

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 24, 2018

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Owner Operated Companies

The Kraft Heinz Company has reportedly agreed to sell a portfolio of its Indian businesses including brands such as malt-based drink Complan and energy drink Glucon-D, for 45.95 billion rupees (\$627.18 million). Indian pharmaceutical and consumer products company Zydus Wellness Limited and its parent Cadila Healthcare Limited will jointly buy the assets to expand their portfolio to also include brands such as talcum powder Nycil and clarified butter, Sampriti Ghee. "The sale of this niche business fits into our overall global growth strategy and our focus on investing in and growing brands within our core categories," Kraft Heinz Chief Executive Bernardo Hees said in a statement. Kraft Heinz, which will also sell two manufacturing facilities as part of the deal, said it will continue to grow its Heinz sauces and other Kraft businesses in India.

Energy Sector

Nothing significant to report.

Financial Sector

Barclays PLC Q3 2018 Profit Before Tax (PBT) Q3 2018 was £1,461 million compared with consensus £1,328 million. However, included was -£41 million on revaluation of Visa Inc. preferred shares. Underlying PBT Q3 2018 was £1,502 million or +13% (+£174 million) ahead. That said beat was driven completely by Impairments which included the benefit of better macro inputs. Pre-provision £1,736 million was -5% light with year/year income flat and costs +2% (albeit Barclays would argue that consensus excludes uncollected litigation & conduct costs). Barclays remains inexpensive on 0.65x 2018 estimated tangible book. However, until its ROTE moves sustainably higher than approximately 8% it is not particularly cheap either, given increasingly real Brexit risks in our view. Revenue – at £5.2 billion was -1% (-£29 million) light against consensus driven by the Investment Bank where revenue was -2% year/year, including poor Banking and Corporate lending. Indications are that Banking fees have started Q4 well. Markets businesses performed well, +18% year/year (-13% v Q2). Retail income was better than expectations, +3% on Q2 with flat Net Interim Margin (rate rise at start of Q3) and fee income +7% quarter/quarter. Impairments - At £254 million were -50% (+£256 million) better than expected and -10% on Q2. CET 1 - 13.2% ahead of consensus 13.1% (12.7% fully loaded). Risk Weighted Assets of £316 billion were -1% over the quarter. Barclays confirm they will repurchase outstanding preference shares at a -0.3% hit to CET 1 ratio in Q4, but will be rewarded by

approximately £166 million below the line benefit next year. Tangible NAV - At 260 pence including payment of Q2 dividend (2.5 pence) during Q3.

Fifth Third Bancorp reported Q3 2018 EPS of \$0.61. Excluding the impact of a \$17 million charge from the valuation of its Visa total return swap and equity securities losses, EPS was \$0.64. Consensus was \$0.63. Relative to Q2 2018, results exhibited higher net interest income (+2%) reflecting an increase in average earning assets (+0.5%) and wider net interest margin (+2bps); higher core fee income (driven by private equity investment gains); stable core expenses (lower employee benefits offset by other); a higher loan loss provision (\$14 million reserve build vs. \$63 million release in Q2 2018) but lower Non Performing Assets (-3bps) ratio; and a reduced share count (-2.4%).

HSBC Holdings PLC is getting back into U.S. consumer lending almost a decade after it was forced to write off \$10.6 billion for its last foray into that market. The bank said last week that it is launching a digital lending platform for US customers in the first half of 2019. The platform will be powered by online lender Avant, which has already processed almost \$5 billion of loans for more than 600,000 customers. "The U.S. unsecured personal loan market is growing at 20% annually and has surpassed \$125 billion in balances," said Pablo Sanchez, Regional Head of Retail Banking and Wealth Management for HSBC in the U.S. and Canada. (Source: Financial Times)

Activist Influenced Companies

Nothing significant to report.

Dividend Payers

AT&T Inc.'s quarterly profit for the latest quarter rose less than expected, held back by its declining satellite TV business. The second-largest U.S. wireless carrier has been reducing its dependency on the phone business with its \$85 billion acquisition of Time Warner Inc. this year. However, AT&T lost more satellite TV customers than expected in the third quarter, shedding a net 359,000 subscribers, as viewers move to services like Netflix Inc. and Hulu, LLC. It lost 251,000 in the same period last year. Meanwhile, DirecTV Now, the company's "over-the-top" streaming video service that was launched to lure back viewers who had dropped more expensive satellite TV services, added only 49,000 net subscribers in the quarter, much lower than the 296,000 it added

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last year. AT&T has pared back promotional offers for DirecTV Now to focus on reaching profitability, according to the management. AT&T gained a net 69,000 post-paid phone subscribers in the U.S. The new WarnerMedia segment, which includes Turner and premium TV channel HBO, reported revenue of \$8.2 billion during the quarter. WarnerMedia recently announced it will introduce a new subscription video service by the end of 2019, anchored by HBO. Within a year, the service will also reportedly include original content. Third-quarter net income attributable to AT&T rose to \$4.7 billion, or \$0.65 per share, from \$3.0 billion, or \$0.49 per share a year earlier. Total operating revenue rose 15.3% to \$45.74 billion, beating analysts' expectation of \$45.65 billion.

Bunzl PLC - Group constant currency revenue growth: +7% year/year in Q3, with organic growth of approximately 4%, in line with Q2, with an approximately 3% contribution from acquisitions, net of disposals. Trading in the third quarter was better than expected with some fearing a slowdown in growth as the group faces tougher comparatives through the second half of the year. The higher organic growth could be a reflection of better pricing in the U.S. in our view, as the company looks to offset its own cost inflation. Management says trading is in line with its expectations, an implicit reiteration of full year consensus in our view. One new acquisition announced in Brazil, Volk do Brasil, a distributor of personal protection equipment, with sales of approximately £40 million in 2018, which would add approximately 0.5% to group sales, 6% to the Rest of the World segment.



Economic Conditions

Nothing significant to report.



Financial Conditions

The Bank of Canada raised rates to 1.75% as was widely expected, but removed the reference to a gradual pace of rate hikes (though they are holding on to their mantra for data dependence). Currently we look for the next Bank of Canada rise in January, with follow up increases in July and October 2019. The Bank still indicates that it will be monitoring how the economy is adjusting to higher rates which we believe is really another way of leaving open the option to be gradual if need be. In the press conference the discussion was around rates still being 'stimulative' with the need for returning policy rate to 'neutral'. Offsetting that, the Bank listed the U.S./China trade conflict at the top of its 'Risks to Inflation Outlook' section

The U.S. 2 year/10 year treasury spread is now 0.27% and the U.K.'s 2 year/10 year treasury spread is 0.71% - 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 4.85% (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 21.90 (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.

And Finally ... we'll be taking a short break so please expect next newsletter week commencing Monday November 5th.

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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

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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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