

# News Highlights

Owners. Operators. And Insightful Investors.

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**PORTLAND**  
INVESTMENT COUNSEL®

Established in 2007

Our views on economic and other events and their expected impact on investments.

September 29, 2017

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## Owner Operated Companies

**Carnival Corporation** – Cruise operator Carnival rode out the first effects of a devastating hurricane season for the Caribbean to raise its full-year forecast for earnings and report a better than expected quarter to the end of August. Carnival said it expects a 10% to 12% per share impact on its Q4 earnings due to the closures of around 7% to 9% of ports in the Caribbean in the wake of Hurricanes Irma and Maria. “The Caribbean is open for business and is going strong,” Chief Executive Arnold Donald said on a conference call. The company is the owner of the Queen Mary II and Queen Elizabeth cruisers through its Cunard line as well as Princess and AIDA Cruise lines and calls at nearly 50 Caribbean ports, all but five of which were now open for business.

Carnival has benefited from a recent spurt in interest in cruising, as customers prefer to spend more on experiences such as holidays, instead of buying clothes and accessories. Net revenue yield, a closely watched metric that measures spending per person per available berth, rose 5.5% in Q3 on a constant currency basis. Bookings for the fourth quarter and 2018 were above last year’s levels at higher prices, including for the Caribbean cruises, the company said.

Adjusted earnings were \$2.29 per share in Q3 ending Aug. 31. Revenue rose 8.2% to \$5.52 billion. Analysts on average had expected \$5.39 billion, according to Thomson Reuters I/B/E/S. The company’s net income, however, fell 6.3% to \$1.33 billion, or \$1.83 per share, in Q3, hurt by a \$392 million charge related to the write down of some assets in Australia. The company now expects adjusted earnings for the year to range between \$3.64 and \$3.74 per share, up from its prior forecast of \$3.60 to \$3.70 per share. It also raised its forecast for net revenue yields, at constant currency, to increase about 4%, up from its previous forecast of a 3.5% increase.

## Energy Sector

**Veresen Inc.** – The Calgary-based operator has sought permission for the construction and operation of a 7.8 million tonne per annum liquified natural gas (LNG) export terminal in Coos Bay, Oregon. It also urged FERC (Federal Energy Regulatory Commission) to grant permission for the Pacific Connector gas pipeline that will bring natural gas from the Malin Hub in southern Oregon to the LNG export terminal. Both LNG export terminals and the gas pipeline projects are estimated to incur about \$10 billion in engineering, procurement and construction (EPC) costs to the company. They are expected to enter operations in 2024. The project is expected to generate about \$60 million in annual property taxes, including \$20 million from Pacific

Connector in the counties through which the pipeline crosses. During the construction phase, the LNG project will create 6,000 jobs and more than 200 new permanent jobs upon commissioning.

## Financial Sector

**Barclays PLC’s** investment-banking boss, Tim Throsby, says he plans to reignite “commercial zeal” within the firm’s worst-performing unit, ending five years of risk-averse retrenchment that’s left traders trailing U.S. rivals. Throsby’s comments signal a change in tone at Barclays, which since losing former Chief Executive Officer Bob Diamond due to the Libor-rigging scandal in 2012 had been keen to emphasize the less controversial and more profitable consumer parts of its business. Current CEO Jes Staley, also a former JPMorgan dealmaker, faced down calls from investors to spin off the investment bank early in his tenure, embarking on a recruitment drive from his former employer, and recently hiring high-profile hedge fund traders.

## Activist Influenced Companies

**Nomad Foods Limited** – Activist hedge fund group Elliott Associates, L.P. secured a 5.7% stake in Nomad Foods (NOMD) after acquiring 9.4 million shares of the company together with Elliott International Ltd. and International Advisors, a regulatory filing showed on Monday. Elliott Associates has been the standout activist of the year with vigorous campaigns not just at the well-publicized Arconic boardroom fight, but also BHP Billiton PLC, Gigamon and athenahealth, Inc. Elliott is a key beneficiary of the restructuring process at Peabody Energy Corporation, where it is currently the second largest shareholder. Nomad Foods current top owners also include activist Corvex Management LP as well as the company’s founders Noam Gottesman and Martin Franklin. As we revealed in one of our previous newsletters, earlier in the month, Bill Ackman’s Pershing Square Holdings, Ltd. exited its nearly 20% stake in the company. Nomad Foods has been a core holding of Portland Advantage Plus – Value Fund and Portland Value Fund and a key contributor to its performance over the past year.

## Dividend Payers

**Aryzta AG** announced on Wednesday that the Chairman had acquired 4,000 shares (to a total of 9,650) and the CEO 3,624 shares on Sept. 26, representing a total amount of CHF 213,624 (0.01% of capital). The announcement goes in the right direction in our view but, in light of the volume, it is unlikely to convince investors that management’s interests are aligned with theirs until such purchases increase.

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**Dufry AG** will open a new downtown retail store at Genting Highlands, which is an entertainment and shopping resort close to Kuala Lumpur. The 1,146m<sup>2</sup> store represents 3.7% of the total retail space in Asia/Middle East and is the first store in Malaysia. In Asia Dufry operates stores in China, Hong Kong, Macao, India, South Korea, Indonesia, Singapore and Sri Lanka and adds now Malaysia. Dufry currently just has 10% of its sales in Asia/Middle East and it is a target to expand in this region; it just adds 0.3% to the group's retail space, but the entry into the Malaysia travel retail market fits well to Dufry's strategy in our view.

**Nestlé SA** – conference update – management: confirms mid-single digit organic growth target for 2020; sets underlying trading operating profit margin target of 17.5% to 18.5% by 2020. Third Point the activist shareholder had asked for 18-20%; affirms strategic focus on food and beverages, with consumer healthcare as additional growth platform; confirms CHF 20 billion available for M&A and share buybacks over the next 3 years. Nestlé intends to accelerate buybacks by spreading them evenly over three years.



## Economic Conditions

**U.S. consumer confidence** slipped in September, weighed by the current environment ("present situation") but offset by stronger expectations for what lies ahead. The headline for the Conference Board's index fell 0.6 pts in September, the first setback since June, to 119.8, a 3 month low. The view on the present situation was negative, sliding 2.3 pts (first drop since April) to a 2 month low of 146.1, likely due to the impact of two major hurricanes hitting the U.S. in quick succession (Harvey and Irma), and the threat of more storms to follow (Jose, Katia, Lee, Maria?) Confidence in Texas and Florida "decreased considerably", according to the Conference Board. But the "expectations" component, which can be seen as key for future spending, picked up 0.5 pts to a 2 month high of 102.2 ..... Encouraging but not enough to erase the prior month's drop. Mother Nature can be mostly blamed for this reading as the labour market remained healthy. Fewer respondents felt that jobs were hard to get (good news), but fewer also viewed jobs as plentiful (bad news). On net, however, most respondents still saw job market in a positive light, which suggests that the jobless rate stayed south of 4.5% in September. And it was interesting to note that the inflation expectations picked up to their highest level in eight months (4.9%).

**U.S. durable goods orders** rose 1.7% in August, lifted by a 44.8% surge in nondefense aircraft & parts. But the latest increase does not erase July's deep 6.8% drop and besides, the headline is volatile. So look beyond the headline. Excluding transportation, orders edged up 0.2%, roughly in line with expectations. The gains were fairly broad-based and included the likes of computers/electronics, machinery, communications, and autos.

**Japan** - Prime Minister Shinzo Abe has called a snap general election that will likely decide whether Japan sustains its massive economic stimulus and will shape the country's future until the 2020 Tokyo Olympics and beyond. (Financial Times).



## Financial Conditions

The U.S. 2 year/10 year treasury spread is now .85% and the U.K.'s 2 year/10 year treasury spread is .92% - meaning investment banks remain constrained from profiting from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above costs of capital.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 3.83 (was 3.31% end of November 2012, the lowest rate since the Federal Reserve began tracking rates in 1971). Existing U.S. housing inventory is at 4.4 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, economic recovery, job creation, and low prices are still supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now at the low end of a more normal range of 4-7 months.

The VIX (volatility index) is 9.67 (compares to a post-recession low of 10.7 achieved in early June) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

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## Mutual Funds

Portland Investment Counsel Inc. currently offers 8 Mutual Funds:

- [Portland Advantage Fund](#)
- [Portland Canadian Balanced Fund](#)
- [Portland Canadian Focused Fund](#)
- [Portland Global Income Fund](#)
- [Portland Global Banks Fund](#)
- [Portland Global Dividend Fund](#)
- [Portland Value Fund](#)
- [Portland 15 of 15 Fund](#)

## Private/Alternative Products

Portland also currently manages the following private/alternative products:

- [Portland Focused Plus Fund LP](#)
- [Portland Focused Plus Fund](#)
- [Portland Private Income Fund](#)
- [Portland Global Energy Efficiency and Renewable Energy Fund LP](#)
- [Portland Advantage Plus Funds](#)
- [Portland Private Growth Fund](#)
- [Portland Global Aristocrats Plus Fund](#)

Individual Discretionary Managed Account Models - [SMA](#)

## Net Asset Value:

The Net Asset Values (NAV) of our investment funds are published on our Portland website at <http://www.portlandic.com/prices/default.aspx>

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**Glossary of Terms:** 'boe' barrel of oil equivalent, a measurement of a unit of energy, 'boed' refers to barrel of oil equivalent per day, 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'ROE' return on equity, 'ROTE' return on common equity.

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