

PEMBROKE

Pembroke Virtual Lunch Series

Managing Portfolios During Uncertain Time

Discussion with Pierre Fitzgibbon, Quebec Minister of Economy and Innovation

April 2nd, 2020

One of the events that Pembroke had to cancel due to the COVID-19 pandemic was a client lunch with Pierre Fitzgibbon, Quebec Minister of Economy and Innovation. Nicolas Chevalier, Portfolio Manager and Partner at Pembroke spoke to the Minister on the phone and, with his permission, we are pleased to present a summary of that conversation.

What measures has the government put in place to support businesses?

We need to be clear that the primary purpose of our actions is aimed towards ensuring public health and safety. We understand these actions are creating substantial stress on the economy as it shuts down. While we are fighting the Covid-19 virus, we are in parallel attempting to freeze the economy or at least slow its decline. Both federal and provincial governments have implemented a long list of measures to help businesses and workers. These include a three-month temporary subsidy of 75% of employee salaries for businesses who have seen their revenues decline at least 30%, flexibility in income tax filings for businesses, individuals and trusts as well as for GST and PST filings, loan guarantee programs provided by Investissement Québec, the EDC and the BDC, \$4bn in liquidity from CDPQ to businesses and deferred payments for Hydro-Québec and other government entity invoices. I'm also encouraged by the fact that the large Canadian banks as well as other lenders such as the Fonds de Solidarité FTQ and Fondation are willing to work with their clients to postpone capital and interest loan payments. The last important piece of the puzzle we are working on is helping real estate owners who have seen their lease revenue dry up.

What are you doing for charities?

All the measures targeted helping businesses are also available for charities. In addition, each member of the National Assembly has been given a budget to spend towards charities in their respective ridings.

In discussing with our portfolio investments, the uncertainty of not knowing how long the confinement measures will last is hurting their decision-making ability. Given that risk-taking is based on confidence in possible outcomes, what guidance can you provide businesses?

The confinement measures will be progressively lifted once we have a better handle on the propagation of the virus. The key measure for the government is the number of hospitalizations. We want to see it level off and feel confident our health care system has adequate capacity to handle those patients. We are in active discussions with consultants and various government entities to learn from the experiences of other countries. Once the number of hospitalizations peaks, we would expect to lift the measures in

PEMBROKE

the following two weeks. I understand the uncertainty businesses face. That is why we expect to shortly provide better clarity on the scenarios we are working on.

Will you allow all businesses to re-open at once?

We wish to re-start the economy progressively. The first non-essential sector to open will be the construction industry, an important employer in Quebec. But first we must establish proper sanitary protocols. Most sectors will have to do so. My colleague Christian Dubé, Minister of the Treasury Board is already looking at which public construction projects can be accelerated. The Quebec government spends roughly \$11bn a year on various infrastructure projects. I would expect this number to accelerate. Other sectors will follow thereafter. We will disclose our plan in due course.

Are you concerned the number of Covid-19 cases could have a second peak in the Fall?

That is certainly one of the scenarios we are considering and why we wish to progressively re-open different sectors of the economy. Don't expect festivals and other large gatherings to be the first in the list. Again, public health is guiding all our actions.

Is the government prepared to close the island of Montreal?

Montreal is the epicentre of the pandemic in the province. However, we do not wish to close the city. We prefer to enforce compliance to the social distancing measures to limit the spread of the virus. However, if the population does not comply, we may be forced to close the bridges. But this is not our first option.

What will happen to all the public and corporate debt once we return to normalcy?

We want to provide the necessary liquidity to the economy for the time being. The cost of sustaining the economy is lower than the cost of resurrecting it. Luckily, we have a lot of flexibility to do so because the province's finances were very good going into this environment. As a whole, the large public and corporate debts will have to be reduced ultimately. As we do so, this will act as a damper on economic growth. As a government we will face tough decisions on the business loans we are currently underwriting. Some businesses will not be able to reimburse them. We will then have to decide whether we convert these loans into equity, forgive them which essentially equates to a subsidy or let some the bad businesses go bankrupt. You should expect the government to be a much bigger factor in the economy going forward. We will have to make sure we don't bring too much distortion to well functioning industries.

P E M B R O K E

What else will the government do differently after the crisis?

Since the current government's election, our goal has always been to reduce the GDP per capita gap with other Canadian provinces. That will not change, and you should expect us to continue to focus on promoting business innovation. Also, you will see us put more emphasis on buying locally. Protectionist measures had already started prior to the pandemic and you should expect Quebec, Canada and other governments around the world to accelerate this trend going forward. For us it will be making sure we have local production of key medical materials and medicine but also enticing consumers to encourage local businesses.

The information contained in this report has been compiled by Pembroke from sources believed to be reliable, but no representation or warranty, express or implied, is made by Pembroke, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this are as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to securities nor does it constitute an offering of securities or an offering of any kind.