Statcan's early estimate for October retail sales is for a 1% rebound. However, much of that increase was likely driven by prices, as the CPI was up 0.7% month-over-month. Regionally, nine of ten provinces reported gains, with Newfoundland & Labrador (+3.7%) and Nova Scotia (+3.5%) the top performers. Ontario (-4.4%) was the only province in the red, with a drop in auto sales weighing heavily. It's important to note that the weakness in autos isn't due to weakness in demand, but rather a lack of supply due to semiconductor shortages. With those details in hand, the picture looks much healthier than the headline suggests in our view.

Canada's consumer price index increased 0.7% in October (not seasonally adjusted), in line with consensus expectations. Gasoline prices jumped to a record high, registering another sharp increase of 5% during the month (+42% year-over-year). In seasonally adjusted terms, headline prices increased 0.5% on gains in all the eight categories. Recreation/education/reading (+1.8%), transportation (+1.0%), food (+0.6%) and shelter (+0.6%) experienced the largest increases while rises in household ops (+0.2%), clothing and footwear (+0.2), alcohol/tobacco (+0.2%) and health/personal care (+0.1%) were less significant. Year-over-year, headline inflation clocked in at 4.7%, up from 4.4 % in September, the strongest print since February 2003. On a provincial basis, the headline annual inflation rate was above the national average in Quebec (+5.3%) and Ontario (+4.9%) while it undershot that mark in Alberta (+4.3%) and British Columbia (+3.8%). Given the Central Bank already expected high headline inflation for fourth quarter, this increase does not change our view that they will not hike the policy rate sooner, The Bank of Canada telegraphed second quarter or third quarter in its last communication.

Coronavirus lockdowns: The "full lockdown" in Austria announced earlier today is a response to the rapid deterioration in the COVID situation there and it's estimated that it could knock around 1.5% off the country's GDP in fourth quarter. While on its own this would not make a big difference to euro-zone GDP, there is a clear risk that other larger economies, notably Germany, are forced to follow suit.

UK inflation: The leap in consumer price index (CPI) inflation from 3.1% in September to 4.2% in October (consensus 3.9%) is probably a bit bigger than the rise to "around 4.0%" the Bank of England expected. Coming after recent decent labour market release, this makes an interest rate hike in December more likely. The bulk of the increase in CPI inflation was due to an 11.9% month-over-month rise in utility prices that pushed up utility price inflation from 2.8% to 22.9%. Food inflation also rose (from 0.9% to 1.3%) as did fuel inflation (17.8% to 21.5%). But core inflation also rose by more than expected, from 2.9% to 3.4% (consensus 3.1%, CE 3.2%). The increase was partly due to the rise in VAT from 5.0% to 12.5% on 1st October for the hospitality/tourism sector – restaurant/hotels inflation rose from 5.1% to 6.3%. But there were also signs that the combination of strong demand, rising global costs and shortages pushed up inflation in some areas, such as household appliances (from 3.7% to 7.4%) and second-hand cars (19.2% to 22.8%). Core goods inflation rose from 3.3% to 3.5%. Unfavourable base effects may raise CPI inflation to around 4.7% in November and the surge in wholesale prices may result in it rising to around 5.0% by April next year. That peak would be in line with the Bank's forecast, which the Bank has said is consistent with interest rates needing to rise. Further ahead, we suspect that CPI inflation will fall back a bit further and a bit faster in the second half of next year, perhaps to close to the 2.0% target by December 2022. So although interest rates may well rise from 0.10% to 0.25% in December and perhaps to 0.50% in February, we don't think that they will reach the level of 1.00-1.25% currently priced into the market for the end of next year.

FINANCIAL CONDITIONS

The U.S. 2 year/10 year treasury spread is now 1.03% and the U.K.'s 2 year/10 year treasury spread is 0.39%. 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 3.10%. Existing U.S. housing inventory is at 2.6 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 18.18 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

And finally: our next newsletter will be Monday December 6th

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

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

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