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NEWS HIGHLIGHTS

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

DECEMBER 20, 2021

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OWNER OPERATED COMPANIES



GO TO
PORTLAND 15 OF 15
ALTERNATIVE FUND



PORTLAND 15 OF 15
ALTERNATIVE FUND
COMPANY NEWS

SoftBank Group Corp. (“SoftBank”) - Cohesity Inc., a data-management software company backed by SoftBank Vision Fund, is working with JPMorgan Chase & Co. and Morgan Stanley on an initial public offering (IPO) for next year, according to people familiar with the matter. The company is seeking to be valued in a listing at US\$5 billion to as much as \$10 billion, said the people, who asked not to be identified because the information was private. The company could submit its draft IPO registration to the U.S. Securities and Exchange Commission as soon as this week, the people said.

Cohesity said in March of 2021 that it was valued in an investment at US\$3.7 billion, up from \$2.5 billion the previous year. That tender offer for employee shares was being led by Steadfast Capital Ventures, with participation from existing investors, including SoftBank Vision Fund, DFJ Growth, Foundation Capital Corp. and Wing Venture Capital. Cohesity, whose clients include Cisco Systems Inc. and NASA, provides data management services. The company says its products can simplify backup and recovery and defend against cybersecurity threats. This year, Cohesity has announced several enhancements to its services, including the ability to more easily scan for threats as well as what it calls disaster recovery as a service.

SoftBank - Akshay Naheta, a senior SoftBank Group Corp. executive who has worked on some of the company’s biggest deals, is in talks to leave the company, according to people familiar with the discussions.

Naheta, who leads SoftBank’s public equity investments, is discussing taking an advisory role at the firm to focus on his own long-only fund, the people added, who asked not to be identified because the conversations are ongoing. Terms of Naheta’s departure aren’t final, and he could ultimately decide to stay, the people said. Naheta has been involved with some of SoftBank’s biggest deals since joining the company in 2017. Some, like a US\$1 billion debt transaction with Wirecard AG, have been controversial. He also pitched founder Masayoshi Son on the sale of chip designer Arm Ltd. to semiconductor designer NVIDIA Corp. and led a \$4 billion investment in NVIDIA in 2017, a bet that earned \$3 billion in profit. The senior vice president led SoftBank’s \$5 billion stake in Roche Holding AG, and its investment in robotics firm AutoStore AS. Naheta also helped Son set up SB Northstar, which invested in public stocks and derivatives. Son said in November that he personally lost about 150 billion yen (US\$1.3 billion) in SB Northstar. The business is now winding down. A former trader at Deutsche Bank AG, Naheta previously started his own hedge fund, Knight Assets & Co. Alongside his new fund, he is considering taking a minority stake in a European challenger bank, the people added.

Reliance Industries Limited (“Reliance”) - India aims to overhaul its telecommunications sector, an industry key to the success of Prime Minister Narendra Modi’s digital ambitions but one that’s throttled by century-old policies and years of bitter litigation. The government is exploring ways to allow companies to merge, expand and operate without multiple bureaucratic approvals so as to avoid subsequent court battles, Telecommunications Minister Ashwini Vaishnaw said in an interview at his office in New Delhi on Thursday. He aims to present new rules in February. “Telecom is still governed by an act made in 1885 but things have changed dramatically. And the regulations which flow out of the law are also 60-70 years vintage,” Vaishnaw said, referring to the colonial-era Indian Telegraph Act that gives the government exclusive jurisdiction on the sector. “We are looking at a complete regulation revamp.” Its operators are hobbled by a brutal price war sparked by the entry

Mukesh Ambani's Reliance Jio Infocomm Ltd. in 2016, as well as years of litigation faced by older players as the government claimed backfees for the use of spectrum. The government won't set a floor rate for tariffs and will leave it to companies to decide based on their understanding of their customers, Vaishnav said. He reiterated that India aims to start 5G services by sometime between October and December of 2022.

Meta Platforms Inc. ("Meta") - U.S. security officials recommended approval for Alphabet Inc. and Meta Platforms Inc. to build an undersea fiber optic cable linking the U.S. to Taiwan and the Philippines. The companies agreed to restrict access to equipment and information for Hong Kong-based partner Pacific Light Data Communication Co., Ltd., which earlier withdrew its application for a link to Hong Kong, the Justice Department said in a news release Friday. "These agreements enable Google and Meta to take advantage of critical, additional cable capacity while protecting U.S. persons' privacy and security through terms that reflect the current threat environment," said Matthew G. Olsen, Assistant Attorney General of the Justice Department's National Security Division. The companies proposed the Pacific Light Cable Network project in 2017, listing all three trans-Pacific destinations. American security agencies in 2020 asked the Federal Communications Commission to deny the link to Hong Kong, saying it would give China a way to acquire Americans' personal data. The agencies called Pacific Light Data a subsidiary of mainland China's Dr. Peng Telecom & Media Group Co. The data-sharing restrictions announced Friday reflect the Chinese government's "sustained efforts to acquire the sensitive personal data of millions of U.S. persons," the Justice Department said in its statement. It also cited the Chinese government's access to other countries' data through digital infrastructure investments, and recent intelligence and cybersecurity laws. The security agencies on Friday recommended that the Federal Communications Commission approve the cable, which now lacks a Hong Kong link.

1.8 million customers, US\$105 billion in assets, US\$56 billion in loans, US\$89 billion in deposits, and doubles the branch footprint of BMO's U.S. operations. Bank of the West has a top five position in 24 key U.S. markets and a particularly strong base in the attractive California market (73% of the bank's deposits are from California; fourth-largest regional bank in California) and a balanced loan portfolio, with 60% commercial and 40% retail. BMO stated the acquisition has a 14% internal rate of return (IRR). As such, BMO expects the deal to be immediately accretive to EPS on closing (+10% in 2024) and is expected to improve return on equity (ROE) by 120 basis points and non-interest expense (NIX) by 150 basis points in 2025 including run-rate synergies, which amount to US\$670 million of cost synergies (approximately 35% of Bank of the West's NIX). The deal is expected to close by the end of calendar 2022. BMO does not anticipate buying back any shares until after the transaction closes. BMO is funding the US\$16.3 billion acquisition mostly through excess capital, but is also expecting to issue CA\$2.7 billion of common shares and another CA\$1.0 billion through a 2% discount on their dividend reinvestment plan (DRIP) to finance the deal. No doubt California is an economic juggernaut bigger than all of Canada combined, and Bank of the West has deep roots there, accounting for the vast majority of its US\$90 billion in deposits. However, the addition of 514 additional branches (which BMO has pledged not to close despite US\$860 million in expense synergies) seems like a material change in the bank's 'branch-light' approach.

Bunzl PLC's trading update as 2021 revenue is said to be +2% year-over-year, with +7% constant currency growth. This implies organic growth of approximately 3% to 3.5% in the fourth quarter versus +2.5% in the third quarter. The 2021 margin guidance is unchanged: "Group adjusted operating margin is expected to be only slightly ahead of historical levels". The 2022 outlook is provided for the first time: Revenue is expected to be "slightly higher" than in 2021 driven by mergers and acquisitions (M&A). "Continued recovery of the base business is expected to be offset by the further normalisation of sales of COVID-19 related products, albeit these are expected to remain ahead of 2019 levels." "Similarly, we expect the continued normalisation of Group operating margins in 2022 to more historical levels".

DIVIDEND PAYERS



LIFE SCIENCES



Bank of Montreal ("BMO") is buying the U.S. banking arm of BNP Paribas S.A. ("BNP"). BNP has confirmed weekend speculation (in the Wall Street Journal), this morning announcing the sale of its BancWest unit (retail and commercial banking) in the U.S. to BMO Financial. The deal has just been confirmed at US\$16.3 billion total consideration in cash, or 1.72 times Tangible Book Value. That looks a very good price for BNP (Reuters had noted last month that BNP is seeking \$15 billion) in our view, for an asset that in recent years has contributed approximately 5% of Group PBT at BNP. It is further evidence of European banks selling out of the U.S. retail banking market (after BBVA, HSBC), with better owners being found who can extract synergies and can invest to gain requisite scale. The San Francisco-based Bank of the West adds

Telix Pharmaceuticals Limited ("Telix") announced that the U.S. Food and Drug Administration (FDA) has approved Illucix® (TLX591-CDx), Telix's lead prostate cancer imaging product. Illucix is a kit for the preparation of gallium-68 (68Ga) gozetotide (also known as PSMA-11) injection, a radioactive diagnostic agent indicated for positron emission tomography (PET) of prostate-specific membrane antigen (PSMA) positive lesions in patients with prostate cancer with: suspected metastasis who are candidates for initial definitive therapy; suspected recurrence based on elevated serum prostate-specific antigen (PSA) level. "The approval of Illucix will give patients considerably improved access to PSMA-PET imaging, an advanced diagnostic tool that was recently included in the NCCN Clinical Practice Guidelines in Oncology

for Prostate Cancer,” said Dr. Oliver Sartor, Medical Director at Tulane Cancer Center. “With patient doses able to be prepared on-site or via commercial radiopharmacy networks, either via generator or cyclotron, Illucix delivers flexible patient scheduling and on-demand access throughout the day.” Illucix is the first commercially available FDA-approved product to enable wide accessibility to 68Ga-based PSMA-PET imaging for physicians and eligible patients across the United States. “This product offers a level of flexibility and accessibility to healthcare professionals we really haven’t seen before in this class of products and may help us provide better patient experiences as a result,” said Dr. Sartor. With a distribution network encompassing more than 140 nuclear pharmacies through its agreements with Cardinal Health Inc. and PharmaLogic, Telix will be able to provide Illucix to more than 85% of eligible PET imaging sites throughout the United States. “This heralds a new era of patient and physician access to gallium-based PSMA-PET imaging and marks an important new stage for Telix as we bring our first commercial product to market in the United States,” said Dr. Christian Behrenbruch, Managing Director and Chief Executive Officer at Telix. “Improved imaging can provide physicians with the insights to determine the most appropriate treatment pathway and give patients in the U.S. access to a specific and sensitive imaging tool for the detection of prostate cancer throughout the body.”

ECONOMIC CONDITIONS

Canadian consumer prices (CPI) rose 0.2% in November, holding the annual inflation rate steady at 4.7%, and landing right on consensus expectations—the headline inflation result marks a 30-year high bringing us all the way back to 1991. Core inflation was also mostly stable in the month, as the common component measure nudged up a couple ticks to 2.0%. A few highlights in the report: Gasoline prices took a tiny step back (-0.1% month-over-month), helping contain the overall figure. Ex-gasoline, prices were again up 3.6% year-over-year. But food prices stepped up as an offset, with grocery price inflation rising to 4.7% (from 3.9%), led by a rebound in veggie costs. Furniture, new homes, and natural gas all saw large monthly advances. New auto prices also rose another 0.3% month-over-month, holding at a towering 6.1% year-over-year. One note on the provinces, Price Edward Island posted a massive 7.0% year-over-year headline inflation rate, while British Columbia was just 3.6%. Canadian inflation is actually now towards the lower end of the G7, with the U.S. at 6.8%, the U.K. printing 5.1% today, and the Euro Area at 4.9%. Still, even with the steady read, the reality is that CPI is running far above target and at a 30-year high, and even most measures of core are close to, or above, the high end of the Bank of Canada’s 1% to 3% target range. While this release alone may not advance the case for rate hikes, the bigger picture continues to do so in our view.

FINANCIAL CONDITIONS

U.S. Federal Reserve Open Markets Committee as expected doubled its tapering pace to US\$30 billion per month beginning mid-January (Treasuries \$20 billion versus \$10 billion, Mortgage Backed Securities \$10 billion versus \$5 billion), owing to “inflation developments and the further improvement in the labor market”. This will end asset purchases by mid-March instead of mid-June, thus putting the Fed in a position to potentially raise policy rates by the spring instead of the summer. In the press conference, Chair Powell indicated that he didn’t foresee a long delay between the end of

quantitative easing and the start of tightening. Rates hikes are therefore being teed up because of inflation, but the pandemic could still have a say on whether the Fed swings the tightening club in Spring or Summer, in our view.

The Bank of England (BoE) became the world’s first major central bank to raise interest rates since the coronavirus pandemic hammered the global economy, and warned inflation was likely to hit 6% in April - three times its target level. Surprising investors for the second time in six weeks, the BoE said it had to act now, even as the Omicron coronavirus variant sweeps Britain, because it saw warning signs in underlying inflation pressures. The nine-member Monetary Policy Committee voted eight-to-one to raise the Bank Rate to 0.25% from 0.10%, with external member Silvana Tenreyro providing the only dissenting voice. Governor Andrew Bailey said Omicron was already hurting retailers and restaurants but the BoE had felt compelled to stop the recent jump in prices from becoming a longer-term problem. “We’re concerned about inflation in the medium term. And we’re seeing things now that can threaten that. So that’s why we have to act,” Bailey said. It was unclear whether Omicron would ease or add to inflation pressure “and that’s a very important factor for us,” he said. (source Reuters)

Norway’s central bank raised its benchmark interest rate as widely expected, and said more hikes were likely next year although that would depend on the impact of a surge in coronavirus infections. Norges Bank’s monetary policy committee raised the sight deposit rate to 0.50% from 0.25%...

The U.S. 2 year/10 year treasury spread is now 0.78% and the U.K.’s 2 year/10 year treasury spread is 0.23%. 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 3.12%. 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 23.60 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

And finally: “Experience is something you don’t get until just after you need it.” ~ Steven Wright

Wishing you all a safe, healthy and happy holidays ... we’ll be back with our next update on Monday January 10th, 2022.

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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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