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# NEWS HIGHLIGHTS

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

OCTOBER 2, 2023

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## OWNER OPERATED COMPANIES



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COMPANY NEWS

**Amazon.com, Inc. (Amazon)** - Amazon announced that it would begin showing ads on Prime Video early next year and that an ad-free tier for an additional US\$3 per month would be available to Prime members. The ads will be introduced in the U.S., UK, Germany and Canada in early 2024, while Prime Video users in France, Italy, Spain and Mexico will see the ads later in the year. "To continue investing in compelling content and keep increasing that investment over a long period of time, starting in early 2024, Prime Video shows and movies will include limited advertisements. We aim to have meaningfully fewer ads than linear TV and other streaming TV providers," the company said in a blog post. Earlier this month, the company said it was experimenting with longer but fewer ads on TV similar to commercial breaks on linear TV.

**Reliance Industries Limited (Reliance)** – On September 19, Jio announced the launch of JioAirFiber services, its integrated end-to-end solution for home entertainment, smart home services and high-speed broadband, across 8 metro cities. Currently Jio's optical fiber infrastructure spans over 1.5 million kilometres across India which puts Jio in close proximity to over 200 million premises. Yet, providing physical last-mile connectivity often ends up taking a lot of time in most parts of the country. This leaves millions of potential customers without home broadband, due to the complexities and delays involved in extending optical fiber to their premises. This is where JioAirFiber comes in, to accelerate connectivity in premises. The fiber-to-the-home service JioFiber, already serves over 10 million customers, with hundreds of thousands more getting connected each month. But there are still

millions of homes and small businesses to be connected at a rapid pace. With JioAirFiber, the company is expanding their addressable market to rapidly cover every home in the country with similar quality of service. JioAirFiber will enable millions of homes with world-class digital entertainment, smart home services and broadband, through its solutions across education, health, surveillance and smart home.

JioCinema plans to appoint former Alphabet Inc. (Google) general manager Kiran Mani chief executive officer (CEO), leading the Indian streaming TV service's effort to broaden its reach among mobile customers, according to people familiar with the move. Mani formerly ran Google's Android operations in the Asia Pacific region. He's going to lead technology development for the service and facilitate partnerships with Hollywood studios, said the people, who asked not to be identified discussing internal matters. The executive, who has already started at the company, was an early investor and adviser to James Murdoch and Uday Shankar's Bodhi Tree investment firm. JioCinema's parent company, Viacom18 Digital Ventures, is a joint venture of Reliance, Paramount Global and Bodhi Tree Multimedia Limited. A Reliance representative did not offer any immediate comment. Earlier this year, JioCinema offered free streaming of a major cricket tournament in a bid to lure more paying subscribers. The service costs 999 rupees or about US\$12 annually. As part of its expansion plans, JioCinema signed new programming deals this year with entertainment giants Warner Bros. Discovery, Inc. and Comcast Corporation's NBCUniversal.

**Altice USA, Inc. (Altice)** - Altice International, one of the three branches of Patrick Drahi, has won some time to tackle its debt load by refinancing a bond in the loan market. The firm raised €800 million (US\$846 million), up from the €500 million originally marketed, in a term loan due October 2027 via borrowing unit Altice Financing. Priced with a discount of 96 and a margin of 5 percentage points over Euribor, it will redeem a €600 million junk bond due in January 2025 and repay drawn amounts of the revolving credit facility. The deal caps months of tumult for the wider Altice group following a corruption probe and growing investor

concern about the impact of higher interest rates on its debt load of almost \$60 billion. Altice International's management told investors in August the company would come to market in the second half of the year to address 2025 maturities and potential debt coming due in 2026. The unit's weighted average cost of debt was 5.1% in the second quarter, compared to 4.1% a year before. The decision to refinance bonds with a loan would allow Altice International, which has operations in Portugal, the Dominican Republic and Israel, to control the process somewhat more easily than braving the bond market. Earlier this month, Drahi, alongside managers of the different businesses, met with investors in London and New York to allay concerns around leverage, sluggish performance and an ongoing investigation of co-founder Armando Pereira. Drahi said that the group is considering all options across the three silos, including the sale of a minority stake in the French unit SFR, to deliver the business.

**Samsung Electronics Co., Ltd.** - The Biden administration announced final restrictions Friday on expansion in China by semiconductor companies that will receive federal funds to build plants in the U.S. It's the last regulatory hurdle before the Commerce Department hands out more than US\$100 billion worth of federal aid intended to boost domestic chipmaking while containing China's technological advancement. The Chips Program Office, which is preparing to give out \$39 billion in grants and \$75 billion in loans and loan guarantees, will bar firms that win that money from substantially growing their output or expanding their physical manufacturing space in China. They will be limited to a 5% increase for advanced chips and 10% for older technology of 28 nanometers or more mature. However, the Commerce Department removed a stringent curb in the initially proposed terms. Previously, the agency included a \$100,000 spending cap on investments in advanced capacity in China, which would effectively prevent companies getting federal funding to grow output for chips more advanced than 28nm at all. The \$100,000 cap on China investment was the proposed definition for a "significant" transaction that's barred by the Chips Act statute. Commerce will now define "significant" as it weighs awards to individual companies rather than through rule-making, a senior Commerce official who briefed reporters on the rule's evolution on condition of anonymity said. That removal came after the Information Technology Industry Council, a powerful industry group that represents Intel Corporation, Taiwan Semiconductor Manufacturing Company Limited and Samsung among others, spoke out against it. All three chipmakers are expected to secure federal incentives for new facilities on American soil. At the same time, the Commerce Department expanded the final rule to limit the buildout scale of chipmakers' facilities in China, in addition to original restrictions that are based only on production capacity. The curb is the binding constraint of the national security guardrails, according to the Commerce official.

**Carnival Corp.** - Carnival Corporation & plc reported third quarter 2023 earnings and provided an outlook for the full year and fourth quarter 2023. U.S. Generally Accepted Accounting Principles net income of US\$1.07 billion, or \$0.79 diluted earnings per share (EPS), and adjusted net income of \$1.18 billion, or \$0.86 adjusted EPS, exceeded the June guidance range. Adjusted earnings before interest, taxes, depreciation, and amortization of \$2.22 billion also exceeded the June guidance range. Third quarter revenues hit an all-time high of \$6.9 billion. Continued strength in close-in demand enabled the company to increase its net per diems guidance for the full year 2023 by one percentage point to up approximately 7.0 percent compared to 2019. Booking volumes during the third quarter and the month of September continued

at significantly elevated levels. The company's cumulative advanced booked position for the full year 2024 is well above the high end of the historical range at higher prices than 2023 levels. Total customer deposits reached a third quarter record of \$6.3 billion. The company now expects fuel consumption per available lower berth day for the full year 2023 to be nearly 16% lower than 2019, better than previously expected. The company reduced its debt by nearly \$4 billion from its peak in the first quarter of 2023 and ended the third quarter with \$5.7 billion of liquidity. "We delivered over \$1 billion to the bottom line with revenue reaching an all-time high" Josh Weinstein, commented Carnival Corporation & plc's CEO. "Both revenue and earnings significantly exceeded expectations this quarter enabling us to take up expectations for the year." Weinstein continued, "The outperformance was driven by strength in demand, with both our North America and Australia segment and Europe segment equally outperforming expectations. It is gratifying to see the power of our portfolio deliver, as our continental European brands have stepped up nicely. Our demand generation efforts are working across all regions, as we have consistently been achieving quarterly net per diems well in excess of 2019 levels, while closing the occupancy gap by 11 points over the course of the year." Weinstein added, "I continue to be encouraged with our revenue trajectory heading into next year as we see no signs of slowing from our consumers." Booking volumes during the third quarter continued at significantly elevated levels, setting a new third quarter record for total bookings during the quarter. Weinstein noted, "We are maintaining strong momentum and continuing to build demand through our improved commercial execution. Booking volumes during the quarter were running nearly 20% above 2019 levels and multiples of our capacity growth, which has continued into September. This has helped us extend the booking curve even further, with our North American brands exceeding historical highs and our European brands essentially achieving pre-pause levels." The cumulative advanced booked position for the full year 2024 is well above the high end of the historical range at higher prices than 2023 levels. This aligns with the company's yield management strategy to base load bookings, lengthen the booking curve and optimize net yields. Weinstein added, "Our booked position for 2024 is further out than we have ever seen and at strong prices. With less remaining inventory to sell, despite a five percent increase in capacity, we are well positioned to drive pricing higher and deliver strong yield improvement in 2024."

**Danaher Corp. (Danaher)** - Danaher Corporation announced that it has completed the separation of its Environmental & Applied Solutions segment, through the spin-off of Veralto Corp (Veralto). Veralto will begin "regular way" trading on the New York Stock Exchange on October 2, 2023, under the symbol "VLTO." "Today marks an exciting milestone for Danaher. The successful spin-off of Veralto as an independent company creates exceptional opportunities for both Danaher and Veralto to better serve their customers, deliver on their respective strategic priorities and create greater long-term shareholder value," said Rainer M. Blair, Danaher President and CEO. In connection with the separation, on September 30, 2023, Danaher stockholders received one share of common stock of Veralto for every three shares of Danaher common stock held at the close of business on September 13, 2023 (other than fractional shares, which will be aggregated and sold and the proceeds distributed to Danaher stockholders). Approximately 246 million shares of Veralto common stock were distributed in the distribution.

**D.R. Horton Inc. (DR. Horton)** - Arlington-based D.R. Horton, the nation's largest homebuilder, will get a new leader. David Auld, the

builder's CEO for almost nine years, will step down and become executive vice chair of the company's board of directors on October 1, 2023. D.R. Horton co-chief operating officer (COO) Paul Romanowski will become president and CEO of the company that same day. Donald R. Horton, the company's founder, will continue as chairman of the board but will no longer serve as an executive officer beginning October 1, 2023, according to a Securities and Exchange Commission filing. The board of directors made the decision Sept. 19 to promote Romanowski and appoint him to the company's board, according to the filing. Romanowski has served as co-chief operating officer since October 2021 after serving as a regional president for seven years and South Florida division president for 14 years. Michael Murray will continue as COO. "I am humbled and privileged to have helped lead the largest homebuilding company in the United States, and I look forward to continuing to work with the D.R. Horton executive team and board of directors in my new role as executive vice chair," Auld said in a statement. "With strong partnership and leadership from Paul and Mike, in addition to our longtime chief financial officer, Bill Wheat, the company is well-positioned for continued success." Donald Horton cited Romanowski's 20 years on the company's management team. The company topped US\$33.4 billion in revenue last year, with almost \$6 billion in profit. "His outstanding performance as a division and region president and most recently as co-COO has prepared him for this opportunity," Horton said. "Paul is an effective leader and mentor who will help our company continue to scale and sustain its position as the leading homebuilder in the United States." Horton said the company achieved tremendous growth and improvements in operational efficiency and returns during Auld's tenure. "David is a genuine, trusted leader and has been an invaluable member of the company's management for 35 years," Horton said. "Most importantly, David's leadership has helped us strengthen the company's culture and development of the future leaders of D.R. Horton." D.R. Horton ranked No. 1 in national closings in the 2022 Builder 100, based on its almost 82,000 closings in 2021. The company closed 83,201 homes in the 12-month period ending on June 30, 2023, the company said.

## DIVIDEND PAYERS

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 GO TO  
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PLUS FUND<sup>1</sup>

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BALANCED FUND<sup>1</sup>

**McDonald's Corp. (McDonald's)** franchisees who open new outposts in 2024 will have to pay an increased royalty fee of 5% — the first time in nearly three decades that the fast-food giant increased the fee. For the past 30-some years, a Golden Arches franchisee only had to pay 4% in royalty fees, a percentage of gross sales in addition to rent and other expenses such as payments towards the company's mobile app. These higher rates — which McDonald's used to refer to as "service fees," but will now call "royalty fees" — will only affect new franchisees, buyers of company-owned restaurants and relocated restaurants. Existing

franchisees who plan to maintain their current footprint or who buy a franchise from another operator, as well as those who rebuild existing locations or transfer their franchise to a family member, will not be affected by the price hike.

**American States Water Co.** was awarded a US\$45 million firm-fixed-price contract for water and wastewater utility services at Joint Base Cape Cod. Bids were solicited via the internet with one received. Work locations and funding will be determined with each order, with an estimated completion date of Sept. 29, 2038. U.S. government contract orders made up about 4.1 percent of the company's revenue in the four quarters ended March 2023.

## LIFE SCIENCES

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SCIENCES  
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**Amgen Inc. (Amgen)** – Amgen announced the launch of Amgen Partners of Choice, a new network that brings together Amgen's oncology research and development experts and world-class clinical leaders at eight research centers across the globe. As part of Amgen's mission to improve care through partnerships across the healthcare ecosystem, the network fosters academic collaboration to advance new treatment options for patients with the greatest unmet needs. The member institutions are:

- Asan Medical Center (Seoul, South Korea)
- Dana-Farber Cancer Institute (Boston)
- West German Cancer Center at University Hospital Essen (Essen, Germany)
- Gustave Roussy (Paris)
- Memorial Sloan Kettering Cancer Center (New York)
- Peter MacCallum Cancer Centre (Melbourne, Australia)
- University Health Network's Princess Margaret Cancer Centre (Toronto)
- Vall d'Hebron Institute of Oncology (Barcelona, Spain)

The network aims to create multiple collaboration channels globally with the goal of expediting the transition of new, transformational programs to leaders in the clinic. Current Amgen Partners of Choice projects are focused on select disease areas and tumor types including thoracic, gastrointestinal and genitourinary cancers.

**BeiGene Ltd. (BeiGene)** – Beigene announced that it has entered into an agreement with Novartis AG to regain worldwide rights to develop, manufacture, and commercialize TEVIMBRA (tislelizumab). BeiGene has launched more than 20 potentially registration-enabling trials with TEVIMBRA, of which 10 Phase 3 randomized trials and four Phase 2 trials have already had positive readouts. Through these trials, TEVIMBRA has demonstrated its ability to safely deliver clinically meaningful improvements in survival benefits and quality of life for hundreds of thousands of cancer patients across a range of tumor types – in many cases, regardless of PD-L1 status – both as a monotherapy

and in combination with other regimens. More than 750,000 patients have been prescribed TEVIMBRA to-date.

**BridgeBio Pharma Inc. (BridgeBio)** – BridgeBio has entered into a securities purchase agreement with certain existing and new accredited investors to issue and sell an aggregate of 9,167,723 shares of its common stock at the Friday, September 22, 2023 closing price of US\$27.27 per share through a private investment in public equity (PIPE) financing. BridgeBio targeted gross proceeds from the PIPE financing to be approximately \$250 million, before deducting offering expenses. The PIPE financing was led by Qatar Investment Authority, with significant participation from four of the largest investment management firms in the U.S., as well as a number of large institutional investors and existing investors. The company completed this targeted and strategic raise in order to provide an entry for new long-term shareholders. The company also continues to explore additional strategic options to fund the business. TD Cowen, Mizuho Financial Group, Inc., and KKR Capital Markets LLC acted as joint placement agents for the PIPE financing.

**POINT Biopharma Inc. (POINT)** – POINT signed an agreement with Eckert & Ziegler Strahlen- und Medizintechnik AG (Eckert & Ziegler) for the supply of carrier-free lutetium-177 (n.c.a.177Lu). The agreement has a term of ten years with a total sales volume of more than €100 million. The lutetium-177 supply is conditional to successful validation of Eckert & Ziegler-produced lutetium-177 with the intended compounds. POINT's pipeline has multiple lutetium-177-based clinical candidates including one candidate for the treatment of metastatic castration-resistant prostate cancer. The agreement's projected sales volume is based on the successful regulatory approval of a lutetium-177-based clinical candidate in the future. To expand its manufacturing capacities, Eckert & Ziegler plans to invest around €10 million in its own site in Wilmington, MA. Eckert & Ziegler is thus positioning itself as an important supplier of lutetium-177 in the rapidly growing radioligand therapy market. The strategically significant agreement is expected to start contributing revenues in 2023 and generate substantial earnings if POINT's clinical candidates receive regulatory approval. The lutetium-177 supply agreement follows a previously signed actinium-225 supply agreement between Eckert & Ziegler and POINT, announced on April 4, 2023.

**Telix Pharmaceuticals Limited (Telix)** – Telix has welcomed Her Royal Highness (HRH), Princess Astrid, Princess of Belgium to Telix Manufacturing Solutions, the Company's recently inaugurated production facility, in Brussels South (Seneffe) in the Wallonia region of Belgium. Located in the heart of Belgium's 'Radiopharma Valley', the 2,800 square metre facility is one of Europe's largest radiopharmaceutical production facilities. With more than 10 million imaging procedures performed in the European Union using radiopharmaceutical agents every year, Telix's site provides important infrastructure to meet the growing demand for commercial and clinical imaging and therapeutic agents, for patients in the Europe Middle East and Africa (EMEA) region and beyond. Raphael Ortiz, Telix EMEA CEO said "Telix was honoured to welcome HRH Princess Astrid, the Ambassador Dirk Wouters, Laurent Michel and the Bourgmestre Bénédicte Poll at Telix Manufacturing Solutions, which recently opened in Brussels South. Belgium's 'Radiopharma Valley' is a fundamental part of Telix's innovation success with this latest example of Telix's continued investment in innovation to serve as a hub for research, development and manufacturing for our partners and collaborators across industry, academia and clinical practice. We would like to thank the Princess for her interest in nuclear medicine and radiopharmaceuticals and look forward to showcasing the Australian side of the business during next month's trade mission."



## NUCLEAR ENERGY

**BWX Technologies, Inc.** and Crowley Maritime, a worldwide leader in shipping, maritime, energy, and logistics solutions, have joined forces to create innovative shallow-draft ships equipped with microreactors for delivering energy to coastal destinations. The established memorandum of understanding provides both companies with further opportunities in the design and engineering of a ship, which would be equipped with factory-made microreactors. These microreactors can be easily installed in shipyard settings. The ships will serve as floating power plants, delivering electricity to various facilities, including remote military bases, backup utility grids following disasters, and other situations where conventional power sources are unavailable or compromised. The ship will employ standard propulsion methods. It will feature a modular reactor with a power range of 5 to 50 megawatts, which will be activated upon reaching its destination. Once the power supply is no longer needed, the reactor will be deactivated and transported.

**Centrus Energy Corp (Centrus)**, a U.S. nuclear energy firm, is set to commence the production of high-assay, low-enriched uranium (HALEU) in the U.S. in October. This advanced nuclear fuel is primarily used in next-generation small reactors, with the U.S. aiming to reduce its reliance on Russia by domestically manufacturing it. Centrus intends to kickstart HALEU production at its Ohio facility, initially targeting an annual output of 0.9 tons. The company plans to expand its production capacity, eventually reaching up to 6 tons annually. In November 2022, the U.S. Energy Department initiated a HALEU manufacturing test project with Centrus, providing approximately US\$150 million in subsidies. Jennifer Granholm, U.S. Energy Secretary noted that this effort aims to diminish dependency on other nations. Domestic production of HALEU is expected to alleviate concerns about the fuel and support the development of reactors.

**Nuscale Power Corp.** has advanced through the initial stage of the UK's competition to choose developers for small modular nuclear reactors (SMRs), according to a governmental announcement. The UK is aiming to increase its nuclear power capacity to 24 gigawatts by 2050, which is a crucial part of its climate targets and energy security strategy, representing roughly a quarter of the anticipated electricity demand, compared to the current 14%. To overcome the financial challenges faced by large nuclear projects, the government envisions replacing some older plants with a fleet of SMRs, which can be produced more affordably and quickly in factories. The government initiated this competition in July to facilitate SMR technology development with the goal of implementing projects in the 2030s.



## ECONOMIC CONDITIONS

**Canada's gross domestic product (GDP)** was essentially unchanged in July, as the service sector expanded slightly while goods-producing industries shrank. Statistics Canada reported Friday that the total value of Canada's entire economy was essentially unchanged during the month, with zero percent growth. Economists had been expecting a slight expansion of about 0.1 percent. The manufacturing sector shrank by 1.5 percent, its biggest contraction in more than two years. Agriculture and forestry, transportation and warehousing, retail and professional services also shrank. On the positive side of the ledger, the biggest source of strength was the mining and oil and gas

sector, which bounced back after experiencing declines in June due to forest fires. Mining and quarrying grew by 4.2 percent, while oil and gas extraction rose 1.5 percent. The GDP number for July was weaker than economists were expecting, and the early indicators for August look similar, with preliminary numbers showing a 0.1 percent expansion. That's less than the 0.2 percent that had been expected.

## FINANCIAL CONDITIONS

The U.S. 2 year/10 year treasury spread is now -0.43% and the UK's 2 year/10 year treasury spread is -0.41%. 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 7.35%. Existing U.S. housing inventory is at 3.3 months supply of existing houses as of June 30, 2023 - well off its peak during the Great Recession of 11.1 months and we consider a more normal range of 4-7 months.

The volatility (VIX) is 18.35 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

And Finally: **"If you can get really good at destroying your own wrong ideas, that is a great gift."** ~ Charlie Munger

*We'll be skipping a week – back with our Newsletter on Monday 16, October*

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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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