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# NEWS HIGHLIGHTS

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

**AUGUST 26, 2024**

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## OWNER OPERATED COMPANIES



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COMPANY NEWS

**Reliance Industries Limited (Reliance)** – Asia’s richest man is now in a battle to hawk fashion to paying customers. Yet in this fight, Mukesh Ambani is getting beaten by a much older conglomerate. Things are becoming serious enough for him to enlist Chinese help. Sales at Trent Ltd., the retail unit of the US\$165 billion Tata Group, have tripled over their pre-pandemic levels in dollar terms. Net profit has surged 12 times. Zudio, the retailer’s in-house fast-fashion brand, has caught the imagination of a young clientele with trendy clothing at cheap prices. Four years ago, there were 80 Zudio stores in India. Last quarter, the count reached nearly 560 in 164 cities. Quick inventory turnover in places where rents are reasonable means high profits even at low margins. Ambani’s Reliance Industries Ltd. has poured more than \$2 billion into its retailing unit over the past year, according to a recent report in The Economic Times. Reliance Retail raised over \$6 billion during the pandemic from sovereign wealth funds in the Middle East and Singapore, along with General Atlantic and Silver Lake Partners. Last year, it took in more money from Qatar Investment Authority, Abu Dhabi Investment Authority and KKR & Co. at a valuation of \$100 billion. Ambani’s No. 1 task is to now lead the unit to a blockbuster initial public offering or a spinoff. For that, he badly needs the fast-fashion crown. Enter, or rather, re-enter, Shein. New Delhi had responded to its 2020 border skirmishes with China by banning some Chinese apps. The e-commerce firm, wildly popular with Indian teenagers, had to leave. As the government starts relaxing its stance, Shein is making a comeback, according to media reports, but with platform, data and operations reportedly controlled by

Reliance. It’s good news for Shein. The world’s largest web-only fashion brand, founded in Nanjing and now headquartered in Singapore, has its own IPO coming up. A partnership with the firm may be the sharpest arrow in Ambani’s quiver. A year ago, Ambani launched Yousta, a store where everything is available under 999 rupees (\$12), pitching it directly against Zudio. But the results aren’t showing, yet. Reliance Retail’s 8% year-on-year sales growth in the June quarter was largely from air-conditioners, refrigerators, TVs and groceries. The company cited tepid discretionary demand for fashion and lifestyle. Granted, with revenue of more than \$36 billion, Reliance Retail is a lot bigger than Trent’s \$1.5 billion-a-year franchise. Nevertheless, the Tata firm racked up 56% expansion in sales last quarter. Growing 5 percentage points faster than overall sales, value retail, excluding food and grocery, will be a \$170 billion market in India by 2026, according to consulting firm Wazir Advisors. Apparel accounts for the biggest share of the pie. With a public float drawing near, Ambani needs a quick win. As part of his succession plan, Ambani has earmarked retail for his 32-year-old daughter, Isha Ambani. He would rather hand over a mature business, a solid No. 1 in key categories, rather than one scrambling for market share and guzzling cash. What’s more, Trent is replicating the success of Zudio’s private brands elsewhere. At Star, the hypermarket chain it runs in collaboration with UK’s Tesco Plc, the share of in-house labels has grown to 72% from 63% in one year, according to the latest quarterly earnings presentation. Ambani has some catching-up to do and Shein is a great name to throw at young buyers. Whatever the outcome of the contest, one thing is clear, when it comes to affordable casual wear, young adults in India are about to be spoiled for choice by two of its largest conglomerates, and all for under \$12.

**Samsung Electronics Co., Ltd (Samsung)** - H, a French artificial intelligence (AI) startup backed by Samsung and venture capital firms, has lost three of its five co-founders before even releasing a product. The startup cited operational differences as the reason for the departures. The company formed earlier this year in Paris with the ambitious goal of developing autonomous agents, systems which can perform a range of tasks, that the startup said would outperform existing AI models.

That pitch drew considerable investor interest, in large part due to the startup recruiting four seasoned scientists from Google DeepMind, Alphabet Inc.'s AI lab. In May, Accel Partners LP lead an unusually large initial financing round for H, totaling US\$220 million. Other investors included Samsung and several billionaires such as former Google chief executive officer Eric Schmidt and LVMH Moët Hennessy Louis Vuitton (LVMH) CEO Bernard Arnault, via his fund. Three months later, three of the H co-founders who joined from DeepMind have left: Karl Tuyls, Daan Wierstra and Julien Perolat. CEO Charles Kantor, a former Stanford University mathematics student, and chief technology officer Laurent Sifre, the fourth DeepMind veteran, remain. The Information reported earlier on the departures, with Tuyls telling the publication the split involved business disagreements. Tuyls didn't respond to a request for comment. Accel's investment in H marked the venture firm's first major deal with a startup building AI models, a sector that many of Accel's rivals had already poured money into. After the departures, H's roadmap and vision remained unchanged, Philippe Botteri, a partner at Accel, said in an emailed statement. Enterprise software firm UiPath Inc. also invested in H, putting \$32.5 million into the startup and promising to work on commercial deals together. UiPath didn't respond to a request for comment.

**Altice USA Inc. (Altice)**- Earlier in August, internet service provider Altice quietly settled the copyright infringement lawsuit filed against it by BMG and others. But a separate legal battle between the internet service provider (ISP) and Warner Music Group is still in full swing. The latter stems from a complaint submitted by Warner Music Group Corp, Sony Music Entertainment, and an array of their subsidiaries in December of 2023. Resembling the settled copyright action levied by BMG as well as Universal Music Group, the newer suit accuses Altice of failing to address subscribers' repeat infringement. And now, despite the resolution of the older disagreement, the involved parties still appear to be slugging it out in connection with the 2023 complaint. Furthermore, the latest twist in the continued dispute, which was ordered into mediation this past May, directly concerns the settled suit. As described by the plaintiffs in an early August motion to compel additional discovery, Altice had produced extensive relevant discovery in the courtroom confrontation with BMG. On the other hand, the ISP had produced, essentially, nothing in the eight months that this case has been pending, according to the filing entities. Thus, the plaintiffs asked the court to make the ISP produce the BMG suit's discovery materials in their entirety within 10 days, attaching a proposed order for good measure. Predictably, Altice fired back, including with a proposed order of its own, and opposed the request as pure overreach, in violation of proper discovery practice, and a source of needless distraction and expense in a case with already significant discovery obligations. Running with those points, the court today set a September 9th hearing on the discovery motion. And while it'll be interesting to see how the sub-dispute unfolds, the bigger takeaway is that this distinct action is playing out notwithstanding the other Altice case's settlement. Also playing out in one form or another are several different infringement suits targeting ISPs. Verizon Communications Inc. was named in a complaint in July, whereas Cox Communications, Inc. (Cox) this month opted to take its long-running infringement showdown to the Supreme Court. December will mark the half-decade anniversary of the massive jury verdict handed down in the same Cox copyright case.

**Ares Management Corporation (Ares)** – Hyatt Hotels Corporation announced the sale of the 1,641-room Hyatt Regency Orlando and an adjacent 45-acre land parcel to affiliates of RIDA Development Corporation and an Ares Management Real Estate fund for approximately US\$1.07 billion. Hyatt will retain a long-term management

agreement for the hotel, along with \$265 million of non-controlling preferred equity and \$50 million in seller financing for the land. This sale aligns with Hyatt's strategy to divest owned assets and reinvest in growth platforms, exceeding its \$2 billion asset-disposition goal set in 2021. RIDA and Ares plan significant renovations to the Hyatt Regency Orlando and have entered into an agreement with Hyatt to develop a new Grand Hyatt hotel on the adjacent land. This development is expected to create a combined total of over 4,000 guestrooms across both properties near the Orange County Convention Center. The transaction represents Hyatt's largest single-asset sale in its history.

**Berkshire Hathaway Inc. (Berkshire)** – has resumed selling its shares in Bank of America Corp, unloading 14 million shares for approximately US\$550 million in recent days. This reduces Berkshire's stake in the bank to 12%, with 928 million shares worth nearly \$37 billion remaining. Berkshire had previously sold about 100 million shares in late July and early August. Speculation is growing about whether Buffett will reduce the stake further, possibly to below 10%, which would reduce reporting requirements, or whether he might ultimately eliminate the position entirely, as he has done with other banks in recent years. Bank of America remains Berkshire's third-largest equity stake, behind Apple and American Express, and is its only significant holding in a traditional bank, apart from a smaller stake in Citigroup.

**Brookfield Asset Management Ltd. (Brookfield)** – is reportedly seeking around US\$10.6 billion in debt from banks to finance a potential take-private acquisition of Spanish pharmaceutical company Grifols SA. This financing would be used to refinance Grifols' existing debt, including loans and high-yield bonds. The deal, if completed, could become one of the largest takeovers of a publicly traded European company since 2022. Grifols' bonds and shares surged following the news, with its 2028 bonds reaching a record gain. The company, which produces medicines from blood plasma, has faced financial challenges, including a short-seller attack and subsequent concerns over cash flow and accounting issues. Brookfield's ability to increase Grifols' debt is limited due to scrutiny over the company's leverage, which has already led to credit rating downgrades by three agencies. Despite these challenges, banks are eager to underwrite large debt deals after a period of limited activity.

**Brookfield Corporation** – Oaktree Capital is in exclusive negotiations to acquire a majority stake (51% to 55%) in two businesses owned by investment bank B. Riley. These businesses include B. Riley's appraisal and valuation services arm and its retail, wholesale, and industrial solutions unit, previously known as Great American Group. The potential deal, which could be announced as early as next week, values the units at around US \$380 million. This development comes shortly after B. Riley's co-founder and co-CEO, Bryant Riley, made an offer to buy the bank, following a decline in the bank's stock due to expected second-quarter losses.



## DIVIDEND PAYERS



GO TO  
PORTLAND GLOBAL  
BALANCED FUND

**TC Energy Corporation** - TC Energy Corporation and its partner Northern New England Investment Company, Inc., a subsidiary of Énergir L.P., today announced the successful completion of the sale of Portland Natural Gas Transmission System. The gross purchase price of US\$1.14 billion includes US\$250 million of outstanding Senior Notes held at

the Portland Natural Gas Transmission System and consolidated on TC Energy's balance sheet, assumed by the buyers. "Completing this transaction demonstrates continued progress towards delivering on \$3 billion in asset divestitures and enhancing our balance sheet strength," said François Poirier, TC Energy's President and Chief Executive Officer. "We remain focused on reaching our 4.75 times debt-to-EBITDA upper limit by year-end, and today's announcement takes us one step closer to achieving this goal." Cash proceeds will be split pro-rata according to the Portland Natural Gas Transmission System ownership interests prior to the sale (TC Energy Corporation 61.7 per cent, Énergir L.P. 38.3 per cent). TC Energy is providing customary transition services and will continue to work jointly with the buyers to ensure the safe and orderly transition of this critical natural gas system.

**Toronto-Dominion (TD) Bank Group** - TD Bank Group announced that it continues to actively pursue a global resolution of the civil and criminal investigations into its U.S. Bank Secrecy Act (BSA)/anti-money laundering (AML) program by its U.S. prudential regulators, the Financial Crimes Enforcement Network (FinCEN) and the U.S. Department of Justice (DOJ). In anticipation of a global resolution, which will include monetary and non-monetary penalties, TD Bank Group has taken a further provision of US\$2.6 billion in its third quarter financial results to reflect the Bank's current estimate of the total fines related to these matters. TD Bank Group expects that a global resolution will be finalized by calendar year end.

TD Bank Group also announced that it has sold 40,500,000 shares of common stock of The Charles Schwab Corporation. The share sale will reduce TD's ownership interest in Schwab from 12.3% to 10.1%. In connection with this sale, TD has agreed not to sell any additional Schwab shares for a period of 45 days, subject to certain exceptions. TD has no current intention to divest additional shares. After giving effect to this provision, TD's Common Equity Tier 1 ("CET1") ratio will be 12.8% as of July 31, 2024. In TD's fourth fiscal quarter, the provision will have a further negative impact of 35 bps on its CET1 ratio from the increase in operational risk. Also in the fourth fiscal quarter, the Schwab share sale will increase TD's CET1 ratio by 54 basis points (bps).

"We recognize the seriousness of our U.S. AML program deficiencies and the work required to meet our obligations and responsibilities is of paramount importance to me, our senior leaders, and our Boards," said Bharat Masrani, Group President and Chief Executive Officer, TD Bank Group. "Our remediation program is well underway. TD has strengthened its U.S. AML program with the addition of globally recognized leaders and talent from across the industry, including experts from regulatory agencies, law enforcement and government. The Bank is also making important investments in data and technology, training, and process design. We are building stronger foundations for our U.S. business, where 30,000 colleagues proudly serve more than 10 million Americans from Maine to Florida," added Masrani. "TD continues to work constructively with our regulators and law enforcement towards resolution of our U.S. AML matters and looks forward to bringing additional clarity to our shareholders, clients and other stakeholders," concluded Masrani.

## LIFE SCIENCES



**Amgen Inc. (Amgen)** – announced that Otezla® (apremilast) is now available in the U.S. for pediatric use, following Food and Drug Administration (FDA) approval earlier this year. Otezla is the first FDA-approved oral medication for treating moderate to severe plaque psoriasis in children and adolescents aged 6 and older, who weigh at least 20 kg (44 lb) and are candidates for phototherapy or systemic therapy. The approval was supported by the SPROUT Phase 3 trial, which demonstrated significant efficacy in reducing symptoms compared to placebo, with safety results consistent with those observed in adults.

**BeiGene, Ltd. (Beigene)** – announced that the company's investigational drug, BGB-16673, has received Fast Track Designation from the U.S. Food and Drug Administration for treating adults with relapsed or refractory chronic lymphocytic leukemia (CLL) or small lymphocytic lymphoma (SLL) who have undergone at least two prior therapies. This designation, which aims to expedite the development of treatments for serious conditions with unmet needs, was supported by safety and efficacy data from a Phase 1/2 study. BGB-16673 shows potential as a therapy for patients whose disease has progressed despite prior treatment options.

**BridgeBio Pharma Inc. (BridgeBio)** – has launched GondolaBio, a new biopharma startup focused on developing therapies for genetic and rare diseases, with \$300 million in funding from a group of prominent investors. BridgeBio has transferred certain early-stage assets to GondolaBio, including programs targeting tuberous sclerosis complex, erythropoietic protoporphyria, and alpha-1 antitrypsin deficiency. Initially, BridgeBio holds a 45% stake in GondolaBio, which may decrease as additional funding rounds occur.

**BridgeBio Pharma** has partnered with the CarDS Lab at Yale School of Medicine to improve the diagnosis of Transthyretin Amyloid Cardiomyopathy (ATTR-CM) using multimodal artificial intelligence. Through the TRACE-AI Network Study, they will deploy a scalable screening toolkit across diverse U.S. health systems to identify individuals with ATTR-CM earlier in their disease course. The study aims to address the underdiagnosis of ATTR-CM, particularly in key socioeconomic and demographic subpopulations, and assess the association between high-risk cases and adverse clinical outcomes.

**Clarity Pharmaceuticals Ltd. (Clarity)** – received Food and Drug Administration (FDA) Fast Track Designation for its imaging agent, 64Cu-SAR-bisPSMA, designed for positron emission tomography (PET) imaging of PSMA-positive prostate cancer lesions in patients with suspected metastasis. This designation, which aims to expedite the development and review of drugs addressing serious conditions with unmet needs, offers several advantages, including faster communication with the FDA, the ability to submit application sections as they are completed, and a potentially quicker review process. This could accelerate the availability of 64Cu-SAR-bisPSMA, improving diagnosis and treatment planning for prostate cancer patients.

Clarity announced changes to its Board of Directors and management team. Non-Executive Director Rob Thomas has retired, and Non-Executive Director Dr. Chris Roberts has been appointed Chair of the Audit and Risk Committee. Michelle Parker, previously promoted to Chief Clinical Officer, will join the Board as an Executive Director. Other key promotions include Dr. Othon Gervasio as Chief Medical Officer and Dr. Matt Harris as Chief Scientific Officer. The company has expanded its team from 41 to 57 members, with a strong emphasis on internal promotions and maintaining a diverse, supportive work environment.

**Telix Pharmaceuticals Ltd (Telix)** – reported strong financial results for the first half of 2024, with a 65% increase in total revenue to AU\$364 million, driven by the continued success of its prostate cancer imaging agent, *Ilucixx®*, in the U.S. The company achieved a net profit after tax of \$29.7 million, a significant turnaround from a net loss in the first half of 2023. Gross margins improved to 66%, and adjusted EBITDA rose by 66% to \$57.5 million. Telix also strengthened its cash position, ending the period with \$118.8 million and securing an additional \$650 million through convertible bond financing. Operationally, Telix made progress with positive clinical trial results for its prostate cancer therapy programs and the expansion of its precision medicine portfolio. The company is on track to achieve full-year revenue guidance and continues to advance its R&D and commercial strategies, including securing regulatory approvals in the EU, UK, and Brazil. Additionally, recent acquisitions have bolstered Telix's manufacturing capabilities, enhancing supply chain robustness and supporting future growth.

## NUCLEAR ENERGY

**Cameco Corporation** – Westinghouse Electric Company has received approval from the U.K. Department of Energy Security and Net Zero (DESNZ) to begin the Generic Design Assessment (GDA) process for its AP300 Small Modular Reactor (SMR). This marks the first step in a two-stage process, involving collaboration with the Office for Nuclear Regulation, the Environment Agency, and possibly Natural Resources Wales. The AP300 SMR is based on Westinghouse's proven Gen III+ AP1000 technology, which has been previously approved in the U.K., U.S., and China, and meets European Utility Requirements (EUR) standards. The approval follows the AP300 SMR's selection for the Great British Nuclear program and by Community Nuclear Power, Ltd. to build four reactors in Northeast England. Leveraging Westinghouse's 75-year nuclear manufacturing history in the U.K., the AP300 SMR aims to offer reduced delivery risks and streamlined licensing due to its reliance on the established AP1000 technology. The first operational AP300 unit is expected in the early 2030s, with the reactor design being considered by customers in the U.K., Europe, and North America. Shares of uranium companies surged after Kazatomprom, the world's largest uranium producer, lowered its 2025 output forecast to 25,000-26,500 tonnes from the previously expected 30,500-31,500 tonnes. The company also reported that its inventories had fallen to 6,132 tonnes, the lowest level recorded, as sales outpaced production in the first half of 2024.



## ECONOMIC CONDITIONS

**Canadian Retail Sales** – Canadian retail sales decreased 0.3% in June to C\$65.7 billion, in-line with consensus expectations for a 0.3% contraction. Consumer outlays declined in 4 of the 9 subsectors, led by motor vehicles/parts dealers (-2.1%), gasoline stations (-0.5%), sporting goods/hobbies/misc. (-0.8%) and health/personal care (-0.2%). On the flip side, three categories registered monthly gains, notably food/beverage retailers (+1.2%), clothing/accessories (+1.0%) and building materials/supplies (+0.6%). The two remaining sectors were flat. Excluding autos, retail sales were up 0.3% in the month, a better result than the one expected by the median economist forecast (-0.2%). On a regional basis, sales were down in 7 of the ten provinces, with the biggest decreases occurring in Ontario (-0.4%), Manitoba (-2.2%) and Nova Scotia (-2.0%). Retail sales were essentially flat elsewhere with only a marginal gain for Newfoundland (+0.2%). In real terms, retail sales edged up 0.1% Canada-wide. Finally, Statistics Canada's early estimate for July suggests nominal sales could have increased 0.6% in the month.

**US Residential Real Estate Sales** – The struggling US residential market took a small step forward in July. Existing home sales rebounded 1.3% to an annualized pace of 3.95 million. This was in-line with the consensus forecast and retraces about a quarter of the 5.1% decline in June. The first increase in five months was driven entirely by a 1.4% rise in single family home sales, the first upturn since February. Condo/co-op sales were flat after decreasing 5.0% in June. Despite the monthly rebound, existing home sales have declined year-on-year for 36 consecutive months amid high mortgage rates and low affordability. There was some encouraging data on the inventory front. Total housing inventory was 1.33 million units, up 0.8% from June and 19.8% higher than a year ago. That equates to a 4.0 months' supply at the current sales pace, down from 4.1 in June but up from 3.3 a year ago. Despite the upswing in inventory, the median existing home price climbed 4.2% from a year ago to \$422,600, the thirteenth month in a row of year-on-year price gains. The weakness in home sales is likely to continue until the US Federal Reserve starts cutting interest rates in September.

**U.S. Durable Goods Orders** – U.S. durable goods orders jumped 9.9% in July, fully erasing the prior month's 6.9% drop. The better-than-expected figure was thanks to the nice rebound in transportation equipment; The Boeing Company bookings soared after falling in June and defense aircraft bookings also took flight. Still, orders excluding transportation dipped 0.2%, with communications (-1.1%), primary metals (-0.9%), and electrical equipment (-0.4%) leading to the downside. Core capital goods orders—a gauge for business investment—fell 0.1%, following a downwardly revised 0.5% gain in the prior month. Meanwhile, the control measure of core shipments (incl. aircraft)—an input for GDP—jumped 4.7%, after June's 6.1% pop. This would suggest a solid start to quarter three (Q3) business equipment spending. Durable goods orders jumped nicely in July, though that was entirely due to the surge in volatile transportation bookings. While this provides a nice start to Q3 business equipment spending, it's likely that we'll see a pullback in August.



## FINANCIAL CONDITIONS

**US Interest Rates** – America’s top central banker has unambiguously signaled that lower interest rates are finally on the horizon, marking a crucial milestone for the US Federal Reserve’s historic — and, so far, successful — inflation fight. “The time has come for policy to adjust,” Fed Chair Jerome Powell said in prepared remarks for his keynote speech at an annual gathering of central bankers and economists in Jackson Hole, Wyoming. “We will do everything we can to support a strong labor market as we make further progress toward price stability.” The Fed chief also expressed confidence in the US economy’s ability to pull-off a so-called soft landing, an extremely rare outcome in which inflation is tamed without a sharp rise in unemployment. Such an achievement has only happened once, in the mid-1990s. “With an appropriate dialing back of policy restraint, there is good reason to think that the economy will get back to 2% inflation while maintaining a strong labor market,” he said. Stock markets responded positively to Powell’s comments, with all three major indexes ending the day higher Friday. “Powell has rung the bell for the start of the cutting cycle,” said Seema Shah, chief global strategist at Principal Asset Management, in a note Friday.

The U.S. 2 year/10 year treasury spread is now -0.11% and the U.K.’s 2 year/10 year treasury spread is -0.12%. 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 6.46%. Existing U.S. housing inventory is at 4 months supply of existing houses as of Aug 22, 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 16.47 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.


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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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PIC24-050-E(08/24)