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# NEWS HIGHLIGHTS

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

**AUGUST 6, 2024**

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## OWNER OPERATED COMPANIES



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COMPANY NEWS

**Reliance Industries Limited (Reliance)** – will convene the 47th Annual General Meeting (AGM) on August 29, the company said in a statement on exchanges. The AGM will be televised live through videoconferencing as well as through other audio-visual means, adhering to guidelines set by the Ministry of Corporate Affairs and the Securities and Exchange Board of India. The company said that the dividend, if declared at the AGM, will be paid within a week from the conclusion of the AGM. Reliance has fixed August 19, Monday as the record date for determining the eligibility of investors for receiving dividend for financial year 2023-24 subject to the declaration of the dividend. Mukesh Ambani, Chairman of Reliance Industries, will address the shareholders during the AGM. Investors and industry observers will be eagerly awaiting the AGM to gain insights into Reliance's strategic directions and future plans.

**Reliance** has bought 2 million barrels of Canadian crude from Shell PLC (Shell) for July delivery, marking the Indian refiner's first oil purchase from Canada's new Trans Mountain pipeline, trade sources said. Reliance joins a growing group of Asian refiners in buying Canadian crude to be exported from the new pipeline which started transporting oil in May. The Canadian government-owned pipeline expansion will nearly triple the flow of crude from Alberta to Canada's Pacific Coast and open up access to Asia and the U.S. West Coast. Shell will perform ship-to-ship transfers to move about four 500,000-barrel cargoes of Access Western Blend onto a Very Large Crude Carrier and ship the oil to the Sikka port, the sources said, where Reliance operates the world's biggest refining complex. One of the sources said the deal was done at \$6 a

barrel discount to September ICE Brent Crude Oil on delivered basis. Access Western Blend (AWB) is a type of heavy and highly acidic diluted bitumen produced by Canadian Natural Resources and MEG Energy Corp. Sellers of Canadian oil are exploring ways to increase exports to Asia where demand is growing and as Asian refiners typically pay higher premiums. Chinese firms Sinochem Corporation (Sinochem), China International United Petroleum and Chemical Co., Ltd. (Unipecc), the trading arm of Asia's largest refiner Sinopec, and PetroChina Company Limited have already bought several cargoes of AWB and Cold Lake crude from the pipeline to be delivered to China in June, trade sources said. Reliance did not respond to a Reuters email seeking comments.

**Samsung Electronics Co., Ltd. (Samsung)** - Samsung Electronics chip business leader warned that Korea's largest company risked getting caught in a vicious cycle if it didn't revamp its workplace culture, in an unusually harsh memo issued to employees months after taking the helm. Jun Young-hyun said his division's recent turnaround was based largely on a market rebound. To sustain that recovery, Samsung must take steps to eradicate communication barriers between departments and stop hiding or avoiding problems, he said in a staff memo. The executive's communique reflects frustration over Samsung's missteps in the hot new market of supplying memory chips for Nvidia Corporation (Nvidia) Artificial Intelligence (AI) accelerators. While the company this week reported its fastest pace of net income growth since 2010, Jun listed a litany of issues eroding Samsung's long-term competitiveness. Still, the conglomerate is beginning to make progress in narrowing the gap with SK Hynix Inc.. Samsung has made important headway in its comeback, including winning the long-awaited approval from Nvidia for a version of its high-bandwidth memory chips called HBM3. It also anticipates approval for the next generation, HBM3E, in two to four months. It's unusual, and humbling, for South Korea's largest company to be playing catchup. Historically, Samsung has led the way in the market, capitalizing on its scale and engineering expertise.

**Altice USA, Inc. (Altice)** Altice International has agreed to sell its video advertising platform Teads SA (Teads) to US ad company Outbrain Inc.

(Outbrain) in a US\$1 billion deal that will help the telecommunications company cut debt. The deal will see Teads and Outbrain merge to create one of the largest open internet advertising platforms, Outbrain said in a statement on Thursday. Outbrain will provide \$725 million upfront cash and \$25 million deferred cash, along with 35 million shares of common stock of Outbrain, and \$105 million of convertible preferred equity, the companies said. The transaction will result in Altice owning 42% of Outbrain's common stock and up to 47% of the company if its convertible preferred equity is converted into common stock. Altice has been trying to sell off assets over the past year in an effort to slash debt after years of acquisitions. Bought by Altice in 2017 in a deal worth €285 million, Teads specializes in a video format that plays automatically as you scroll down a webpage and other tools for creating and targeting custom ads. Outbrain provides a recommendation platform that promotes articles, blog posts, videos and other types of content. Outbrain Chief Executive Officer (CEO) David Kostman will run the new entity and current Teads co-CEOs Bertrand Quesada and Jeremy Arditi will serve as co-presidents. Proceeds from the sale of Teads would be used to cut leverage, Altice management said on a call in May. Altice International still targets net leverage of 4 to 4.5 times earnings before interest, taxes, depreciation, and amortization, it said in the statement Thursday.

**Ares Management Corporation (Ares)** – reported second quarter (Q2) results, which included after-tax realized income per share of US\$0.99, exceeding estimates. Total revenue fell to \$788.7M (million) from \$1.09B (billion) year-over-year, missing expectations due to negative carried interest allocation. Total assets under management (AUM) rose 18% to \$447.2B, and available capital increased 27% to \$122.1B. The firm raised \$26.0B in new capital and deployed \$26.4B. Expenses decreased to \$564.5M from \$837.7M, with performance-related compensation at -\$29.0M. Fee-related earnings grew 22% to \$324.5M with a margin improvement to 42.1%.

Ares Management announced the final closing of Ares Senior Direct Lending Fund III (SDL III) with \$15.3 billion in equity commitments, surpassing its \$10 billion target. The total capital base is expected to reach \$33.6B, including leverage. The fund has already deployed \$9B to over 165 companies. SDL III continues Ares' strategy of providing senior secured loans to middle market companies in North America, leveraging its extensive origination capabilities and strong investor confidence.

**Brookfield Business Partners L.P.** – reported a Q2 2024 net loss of US\$20 million, an improvement from a \$48 million loss in the prior period. Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) was \$524 million, down from \$606 million, reflecting the sale of their nuclear technology services operation. The Industrials segment saw increased EBITDA, while Business Services and Infrastructure Services faced declines due to a cybersecurity incident and the prior sale of a nuclear operation. The company refinanced significant debt at favorable rates and continues capital recycling initiatives.

**Brookfield Infrastructure Partners L.P.** – reported strong Q2 2024 results with US\$608 million in funds from operations (FFO), a 10% increase. Net income was \$8 million, down from \$378 million last year due to prior period capital gains. Highlights include a 60% increase in transport segment FFO, growth in midstream and data segments, and significant capital deployment opportunities driven by AI adoption. The partnership declared a quarterly distribution of \$0.405 per unit, up 6% from the previous year, payable on September 27, 2024.

**Brookfield Renewable Partners L.P. (Brookfield)** – reported Q2 FFO of US\$339 million, a 9% increase due to new acquisitions and asset developments. Wind and solar segments contributed \$194 million, aided by organic growth and acquisitions. Hydroelectric segment FFO was \$136 million, down from \$171 million, while distributed energy and sustainable solutions rose to \$86 million from \$55 million. Brookfield added 1.4 gigawatt (GW) of new capacity in Q2 and plans to bring 7 GW online in 2024, with a development pipeline exceeding 230 GW.

**Berkshire Hathaway Inc.'s (Berkshire)** – Berkshire Q2 2024 financial results revealed a record cash reserve of US\$276.9 billion, with \$234.6 billion in U.S. Treasury holdings. This increase came as Berkshire sold \$75.5 billion in stocks, including nearly half of its Apple Inc. (Apple) shares, now valued at \$84.2 billion. The firm also reduced its stake in Bank of America Corporation. Operating income rose 15% to \$11.6 billion, driven by improved performance in its insurance business. Despite high cash reserves, Buffett finds few attractive investment opportunities.



## DIVIDEND PAYERS



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**Magna International Inc. (Magna)** posted sales of US\$11.0 billion for the second quarter of 2024, essentially unchanged from the second quarter of 2023, which compares to a 2% increase in global light vehicle production, including 6% and 1% higher production in China and North America, respectively, partially offset by 5% lower production in Europe. Diluted earnings per share were \$1.09 in the second quarter of 2024, compared to \$1.18 in the second quarter of 2023, and Adjusted diluted earnings per share were \$1.35 in the second quarter of 2024 compared to \$1.54 in the second quarter of 2023.

“Overall, our second quarter operating performance largely met our expectations, despite lower than anticipated volumes on certain key vehicle programs in North America. Our focus remains on factors we can control, including operational excellence, cost reductions, and flawless launches. These efforts, together with ongoing customer commercial discussions are enabling us to substantially maintain our 2024 Adjusted earnings before interest and taxes (EBIT) margin range. Our updated 2026 Outlook reflects customer program updates and a tempered view on mid-term electric vehicle penetration rates, particularly in North America. While we have reduced our sales forecast, we are taking a number of concrete actions to mitigate the sales impacts and continue to expect margin expansion and strong free cash flow growth.” - Swamy Kotagiri, Magna's CEO.

**ATCO Ltd. (ATCO)** announced second quarter 2024 adjusted earnings of CAD\$96 million (\$0.86 per share), \$9 million (\$0.09 per share) higher compared to \$87 million (\$0.77 per share) in the second quarter of 2023. Recent developments include ATCO Structures awarded an \$87 million contract for a 700-person rapid deployment construction camp in support of mining projects in the Pilbara region of Western Australia and a \$78 million contract for a 410-person construction camp in Hughenden, Queensland, and a 230-person construction camp in Richmond, Queensland. On June 26, 2024, ATCO EnPower, in partnership with Shell Canada Limited, announced that a Final Investment Decision has been made to proceed with the first phase of the Atlas Carbon Storage Hub. The first phase of the project is expected

to be operational in late 2028, anchored by CO2 volumes from Shell's Polaris carbon capture project. Atlas represents the first step in ATCO EnPower's work to create a full value chain for hydrogen development – from production and carbon abatement to transport and export. The facility will be located east of Edmonton and able to store emissions from the Alberta Industrial Heartland region.

## LIFE SCIENCES



**Arvinas, Inc.** – reported its second-quarter Q2 2023 financial results and provided a corporate update on August 8, 2023. The company announced ongoing global enrollment in multiple clinical studies of vepdegestrant (ARV-471), including the VERITAC-2 2L Phase 3 and VERITAC-3 1L Phase 3 trials for ER+/HER2- metastatic breast cancer. Interim data from a Phase 1/2 trial with ARV-766 indicated promising efficacy in late-line mCRPC (metastatic castrate resistant prostate cancer) patients, particularly those with AR (androgen receptor) ligand binding mutant tumors. Additionally, new Phase 1/2 clinical data for bavdegalutamide and Phase 1b combination data for vepdegestrant plus palbociclib will be presented at medical congresses in the second half of 2023.

**Bicycle Therapeutics Inc. (Bicycle Therapeutics)** – reported recent business progress and financial results for the second quarter Q2 ended June 30, 2024. Cash and cash equivalents were US\$961.4 million as of June 30, 2024, compared to \$526.4 million as of December 31, 2023. The increase in cash and cash equivalents is primarily due to net proceeds from the PIPE (private investment in public equity) financing and share option exercises, offset by cash used in operating activities. Research and Development (R&D) expenses were \$40.1 million, compared to \$39.7 million for the second quarter 2023. Net loss was \$39.8 million, or \$(0.77) net loss per share, compared to net loss of \$42.6 million or \$(1.41) per share for the second quarter Q2 of 2023. Four abstracts were accepted for poster presentation at the European Society for Medical Oncology (ESMO) Congress 2024 being held September 13-17 in Barcelona. Bicycle Therapeutics will present four abstracts containing updated clinical data for zelenetide pevonedotin (formerly BT8009) in metastatic urothelial cancer (mUC), BT5528 in advanced solid tumors such as mUC and ovarian, and BT7480 in advanced solid tumors.

**BridgeBio Pharma, Inc. (BridgBio)** – reported Q2 2024 financial results and business updates. As presented at recent medical conferences/publications, Acoramidis showed a significant impact on mortality, hospitalizations, and quality of life, with a 42% reduction in composite cardiovascular hospitalization (CVH) and all-cause mortality (ACM) events by Month 30 compared to placebo. Increased serum transthyretin (TTR) levels by Day 28 correlated with a reduced risk of ACM, cardiovascular mortality (CVM), and CVH through Month 30. The PROPEL 2 Phase 2 study of infigratinib in achondroplasia reported an annualized height velocity (AHV) of +2.50 centimeters per year (cm/yr), at Month 18 in Cohort 5 and a statistically significant improvement in body proportionality. The CEO highlighted the preparation for the commercial launch of acoramidis and the goal of fully enrolling three

Phase 3 clinical programs by the end of 2024, with three readouts expected in 2025.

**Lantheus Holdings, Inc. (Lantheus)** – reported its Q2 2024 financial results, with worldwide revenue increasing 22.5% to US\$394.1 million compared to Q2 2023. The growth was driven primarily by sales of PYLARIFY, which rose 29.8% to \$273.3 million, and DEFINITY, which increased 10.7% to \$78.1 million. The company also completed three strategic transactions to expand its innovative pipeline and maintained its full-year 2024 revenue guidance. Net cash provided by operating activities was \$84.7 million, with free cash flow at \$73.5 million.

**Schrödinger, Inc. (Schrödinger)** – reported strong Q2 2024 financial results with total revenue of US\$47.3 million, a significant increase from \$35.2 million in Q2 2023. Software revenue grew 21% to \$35.4 million, driven by new and existing customer contributions and the renewal of multi-year deals. Drug discovery revenue rose to \$11.9 million from \$5.8 million, reflecting milestone revenue from ongoing collaborations. Software gross margin improved to 80%. Operating expenses increased to \$84.1 million, primarily due to higher R&D costs. The net loss for Q2 was \$54.0 million, compared to a net income of \$4.3 million in Q2 2023. The company had \$381.5 million in cash and equivalents as of June 30, 2024.

**Telix Pharmaceuticals Limited (Telix)** – announced that the U.S. Food and Drug Administration (FDA) has not accepted the Biologics License Application (BLA) for TLX250-CDx, an investigational imaging agent for clear cell renal cell carcinoma (ccRCC). The FDA identified an issue during the administrative review related to sterility assurance during dispensing in the radiopharmacy production environment. Despite this, all Process Performance Qualification (PPQ) batches submitted met the sterility requirements. Telix will address the FDA's concerns and aims to resubmit the application.

## NUCLEAR ENERGY

**BWX Technologies, Inc. (BWXT)** – reported strong Q2 2024 results with revenues of US\$681.5 million and net income of \$73.0 million. Adjusted EBITDA was \$126.2 million. The diluted Generally accepted accounting principles (GAAP) earnings per share (EPS) was \$0.79, while non-GAAP EPS was \$0.82. The company's BWXT-led joint venture secured a management and operations contract for the National Nuclear Security Administration (NNSA's) Pantex Plant. Based on solid performance and favorable market developments, BWXT has revised its 2024 non-GAAP EPS guidance to \$3.10-\$3.20 from the initial \$3.05 - \$3.20. The company noted positive momentum in nuclear markets, supported by recent legislative and acquisition plans, and remains confident in its strategic and financial outlook for the year.

**Constellation Energy Corporation (Constellation)** – saw increased investor interest following PJM Interconnection's capacity auction, which saw a nine-fold increase in capacity prices for electricity, rising from US\$28.92 to \$269.92 per megawatt-day. This significant hike, effective June 2025, could spark state-level discussions on new capacity additions. Constellation Energy reported strong Q2 2024 results, with GAAP net income rising to \$2.58 per share from \$2.56 in Q2 2023, and adjusted earnings increasing to \$1.68 per share from \$1.64. The company raised its full-year earnings guidance to \$7.60-\$8.40 per share. Constellation repurchased \$500 million of stock in the quarter, totaling \$2 billion since 2023. They released their 2024 Sustainability Report,

hosted their second annual Youth Energy Summit, and earned the Great Place to Work certification. Their nuclear fleet achieved high output and efficiency, producing 45,314 Gigawatt-hours (GWhs) with a 95.4% capacity factor. The company continues to focus on carbon-free energy and strong financial performance.

**NuScale Power Corporation (NuScale)** – responded to a short-seller report by Hunterbrook on July 29, 2024. The company emphasized that Hunterbrook has a vested interest in sensationalizing information to manipulate the stock market. NuScale clarified that the Securities and Exchange Commission has not indicated any current or prospective investigation into the company, and NuScale is unaware of any reason for such an investigation.

**Plug Power Inc. (Plug Power)** – has appointed Dean Fullerton, a 14-year Amazon veteran, as its new Chief Operating Officer (COO). Fullerton, who previously oversaw global engineering services at Amazon.com Inc., will now be responsible for project execution, manufacturing, supply chain, and hydrogen generation at Plug Power. In his new role, he will work with the executive team to develop strategic plans, identify growth opportunities, and drive operational improvements, aiming to enhance operational efficiency and foster innovation within the company.



## ECONOMIC CONDITIONS

**Canada's real Gross Domestic Product (GDP)** increased by 0.2% in May following a 0.3% gain the prior month. This was a tick above consensus estimations and Statistics Canada's preliminary estimate. Production rose in both goods (+0.4%) and service (+0.1%) producing industries. On the goods side, manufacturing (+1.0%), agriculture (+0.9%), utilities (+0.7%), and construction (+0.1%) posted gains while mining/oil/gas (-0.6%) was down. On the services side, the top performing sectors were accommodation and food services (+0.9%), education (+0.5%), public administration (+0.4%) and arts/recreation (+0.3%). Overall, 15 of the 20 sectors followed recorded an increase in the month. Industrial production rose 0.5% in the month. Finally, Statistics Canada's preliminary estimate showed that GDP may have risen 0.1% in June. See attached file for more details. In our view, even at 0.2% in May, economic growth remains weak given the demographic boom. Indeed, such a performance is not enough to push up GDP per capita, which resumed its downward trend in May after April's jump. In the light of June's preliminary figures, this trend is set to continue and GDP per capita could have decline for a 20th time in 24 months. A fragile labor market, with the interest rate shock continuing to erode consumer purchasing power, should limit growth in household-related sectors with discretionary spending being particularly at risk.

**U.S. nonfarm payrolls came in well-below consensus forecasts at 114k (thousand)** compared to estimates of 175k. June's job gains were revised down to 179k from an originally reported 206k with overall net revisions of -29k in the past two months. Bottom-line, a sizable U.S. labor market slowdown is already well underway at a time when Federal Reserve Chair, Jerome Powell said he didn't really want to see any material additional slowing. The three-month average of monthly payroll gains slipped to 170k from 267k in the first quarter – a larger than expected drop. Not only that, but the unemployment rate unexpectedly increased for the fourth month in a row to 4.3% from 4.1% in June as the number of unemployed increased by 352k last month. Hurricane Beryl may have had some limited impact on the number as

the hurricane made landfall on July 8, during the reference periods for both the household and establishment surveys. People not at work due to bad weather jumped to an elevated +436k compared to last year's +53k. The U.S. unemployment rate has now increased by six tenths of a percentage point since the beginning of the year and is up nine tenths of a percentage point since the January 2023 low of 3.4%. The Sahm Rule, created by Claudia Sahm, often useful in identifying the start of a recession has now largely been met. If the three-month average of the unemployment rate rises by 0.5 percentage points or more relative to its low during the previous 12 months a recession has begun. Average hourly earnings growth cooled again to 0.2% with the year-on-year rate moderating to a three-year low of 3.6%. Average hours worked also slipped 0.3% to 34.2 hours.

Job growth was uneven across sectors in June. We saw improvement in leisure and hospitality (+23k), trade and transportation (+22k), construction (+25k) and manufacturing (+1k) job gains. Education and health care (+57k), and government (+17k) still added a decent number of jobs too. Yet overall, private services job growth moderated sharply to 72k from 125k in June. Information shed 20k net jobs. Finance lost 4k jobs. Professional and business services payrolls declined by 1k as temporary help employment declines continued.

The large miss in July nonfarm payrolls and jump in the unemployment rate underlines what we have been seeing in the overall U.S. economic data for some time now that aggregate demand is softening rapidly. This clearly gives the Fed the green light in our view to start cutting rates in September, and the market's attention will now shift focus toward how many and how deep the coming cuts will be.

**US Nonfarm productivity growth accelerated** to an annualized 2.3% in the second quarter, up sharply from an upwardly revised 0.4% advance in the first quarter and well above the consensus forecast of 1.8%. Output rose 3.3%, while hours worked increased 1.0%. Despite the acceleration, the year-ago growth rate in productivity moderated to 2.7% from 2.9% as output climbed 3.4% and hours worked rose a much more modest 0.7%. Growth in unit labor costs, or what it costs a business to produce one unit of output, dropped sharply to 0.9% annualized from 3.8% in the prior quarter amid a slower 3.3% increase in hourly compensation. The sharp slowing in unit labor costs drove the year-on-year growth rate down to 0.5%, the lowest since Third Quarter (Q3) 2019Q3. In our view the acceleration in productivity and corresponding slowing in unit labor costs amid a gradually cooling U.S. labor market support the case for the Federal Reserve (Fed) to reduce interest rates in September.



## FINANCIAL CONDITIONS

**U.S. Federal Open Markets Committee (FOMC)** kept rates unchanged at 5.25%-5.50% for an eighth consecutive meeting in July, as was widely anticipated. Markets though were looking for signs that the Fed will cut in September and the FOMC gave them what they wanted. Chairman Powell suggested that a rate cut could come “as soon as” the September's meeting, provided that incoming data remains “consistent with rising confidence on inflation and maintaining a solid labour market”. The Fed says it was “attentive to the risks to both sides of its dual mandate” rather than the previous “remains highly attentive to inflation risks”. The change suggests that risks are now more balanced and the tight policy can ease. The job markets were described as



“moderated” rather than the previous “remained strong”. The Fed gave the nod that a September 25 bps cut is coming unless data surprises.

**The Bank of Jamaica (BoJ)** delivered a dual salvo of hiking rates and announcing a cut in Quantitative Easing purchases which many thought was a high bar given their dovish history. On the policy rate side, the BoJ hiked by 15bps (basis points) as expected, bringing the uncollateralised overnight call rate to 0.25% from “0-0.1%” in a 7-2 vote.

**The Bank of England (BOE)** Monetary Policy Committee voted 5-4 on cutting rates 25 bps to 5.0%. Governor Bailey would have casted the deciding vote. Our strategy team notes that this is Haskel’s last vote on the committee so the committee may turn a little more dovish but remain cautious. The sticky service inflation at 5.7% offers some controversy and interpretation whether the BOE should be cutting. This level is well above the historical average and much higher than what the Bank forecasted in May. Nonetheless, some of the recent upside surprises look temporary and there are two more reports to come before the September meeting.

The U.S. 2 year/10 year treasury spread is now -0.12% and the U.K.’s 2 year/10 year treasury spread is 0.28%. 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 6.73%. Existing U.S. housing inventory is at 4.1 months supply of existing houses as of May 31, 2024 - well off its peak during the Great Recession of 11.1 months and we consider a more normal range of 4-7 months.

The VIX (volatility index) is 29.14 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

**And Finally:** *“It is the mark of an educated mind to be able to entertain a thought without accepting it.” ~ Aristotle*

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

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