

# 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.*

October 9, 2018

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## Owner Operated Companies

**Alphabet Inc.'s** Google will shut down the consumer version of its failed social network Google+ and tighten its data sharing policies after announcing that private profile data of at least 500,000 users may have been exposed to hundreds of external developers. The issue was discovered and patched in March as part of a review of how Google shares data with other applications, Google said in a blog post. No developer exploited the vulnerability or misused data, the review found. Google said none of the thresholds it requires to disclose a breach were met after reviewing the type of data involved, whether it could identify the users to inform, establish any evidence of misuse, and whether there were any actions a developer or user could take to protect themselves. Google+ launched in 2011 as the advertising giant grew more concerned about competition from Facebook Inc., which could pinpoint ads to users based on data they had shared about their friends, likes and online activity. Google+ copied Facebook with status updates and news feeds and let people organize their groups of friends into what it calls "circles." Google+ will remain an internal networking option for organizations that buy Google's G Suite, a bundle of apps for creating documents, spreadsheets and presentations. Google's plan to withdraw the free version of Google+, scheduled for August, could help strengthen its case to U.S. policymakers and regulators that it is different from Facebook, which has faced political heat over allegations that data belonging to 87 million of its users was improperly shared with political consultancy Cambridge Analytica.

**Brookfield Asset Management Inc.** – A consortium comprising Peel Group, Saudi Arabia's Olayan and property investor Brookfield Asset Management announced that it was considering a bid for Intu Properties PLC, a retail property business located in Britain. Pressure on Intu, the company behind sites such as Manchester's Trafford Centre, is expected to increase as tenants including New Look Retail Group Ltd., Toys "R" Us, Inc., and Prezzo Limited restructure or enter administration. The Olayan Group and The Peel Group, the investment vehicle of the family of billionaire John Whittaker, together hold 29.9%. Under British takeover rules the consortium has until November 1st to make a firm offer or walk away. Intu, which has a market value of £2 billion (\$2.6 billion), said it had not been contacted by the consortium but had set up an independent committee to consider any approach. A takeover could offer an opportunity to take the company private.

**Walgreens Boots Alliance, Inc.** – U.S.-based supermarket retailer The Kroger Co. is set to pilot a new shopping concept across 13 Walgreens stores in Northern Kentucky, U.S. The partnership

between the two companies will see Kroger's grocery and food retail expertise combine with Walgreens global expertise in pharmacy, health and beauty. The pilot will run over the next several months and will collect feedback from customers. Walgreens' Executive Vice Chairman and CEO Stefano Pessina said: "This innovative new concept is an opportunity to test and learn, as we determine how we can best work together to further elevate our customer offering. As part of the collaboration, Kroger and Walgreens will focus on developing and testing a one-stop shopping experience offering products from both the companies. The partnership allows customers to place online orders for Kroger grocery items and pickup then at participating Walgreens locations. Walgreens will also feature Simple Truth and Our Brands grocery item brands at its participating locations. Kroger currently operates 2,800 retail food stores under a range of brands across the U.S. whereas Walgreens operates approximately 9,800 drugstores in 50 states of the U.S., the District of Columbia, and Puerto Rico.

## Energy Sector

**LNG Canada Development Inc.** – The CAD \$40 billion LNG Canada project led by Royal Dutch Shell PLC was given the go-ahead by the Anglo-Dutch giant and its partners, making it the fuel's first major new project to win approval in recent years. Construction will start immediately, with first shipments of the super-chilled fuel expected before 2025, aiming to feed surging demand from Asian buyers, primarily China. LNG from the project will reach Asia in about half the time it takes from the U.S. Gulf Coast, LNG Canada said. Global LNG demand is expected to double by 2035, with much of that growth coming from Asia where gas is displacing coal, it said. At the same time, output from older projects is set to decline in coming years, just as soaring demand from China, India and Southeast Asia is devouring a supply glut previously expected to last for years, fanning fears that an LNG shortage may be looming. LNG Canada, to be built in the northern community of Kitimat, British Columbia, also marks the largest private-sector investment project in Canadian history, Prime Minister Justin Trudeau said at a Vancouver news conference. The project was approved by all its stakeholders - Shell, Malaysia's Petroliaam Nasional Berhad (Petronas), PetroChina Company Limited, Korea Gas Corporation (KOGAS) and Japan's Mitsubishi Corporation. The project's CAD \$40 billion price tag includes the export terminal, the associated pipeline, pre-construction and site work, contingency and upstream carrying costs. Within that broader number, the cost of building the terminal has been pegged at \$14 billion, with the Coastal GasLink pipeline running CAD \$6.2 billion. Pipeline operator TransCanada Corp said it expects to start construction on the pipeline in early 2019, which will carry natural gas from the Montney gas-

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producing region of British Columbia and Alberta to the LNG Canada facility. The project owners will provide their own natural gas supply and will individually market their share of LNG. LNG Canada's initial output will be 14 million tonnes per annum (Mtpa) from two trains, or processing units, with the option to add two more trains to expand to 28 Mtpa. The project will boost Canada's oil patch, which has struggled to attract investment amid pipeline constraints and investor malaise over a recent court decision overturning the approval of the Trans Mountain pipeline expansion.

## Financial Sector

**Citigroup Inc.** plans to boost the United Arab Emirates' (UAE) role as an offshore booking centre and is working towards a full banking license in Saudi Arabia, helping to propel its regional growth, a senior executive told Reuters. Growth in the Middle East and Africa region is expected to be above the market average of around 4% in 2018 and 2019, driven by both countries, Atiq Rehman, Citi's Chief Executive of Middle East and Africa, said in an interview. "We are focused on what we can do within the UAE and very focused on what we can do from the UAE," he said. "We want to grow our business here and make it into a regional offshore booking centre for a lot of our loans." More of the bank's multinational corporate clients were using the United Arab Emirates as a centre for their business in Middle East and Africa, he said. (Source: Reuters).

## Activist Influenced Companies

**Pershing Square Holdings, Ltd.** – Pershing Square's Bill Ackman reportedly plans to unveil a new idea at Grant's Interest Rate Observer fall conference in New York, his first new stake since a Lowe's Companies, Inc. holding was disclosed in May. Ackman, in August on his hedge fund's results conference call, said he has a new undisclosed position that accounts for about 10% of his portfolio. Lowe's has climbed 28% since the Wall Street Journal reported on May 23rd that Ackman took a position in the home-building retailer, including a 10% increase the day the story was published. Ackman also took a stake in United Technologies Corp. earlier this year, pushing for the conglomerate to break into three parts. Shares have risen 4.2% since CNBC first reported the stake in late February. Automatic Data Processing, Inc. shares are up 29% since Ackman revealed a stake in July 2017. Ackman also bought and sold a stake in Nike Inc. this year that made a profit of about \$100 million in just a few months. In August, Ackman also sold down some of his stake in Chipotle Mexican Grill Inc. as part of a portfolio rebalancing. Pershing Square last week reported a net return of 15.8% year-to-date through the end of September after posting a net loss of 4% in 2017 following a 13.5% drop in 2016.

## Dividend Payers

**BCE Inc.** has announced the appointment of Mirko Bibic as Chief Operating Officer for BCE and Bell Canada, likely part of the broader CEO succession plan. As Chief Operating Officer, Mr. Bibic will leverage his deep knowledge of Bell's business and his experience in executing major corporate initiatives to lead the company's largest customer-facing business units. Effective today, Rizwan Jamal, President of Bell Residential and Small Business; Blaik Kirby, President of Bell Mobility; and Tom Little, President of Bell Business Markets report to Mr. Bibic in his role as COO. Mr. Bibic will also continue to lead legal and regulatory strategy for BCE and the Bell group of companies. Mr. Bibic has been a key driver in the success of Bell's broadband investment and innovation strategy as Executive Vice President of Corporate Development. This includes his oversight of strategic M&A transactions such as the acquisitions of Astral Media Inc., and Manitoba Telecom Services Inc., Bell's participation in multiple wireless spectrum auctions, and a wide range of other investment and partnership initiatives. "Mirko is a leader who delivers results, and he has played a critical role in Bell's successful transformation into Canada's broadband communications leader over the last decade," said George Cope, President and CEO of BCE and Bell Canada.

**Roche Holding AG** - Positive interim data of pivotal trials presented for risdiplam in spinal muscular atrophy (SMA) at the World Muscle Society (WMS) annual meeting. Risdiplam is being investigated in 2 pivotal phase 2/3 trials: in type 1 (FIREFISH) and type 2&3 SMA (SUNFISH). Roche presented positive interim data from the dose-finding parts of the trials. FIREFISH (n=21) data showed patients treated with risdiplam surviving and achieving developmental milestones beyond the natural history of the disease: 3 patients are more than 2 years old and 3 achieved unassisted stable sitting, a development milestone typically not reached. SUNFISH showed that risdiplam improved motor function in patients 2-24 years old. Risdiplam was well tolerated and confirmatory efficacy & safety portions of the trials are ongoing, with filing expected in 2019. SMA is an inheritable neuromuscular disease with 3 severity types (1-3) where a defect gene (SMN1) causes progressive muscle wasting and mobility impairment. SMA is fatal for 40% of type 1 patients within their first year of life and severely affects motor functions in type 2&3 patients. Risdiplam is an oral, small molecule designed to rescue SMN protein levels through modifying splicing. This data - albeit early - are supportive of risdiplam's benefit.

## Economic Conditions

**Canadian employment** surged 63K in September according to the Labour Force Survey, above consensus which was looking for a 25K print. The participation rate rose to 65.4% (from 63.4%) but

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that didn't prevent the unemployment rate from dropping to 5.9%, courtesy of the large job gains. Private sector employment rose massively by 96K while public sector jobs remained essentially unchanged and self-employed dropped by 35K. Employment in the goods sector rose by 45K with increases in all sub-categories (manufacturing, construction, resources, agriculture and utilities). Services-producing industries saw a 18K rise in employment with sharp gains in trade, finance and public administration more than offsetting pullbacks in information/recreation and business services. Full time employment was down 17K but that was more than offset by the huge 80K gain in part-time positions. Hourly earnings were up 2.4% year/year, dropping from 2.9% the prior month.

**Canada's merchandise trade** balance swung back into a surplus position for the first time since December 2016, coming in a +CAD \$0.53 billion. That was much better than consensus expectations which were anticipating a -CAD \$0.50 billion print. The move was the result of nominal imports (-2.5%) dropping faster than nominal exports (-1.1%). The energy trade surplus widened a bit to CAD \$7.03 billion while the non-energy trade deficit shrank from CAD \$7.20 billion to CAD \$6.50 billion. Meanwhile, the goods trade surplus with the U.S. stayed roughly stable at a post-recession high of CAD \$5.35 billion. In real terms, imports declined 1.5% while exports retreated 0.7%. And so the reality is that this seemingly positive figure hid a rather weak trade report. Indeed, the overall merchandise balance improved mainly because of a drop in imports (the latter have now fallen in four of the last five months in volume terms). Specifically, real imports of consumer goods receded no less than 3.6% in the month, an indication that demand may be slowing in the country.

**U.S. nonfarm payrolls disappointed with a 134,000 gain in September.** Hurricane Florence may have affected some industries but the lower gain is likely more due to payback from recent strength. August's increase was marked up to 270,000, and the two-month revision tallied 87,000. The three-month average (190K) is a modest step back from the six-month pace (203K), but surprisingly healthy despite worsening labour shortages. Industry gains were widespread, with a notable rebound in manufacturing. Household survey jobs snapped back 420,000 after a slightly larger decline the prior month. This lowered the unemployment rate to 3.7% (3.683%), last seen in late 1969. Average hourly earnings rose 0.3%, trimming the yearly rate from nine-year highs to 2.8%.

The **U.S. nonmanufacturing ISM** unexpectedly jumped 3.1 pts (second increase in a row) to 61.6, the second highest ever (or at least since the series began in 1997). Employment increased for the third straight month, up 5.7 pts to a record high 62.4. Either employers unearthed a new state filled with workers, or the existing workforce suddenly became more qualified to do the job. Interesting. New orders edged up 1.2 pts to 61.6, a 3-month high, pointing to stronger activity ahead. Business activity jumped 4.5 pts to a 14½-year high of 65.2. Supplier delivery delays lengthened, though (+1

pt to a 4-month high of 57.0). Of the 18 industries in the survey, 17 reported growth, the most in a few months.

## Financial Conditions

The U.S. 2 year/10 year treasury spread is now 0.34% and the U.K.'s 2 year/10 year treasury spread is 0.80% - 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. Also, the narrowing gap between yields on the two-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.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 4.71% (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 4.0 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 16.55 (compares to a post-recession low of 9.52 achieved in early November) 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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## 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:

- [Bay & Scollard Development Trust](#)
- [ITM AG Investment Trust](#)
- [Portland Advantage Plus - Everest and McKinley Funds](#)
- [Portland Focused Plus Fund LP](#)
- [Portland Focused Plus Fund](#)
- [Portland Global Aristocrats Plus Fund](#)
- [Portland Global Energy Efficiency and Renewable Energy Fund LP](#)
- [Portland Global Sustainable Evergreen Fund](#)
- [Portland Global Sustainable Evergreen LP](#)
- [Portland Private Growth Fund](#)
- [Portland Private Income Fund](#)
- [Portland Special Opportunities Fund](#)
- [Portland Value 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 [www.portlandic.com/prices](http://www.portlandic.com/prices)

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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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