



Portland Investment Counsel®

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CHIEF INVESTMENT OFFICER UPDATE

JANUARY 31, 2023



AGENDA

1. A Reluctant Recession?
2. Back to the Future?
3. PIC Performance 2022
4. Outlook



- The **Unemployment rate** is a key indicator of the macroeconomic environment
 - U.S. Federal reserve's **COVID response** averted a deep recession
 - Unemployment is back to **pre-COVID** levels
 - Currently a delicate **balancing act** by central banks: How many jobs are they willing to sacrifice to tame inflation as redundancies (Alphabet, Amazon, Microsoft...) and general strikes begin to surface (Denmark, France, UK...)?
- We expect Fed Policy to be a key driver for asset prices in 2023, and to anticipate Fed Policy we must closely examine **inflation**... which was *supply-driven* precipitously upwards in 2022, by supply chain shortages... with concerns (for central banks) as to whether *demand-driven* inflation would follow...
- More recently, inventories are steadily rising as supply chain pressures have eased
- **Producers opinions** are **increasingly depressing**... spells contraction
- Central banks finally **responded to inflation** that proved not to be “transient”
 - Yields have soared to pre-financial crisis levels



- The COVID shock has distorted growth and inflation
 - If history is not to be repeated, then the U.S. federal reserve will learn from the 1970's when their response to early-stage inflation was insufficient and subsequently required newly elected Paul Volcker (Fed chairman from 1979-1987) to raise rates to 20% by June 1981.
- 'Stock markets go up the escalator and down the elevator'
 - Historically, bull markets are persistent whereas bear markets are more likely sudden and short lived
- Generally, the US dollar is preferred to be held during times of market turbulence and global economic uncertainty (a.k.a 'flight of capital to safety'):
 - LATAM debt crisis/OPEC Embargo– Early 1980's
 - 'Tech Bubble' -2000/September 11th, 2001
 - The Great Recession– 2007-2009
 - COVID – to date
- A **return** to pre-COVID **positive** real U.S. Treasuries: 10 year vs 5 year maturities
- Price-to-Earnings ratios for the TSX and S&P 500 (based on trailing operating earnings), have reverted to long-term median multiples
- TSX-listed companies: Price-to-Book ratios have reverted to more attractive levels
- TSX Earnings Yield on equities remains more attractive than long-term Canadian Government Bonds



PIC RELATIVE TO STYLE/SEGMENTS OF MARKET PERFORMANCE...

- Large-Cap Value significantly outperformed all-sized Growth
- Energy sector was a very high performer, Technology a significant detractor

OUTLOOK...CLIMBING THE WALL OF WORRY

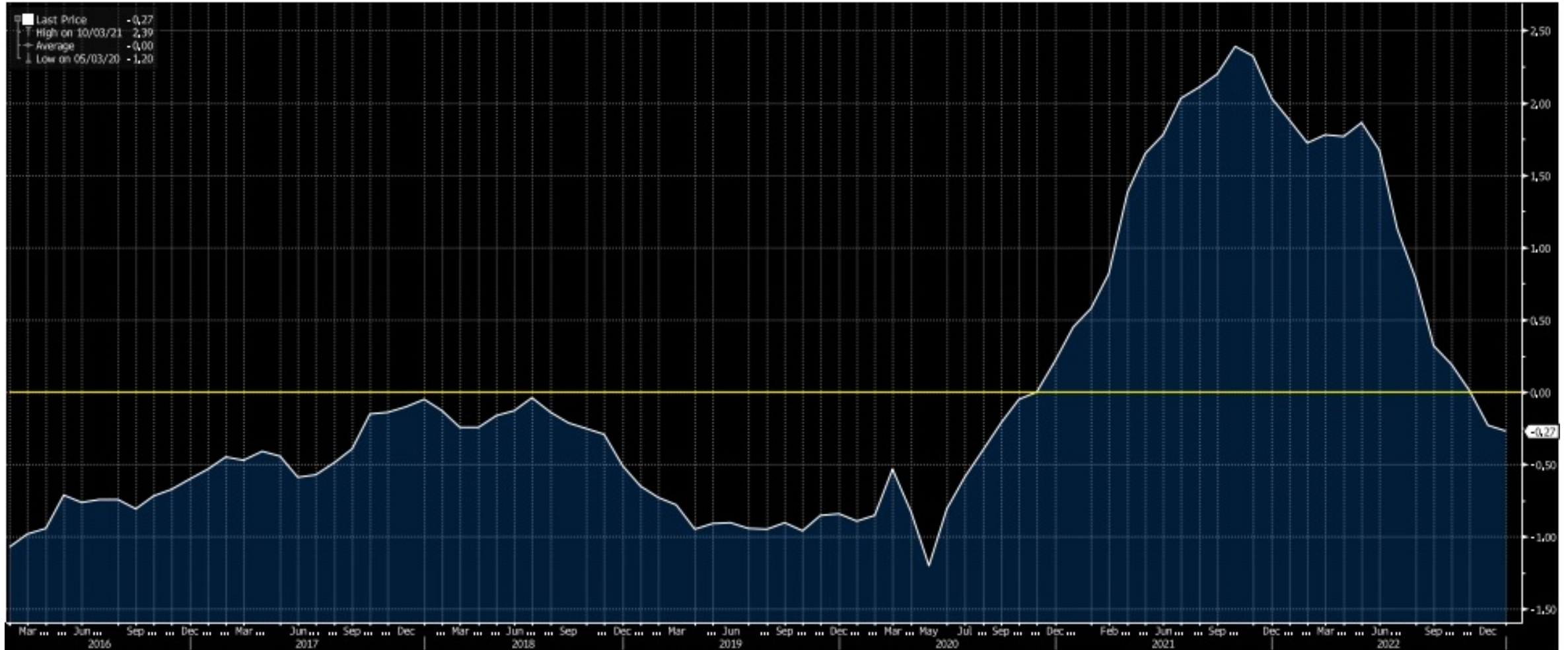


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<u>AREA</u>	<u>END OF 2021</u>	<u>END OF 2022</u>
Supply Chain (General)		
Supply Chain (Energy, Food, and Semiconductor Security)		
COVID		
Inflation		
Borrowing Costs		
Geopolitical Environment		
Extreme Weather		
Demand		



CITI GLOBAL SUPPLY CHAIN PRESSURE INDEX



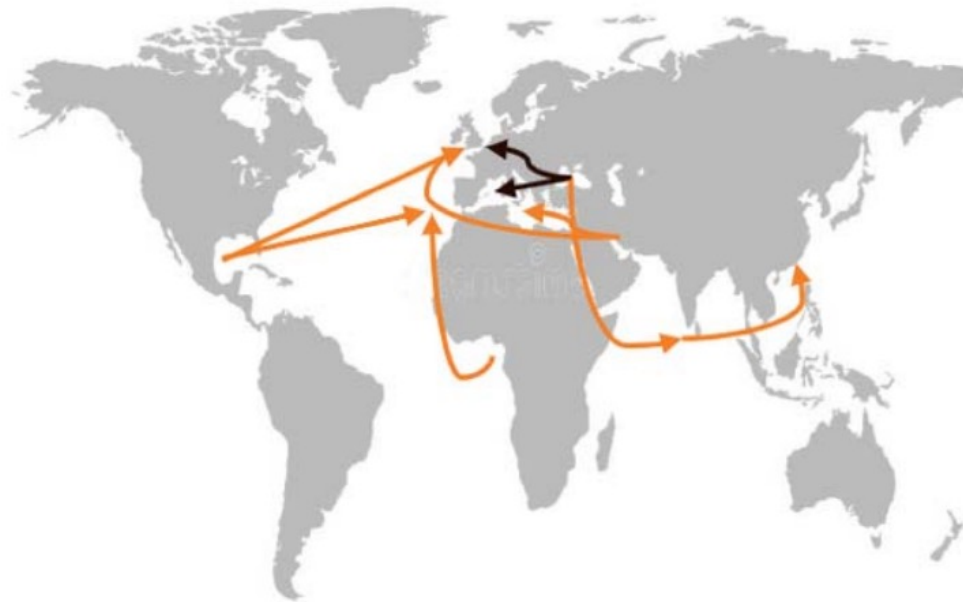
January 31, 2016 to December 31, 2022



ENERGY SUPPLY CHAIN



Seaborne Oil Trade Diversion: Longer-Haul Routes



- Pre-Invasion Seaborne Oil Trade Flows from Russia to Europe
- Post-Invasion Diverted Oil Trade Flows

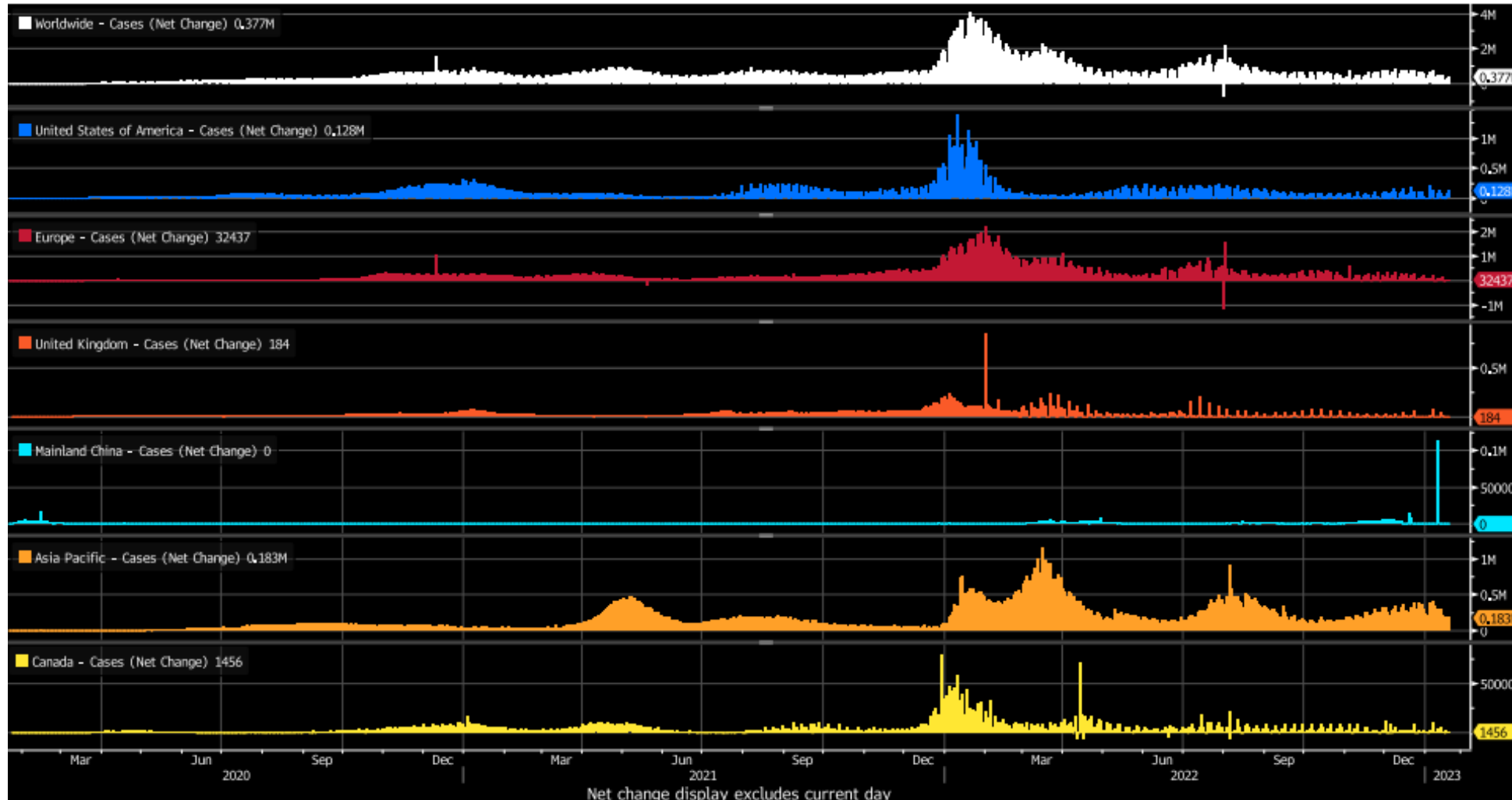
- Seaborne oil trade routes significantly lengthened upon Russian Ukraine War



COVID



January 2020 to January 2023



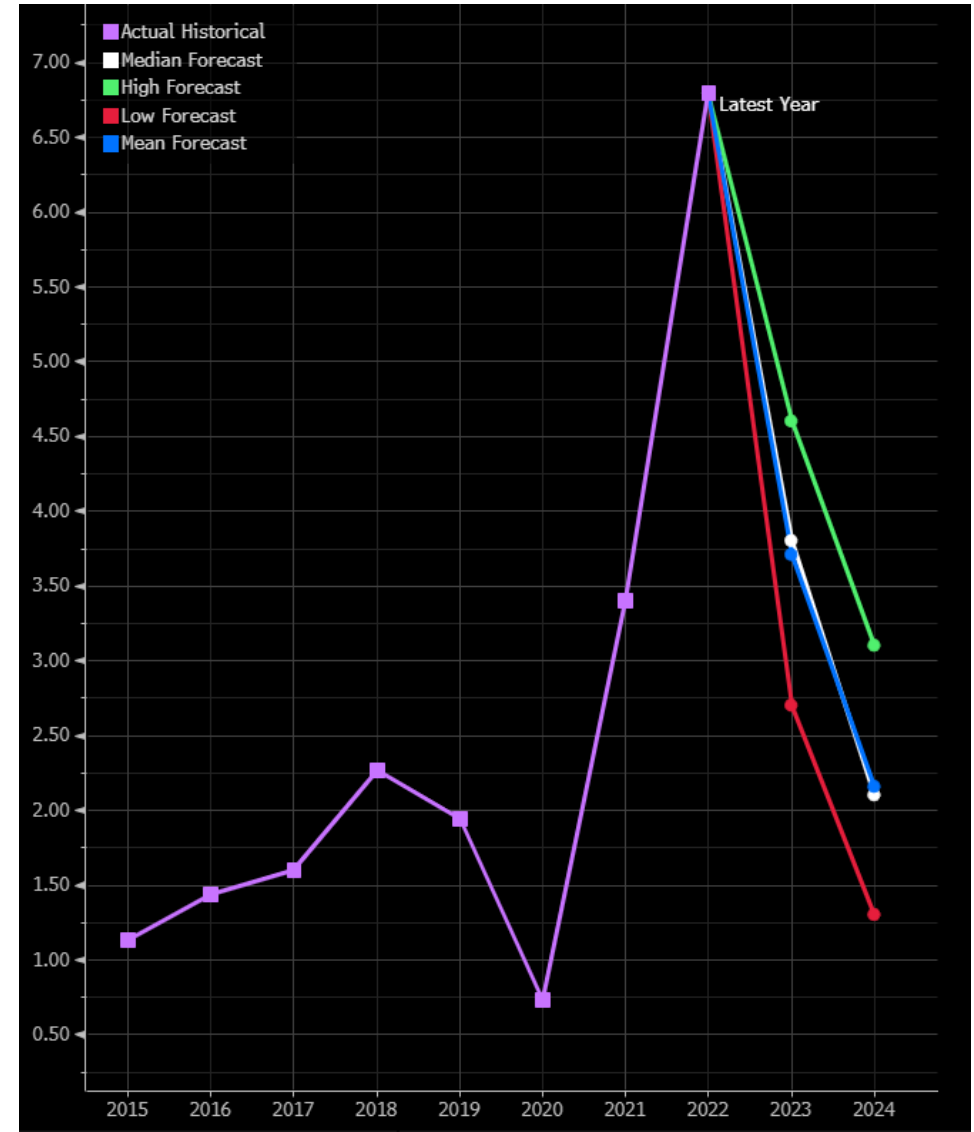
- Reported COVID cases have eased except most recently China



INFLATION



- After a rapid hike in inflation, general expectation is that inflation has peaked, and should ease through 2023...
 - ...assuming demand/discretionary spend- driven inflation eases





BORROWING COSTS



- Global financial crisis induced negative interest rates and quantitative easing, both of which now appear in the rearview mirror as positive/higher interest rates rapidly return.



December 29, 2006 to January 27, 2023



GEOPOLITICAL ENVIRONMENT



- Worst backdrop in a generation
- End of post Cold War 'Peace Dividend'
 - Lengthening Russia Ukraine War
 - China/Taiwan tensions
 - Iran- civil unrest
 - Cyberattacks
- Shift to a bipolar global financial system based on US Dollar and Chinese Renminbi
- Increases in defense and cybersecurity investing

EXTREME WEATHER

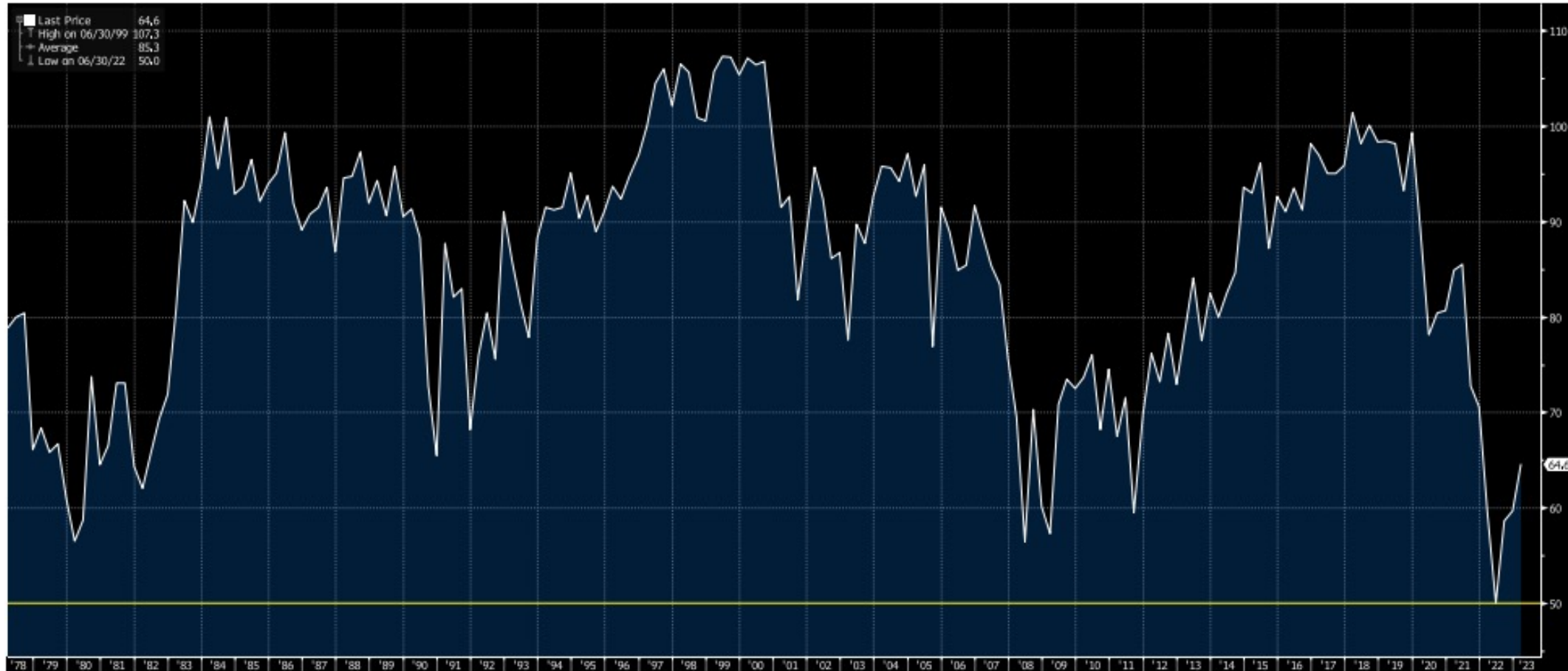




DEMAND



- University of Michigan **Consumer** Sentiment Index



March 1978 to January 2023

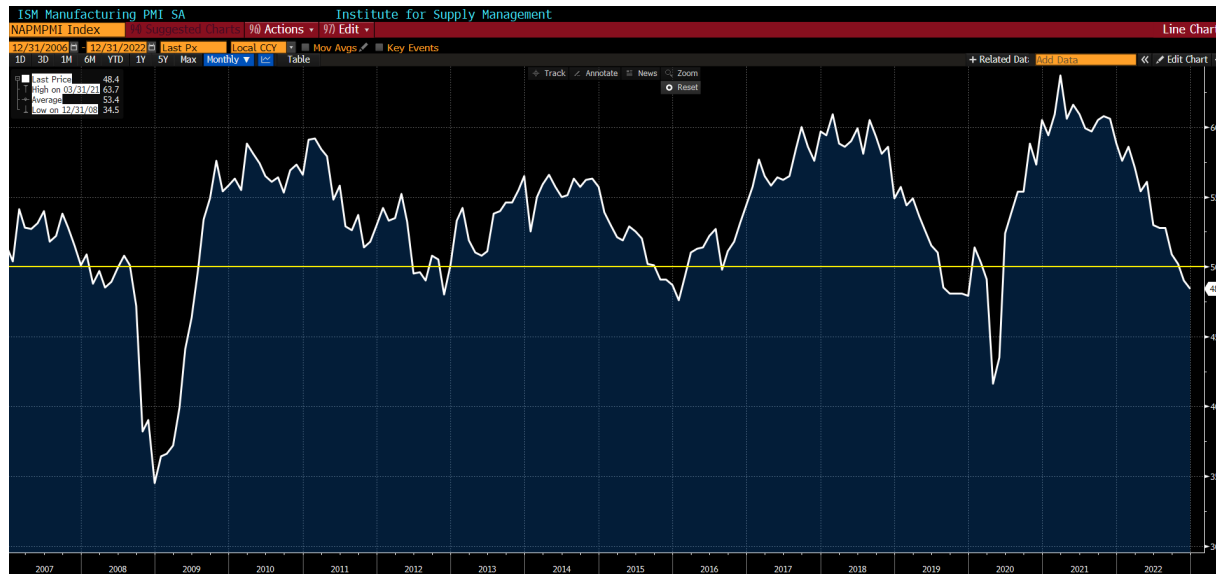


DEMAND

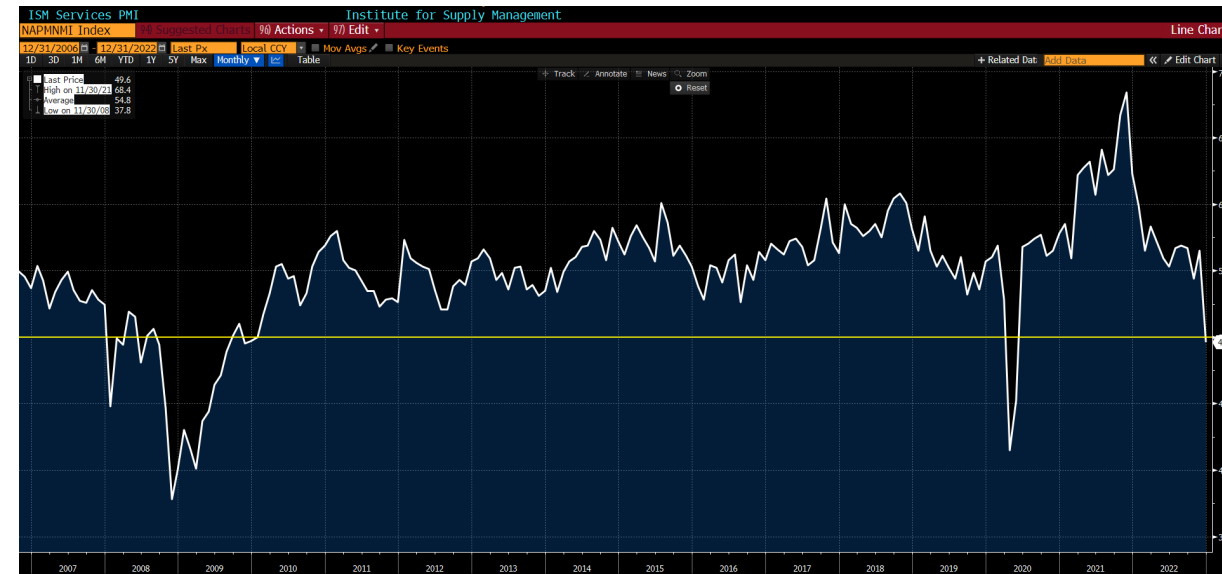


- ISM **Manufacturing and Services** Indices are viewed as predictors of recessions when falling below 50... as at December 31, 2022 Services was 49.6 and Manufacturing was 48.4

ISM Manufacturing Purchasing Managers' Index



ISM Services Purchasing Managers' Index

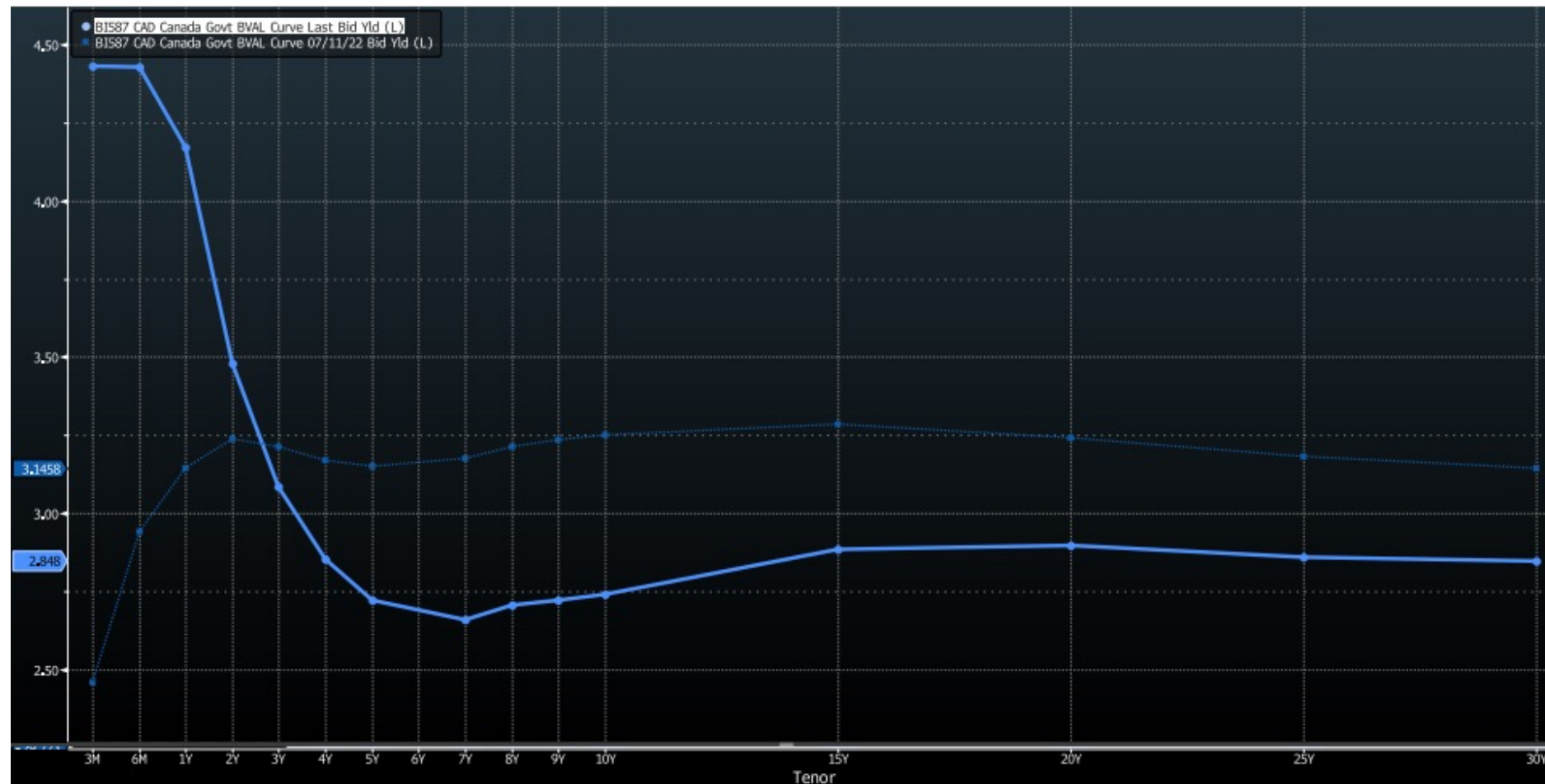


From December 31, 2006 to December 31, 2022

INVERTING YIELD CURVE – PREDICTOR OF RECESSION



- Canadian Government Yield Curve is currently inverted; signaling a recession
- The 2-Year and 10-Year maturities began to invert around July 11, 2022; signaling the formation of an inverted yield curve





OUTLOOK...

As with every year, markets will respond to *cyclical* and *secular* factors...

Cyclical

End of Rate Hikes Once Inflation Peaks

We are not so sure, it depends on whether the Federal Reserve is still targeting 2% inflation...

Cyclical

Weak Growth

We believe restrictive monetary policy and decelerating global growth will keep growth weak during 2023

Secular

Fiscal Challenges

To support higher costs of living, we believe budget deficits will stay high. Because borrowing costs will remain elevated, we believe governments will turn to tax increases to fund their spending (a.k.a fiscal transfers)

Cyclical

Global Trading

In the near term, due to political conflicts, we believe global trade as a share of GDP will decline, and we anticipate strategic industries to be repatriated as bipolar trading replaces globalization



OUTLOOK...

Cyclical

Return of Bonds

We see bonds resetting at higher yields. Once central banks stop hiking rates, these high yielding bonds should remain attractive.

Cyclical

Volatility in Equities

We expect corporate profits to be challenged during 2023 – a driver of volatility in equity markets.

Secular

US Dollar Strong vs Emerging Markets

We expect the US Dollar to have an interest rate advantage through 2023, which we believe may further strengthen it compared to **emerging currencies**. However, developed currencies that are perceived as undervalued could strengthen versus the US Dollar.

Secular

Strength in Alternatives

We anticipate hedge funds/private equity may do well this year.

We anticipate private debt should do well via dislocations/institutional borrowing challenges...

- Private credit is now a \$1.2 trillion asset class
- Private debt helps insulate portfolios against future price shocks/equity volatility



Crisis... a crucial point, when something begins to change...

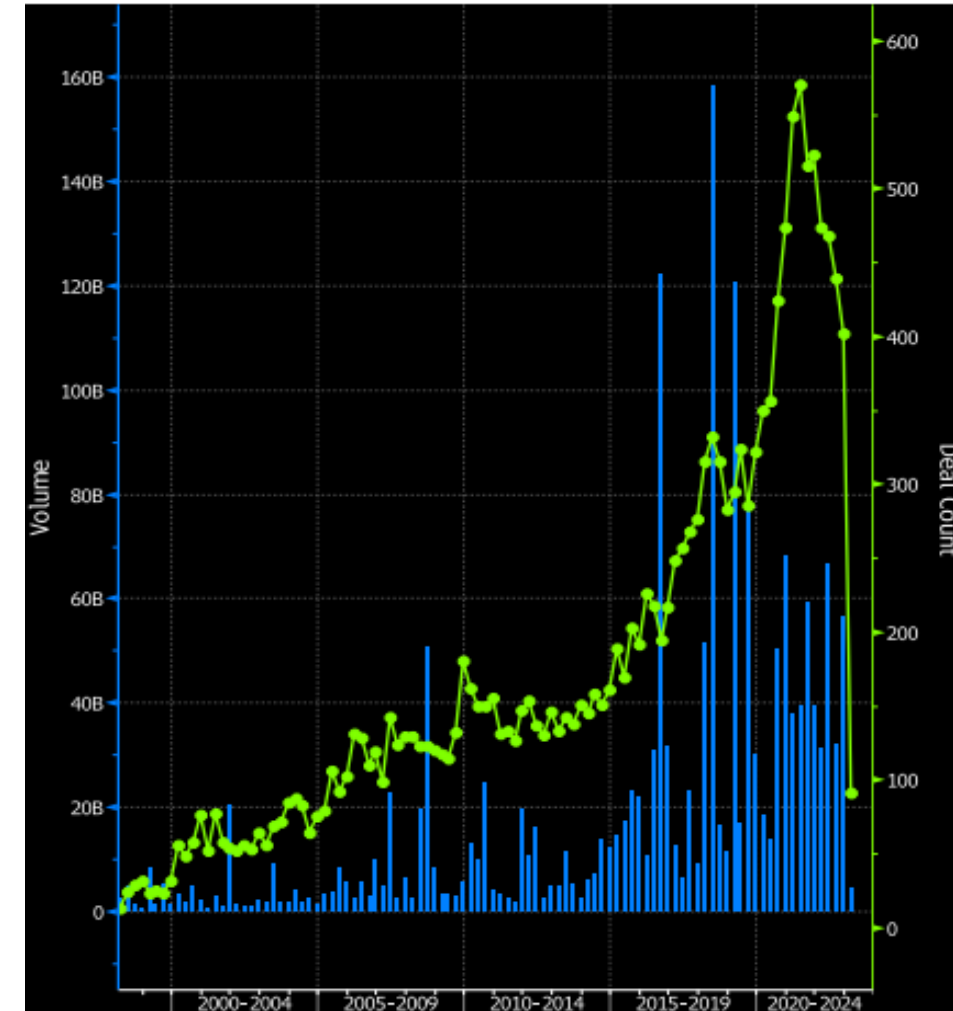
- **Climate Change:** —————> Transitioning from fossil fuels to renewables and nuclear
 - Sultan Ahmed Al Jaber, CEO of Abu Dhabi National Oil Company:
“the world must triple renewable energy generation ... via a transition that leaves no one behind”.
 - Our focus is on helping to solve the world’s energy needs sustainably, including leveraging nuclear technology
- **Trade between nations:** —————> Less global more bi-polar... more cybersecurity
- **Work environment / Digital:** —————> More remote, more AI (synthesizing information retrieval) ... more ChatGPT

... leading corporates are addressing these ‘3D’ business challenges - Decarbonization, Deglobalization, Digitalization



OUTLOOK - CONTINUED

- **Health and Ageing Populations** → Pressure for: i) more cures (rather than treatment) and:
ii) more preventions (less pandemics)
 - Our focus is on curing forms of cancer via radionuclide precision oncology
 - U.S. Inflation Reduction Act empowers the Federal Government to negotiate prices for drugs purchased by Medicare
 - BioNTech buys UK AI start-up InstaDeep £560 million
 - Targeted Radionuclide Therapies in the ascendancy
 - Pharma biotech dealmaking has mushroomed since 2000 while 2022 is the lowest in 5 years...



OUTLOOK SUMMARIZED...



- S&P 1-year forward Price/Earnings expectations opened 2022 around 22x
- S&P 1-year forward Price/Earnings expectations opened 2023 around 16.5x
 - Year on year decrease of -24.49%

- Ferocity of 2022 bear market has probably priced in tougher earnings outcomes and fiscal transfers (across Europe) will likely help smooth out downturn over next couple of years.
- This could potentially result in a normalized year of market recovery with the caveat that the market will likely need to deal with some risks by the latter 1/3rd of the year...

After a bumpy ride, hoping for a soft landing...

1st third of 2023...



- Tough talk, hawkish central banks
- COVID outbreak in China
- Recession worries

2nd third of 2023...



- Possibly easiest period for markets
- Headline Consumer Price Index falls sharply
- More realistic peak rates priced in

3rd third of 2023...



- Hopes of rate cuts may meet headwind fears:
 - Second inflation wave post China recovery, as hopefully COVID abates
 - U.S. Fiscal Cliff
 - European winter – challenges re energy shortages
 - Ukraine / Russia War may escalate



- **Concentration**
- **Leverage** (for alternative, private debt, and private equity funds)
- **Equity Markets**
- **Foreign Exchange Rates**
- **Liquidity** (for private funds)

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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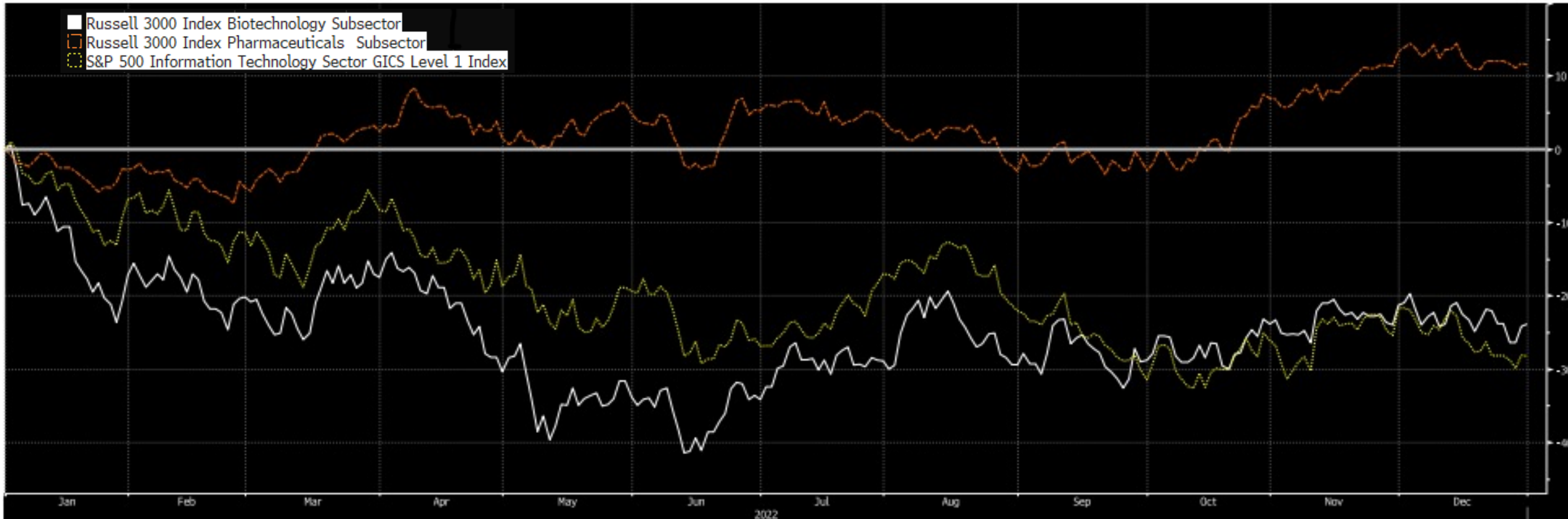
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APPENDIX



BIOTECH- PHARMACEUTICALS- INFO TECH SECTORS JANUARY 2022 TO DECEMBER 2022





Portland Investment Counsel Inc. (“Portland”) would like to provide the below update with respect to its investment in ITM Isotope Technologies Munich SE (“ITM”) and the valuation of its funds that hold ITM as of December 31, 2022, namely ITM AG Investment Trust, ITM SE Investment LP, ITM SE Investment LP II and ITM SE Investment LP III (collectively, the “Funds”).

Portland, aligned with its Valuation Policy, takes into account a number of relevant factors in order to fair value the investment of ITM including the following:

- Industry and sector specific market conditions - in 2022 there was a continued slowdown in the biotech industry, as illustrated by an annual 26% decline in the performance of the companies included in a broad biotech index.
- Company specific updates - in 2022 this included:
 - A currently confidential, direct treasury investment by a third-party institutional investor that was completed in January 2023.
 - ITM continues to deliver on its business plan objectives by substantially increasing its revenues from its long-term supply agreement partners, such as Novartis AG.
 - ITM’s progression of its clinical development programs (recruitments are finalized and data is expected to be released in the coming months).

Based on the above fair value measures, the value of the investment held in the Funds have been updated and any working capital and currency impact have been factored into the net asset value per unit. Portland will continue to provide further company specific updates.

For any questions, please contact your financial advisor.

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