



News Highlights

Financial Services Companies

Bank of America announced that it had reached a \$6.3 billion settlement with the FHFA covering \$57.5bn private-label RMBS purchased by Fannie Mae and Freddie Mac. The FHFA sued BAC for falsely representing that the underlying mortgage loans complied with certain standards. In addition to this cash payment, BAC will purchase \$3.2bn mortgage bonds, at fair value, from Fannie and Freddie. The bank continues to resolve legal issues one by one, which is gradually reducing legal risk and operating risk to improve the earnings power of the company.

BNP Paribas has emphasised at its recent investor day that it is seeking a rebound at its corporate and investment bank as it sets out three-year growth plans amid signs Europe's economy is recovering. BNP Paribas said it's targeting annual revenue growth of more than 6% at the division through 2016, from €3.7bn euros last year, the lowest since 2008. The bank aims to boost earnings per share by at least 12% through 2016, excluding exceptional items. BNP Paribas also said it's seeking more than 8% average annual growth in pre-tax profit in its biggest European markets over the next three years, and predicts provisions for bad loans at its Italian branch network will fall next year and in 2016.

Citi : The major disappointment from the 2014 CCAR for US banks (see below) was Citigroup, as the Fed objected to its capital plan on qualitative measures. Specifically, the Fed believed that Citi's capital plan reflected a number of deficiencies, which included Citi's ability to project revenue and losses under a stressful scenario for many parts of its global operations, as well as to develop scenarios for its internal stress testing that adequately reflect and stress its full range of business activities and exposures. This objection is frustrating as we believe the market perception was that the new CEO was expected to improve controls and the relationship with the regulators. The Fed's explanation for the objection to Citi's capital plan is puzzling given that Bank of America and Goldman Sachs had, on a percentage basis, just as wide a variance as Citi in terms of the company's projected minimum capital levels and the Fed's projected minimum levels (approximately 33% to 35% variance for the three names). Moreover, both the other banks needed to reduce their capital deployment request after DFAST

results or each company would have fallen below the minimum leverage ratio; this was not the case for Citi. The Fed did not quantitatively object to Citi's capital plan, which included a \$6.4 billion buyback request.

ING held its investor day today. The targets for 2017 are: Expansion of Net Interest Margin by about 1.5%; Loan growth of 4%; Balance Sheet growth of 3% funded mainly by customer deposits; Cost to income target 50-53% and Return on Equity of 10-13% with Target dividend payout >40% from 2015. Target Basel 3 Core Equity Tier 1 ratio confirmed above 10% with leverage ratio ~4% Separately, as expected, ING announced today that it has paid €1.225bn to the Dutch State, including €17mn repayment of core Tier 1 securities and €108mn in interest and premium. This payment was approved by the Dutch Central Bank. Today's transaction brings the total paid to the Dutch State to €2.5bn, including €3bn in principal and €2bn in interest and premium. It still owes €1.03bn to the State which is to be returned no later than May 2015, according to an agreement with European Union regulators. ING said it plans to resume dividend payments after full repayment of state aid.

JPMorgan issued a press release that Mike Cavanagh, former CFO of the company and current co-CEO of the Corporate and Investment Bank is leaving to become the co-President and co-CEO of The Carlyle Group. Daniel Pinto, current co-CEO of CIB, will become the sole CEO of that business unit. I believe this is a loss for JPM as Cavanagh was well liked and well thought of but in part reflects the fact that Global Strategically Important Financial Institutions (G-SIFI's) are getting squeezed as the profitability trends and business momentum currently favor the private equity space.

Lloyds : The U.K. government sold a £4.23bn (\$7bn) stake in Lloyds (7.78% or 5.6bn shares) at 75.5p, its second disposal since rescuing the lender in the financial crisis. The government is selling a 7.5% stake to money managers to cut its holding to about 25%. The 5.35bn shares will be sold at a price set by an accelerated bookbuilding. The sale may be followed in coming months by the first offering of Lloyds shares to individual investors. Price equals 1.4x prospective 2014e tangible book for a 14% sustainable ROTE. If Barclays was on the same multiple the shares would be at 400p.

State Street Corporation announced a new common stock purchase program authorizing the purchase of up to \$1.7 billion



of its common stock through March 31, 2015, reinforcing the Company's priority to return capital to its shareholders. This new common stock purchase program authorization follows the 2014 Comprehensive Capital Analysis and Review (CCAR) process under which the Federal Reserve Board reviewed State Street's 2014 capital plan and did not object to the Company's requested capital actions.

Dividend Payers

Carnival Corp - the world's largest cruise operator, forecast a full-year profit below analysts' estimates as it cuts prices and spends more on advertising to attract customers after onboard mishaps hurt demand over the past couple of years. "We have increased our investment in advertising and expect to spend over \$600 million in 2014. That is a 20% increase over 2012," Chief Executive Arnold Donald said on a conference call with analysts. Donald said Carnival was experiencing some recovery in demand from Europe, which accounted for about 30% of its passenger capacity in 2013. "We've seen a continued improvement in perception with an almost doubling of trust and confidence in the core Italian market," he said. Carnival forecast an adjusted profit of \$1.50-\$1.70 per share for the year ending November. The company said it continued to expect net revenue yields, on a constant-dollar basis, to fall slightly in 2014.

Royal Dutch Shell/Total – Nigerian firms Taleveras and Aiteo have made the highest bid of \$2.85 billion for the biggest of four Shell assets up for sale, but the oil major is holding out while it tries to persuade them to team up with Seplat, an existing operator. Shell is concerned about the reputational risk of selling it to two exporters of crude and importers of gasoline that have no previous experience in running producing oil assets. Shell is divesting its 30% stake in four Nigerian oil blocks, with France's Total and Italy's Eni also set to profit from their 10% and 5% shares. The Nigerian National Petroleum Corporation (NNPC) owns the remaining 55%. As well as being an existing operator, Seplat is set to list its shares in London and Lagos next month. Winners are expected to be announced next month. Reuters sources also said Africa's richest man Aliko Dangote, with a personal fortune of \$20 billion, and local firm Sahara Energy, had bid for the other three blocks, OMLs 18, 24 and 25, and were in late-stage talks for at least one of them. The Nigerian sales are part of a wider plan by Shell to dispose of \$15 billion of assets this year and next, in order to slim down operation.

Novartis – has ended a late-stage clinical trial of a chronic heart failure drug early, following strong interim results. The Basel-based firm said on Monday an independent committee had unanimously recommended it close its PARADIGM-HF study ahead of time after results showed patients receiving its LCZ696 drug lived longer without being hospitalised for heart failure than those who were given enalapril, the standard care. The Swiss drugmaker, long a major player in cardiovascular medicine, is looking to LCZ696 as one of two new treatments for heart failure that could revive its fortunes as top-selling blood pressure pill Diovan faces generic competition. Novartis said it would present the full data at an upcoming conference and seek approval for the drug from global regulators. Citi analyst Andrew Baum said the drug could have the potential to achieve peak annual sales of more than \$5 billion and could become the first new medicine to be approved for chronic heart failure in over a decade. Heart failure is a condition where the heart struggles to pump blood around the body. Unlike a heart attack, in which a heart artery becomes blocked, it develops progressively. More than 20 million people suffer from heart failure in Europe and the United States alone, Novartis said. LCZ696, a twice a day pill, is a combination of Diovan, or valsartan, and another class of drug called a neprilysin inhibitor.

Siemens – Chinese utilities including Shanghai Electric reportedly plan to order turbines and other equipment for gas-fired power plants from German engineering group Siemens. Representatives of the utilities and Siemens Chief Executive Joe Kaeser are to sign a memorandum of understanding on Friday as part of Chinese President Xi Jinping's visit for a meeting with German Chancellor Angela Merkel. The size and value of the proposed orders has yet to be determined.

Siemens Medical Solutions, a unit of Germany's Siemens AG, has won a contract valued at up to \$1.8 billion to provide radiology systems, parts and other accessories to the U.S. military, the U.S. Defense Department said on Wednesday in its daily digest of major weapons contracts. It said the Pentagon's Defense Logistics Agency was exercising the fifth option period on a contract that had seven one-year options. The latest option runs through March 30, 2015. The contract allows the Army, Navy, Air Force, Marine Corps and federal civilian agencies to order equipment as needed.



SSE - Three British regulators referred Britain's energy supply sector for a full anti-trust investigation on Thursday, kick starting a legal process that could see some of the country's big suppliers being broken up. "Ofgem believes a referral offers the opportunity to once and for all clear the air and decide if there are any further barriers which are preventing competition from bearing down as hard as possible on prices," said Dermot Nolan, chief executive of Ofgem, Britain's energy regulator. The country's big six energy suppliers - SSE, Scottish Power, Centrica, RWE, E.ON and EDF Energy - control around 95% of Britain's energy supply market. Prime Minister David Cameron ordered a review of competition in the energy retail sector in October last year.

SSE said it would freeze prices and separate its wholesale and retail businesses. SSE, the country's second-biggest household energy supplier, promised on Wednesday it would freeze bills for its customers from now until January 2016, which would have a likely impact on profits over the entire period of about £100 million. The strategic shift came in the first major announcement by Chief Executive Alistair Phillips-Davies' since he took over from long-serving executive Ian Marchant in July last year. The price freeze forces SSE's rivals to consider similar moves as customers increasingly shop around for the best deals. It also pre-empts opposition Labour leader Ed Miliband, who last year promised an industry-wide freeze on bills if his party wins the election. Labour has also vowed to force utilities to separate their retail and generation businesses. SSE said it would raise £1 billion (\$1.65 billion) through the sale of its street lighting contracts and other assets, and would cut an additional 500 staff in Britain. It also plans to shelve two planned offshore wind farm developments, adding to a string of project cancellations in the sector in recent months. Utilities had blamed their sharp price increases on higher wholesale costs and increasing expenses for transporting energy and government social programmes, for example to stem fuel poverty. Critics of price freezes say the utilities will find it harder to invest in new projects, with the industry already struggling to raise around £200 billion to replace ageing and polluting power plants and build new transmission lines to cope with growing renewable energy production. Breaking up the industry into smaller companies might generate more competition, but those companies may also find it harder and costlier to finance their investments. SSE said the legal split of its wholesale and retail arms would improve the transparency of how the two businesses operate.

Toyota Motor Corp - will buy back up to 1.89% of its shares worth up to ¥360 billion (\$3.5 billion) in what would be the automaker's biggest buyback in more than a decade. Toyota, expecting record profits for the financial year ending March 31, is returning cash to shareholders and boosting its return on equity after its cash pile expanded to ¥1.8 trillion as of end-December. Toyota, helped by a weaker yen that boosts the profitability of its exports, has forecast a record ¥1.9 trillion net profit for the year to end-March. Toyota and its group companies aim to sell 10.32 million vehicles in 2014, up 4% from last year. It has said it does not plan to build any new factories over the next two years after a rapid expansion prior to the 2008 financial crisis led to huge losses.

Syngenta announced last Monday the successful issue of EUR 750 million in Eurobonds. This issue comprises a EUR 500 million Eurobond with maturity date in November 2021 and a EUR 250 million Eurobond with maturity date in October 2017. On Tuesday, Syngenta announced the successful issue of CHF 750 million in Swiss domestic bonds. This issue comprises a CHF 350 million Swiss domestic bond with maturity date in November 2019, a CHF 250 million Swiss domestic bond with maturity date in November 2024 and a CHF 150 million Swiss domestic bond with maturity date in November 2029. John Ramsay, CFO, said: "We have taken advantage of current favorable market conditions in order to further enhance our debt maturity profile. These bond issues are part of our normal funding requirements and the positive market reception demonstrates Syngenta's strong credit quality."

Economic Activity, Consumer and Business Conditions

US – The US durable goods report, a key indicator of US business activity, posted a 0.2% improvement in February, short of the expected 0.3% advance and a considerable deceleration from January's 1.1% rate of growth. The growth was supported by advances in primary metals and computer and electronics industries, while general machinery, communications and appliances withdrew in the month. The headline reading, which includes transportation orders, was up an impressive 2.2%, lifted by a strong inflow of aircraft orders, which are notoriously bulky. The revised figure for the US GDP growth in the last quarter of 2013 was 2.6%, just shy of the expected 2.7% revised reading.



On the US consumer front, the personal income report revealed a 0.3% advance in US personal income for February, ahead of the expectations, while the US personal consumption grew a slightly lower 0.2% in the same month. Part of the same report, the core personal consumption expenditures (PCE) price index, the US Fed's favourite inflation gage, held steady at 1.1% year on year, allowing the central bankers ample room for expansionary monetary policy. The US consumer confidence, as measured by the Conference Board, improved markedly in March, to an 82.3 index points level reading from February's 78.3 points level. The University of Michigan counterpart, the consumer sentiment reading, released a couple of days later, depicted a less upbeat state for the consumer, with its reading for March, at 80.0, below February's and mildly below the expectations, though the 'current conditions' component actually showed improvement in the month.

US housing activity indicators continued to be less up-beat, with the US pending home sales, a leading indicator of existing home sale over the next couple of months, down a further 0.8% in February, while new home sales were also lower in the month, to a 440,000 units annualized level, from 455,000 units annualized in the prior month, although tight inventories are also likely to be blamed. Meanwhile, the home prices have marginally weakened, in January, with the Case-Shiller index for the 20 US metropolitan areas, retreating to a 13.2% year on year rate of growth, from 13.4% in December, just short of the expectations calling for a 13.3% reading.

Canada – the Canadian GDP report for January revealed a stronger than expected 0.5% rate of growth for the Canadian economy, offsetting the 0.5% drop in the prior month. Manufacturing, resources and service industries all contributed to the growth in the month, while construction activity suffered, undoubtedly impacted by weather.

U.S. economy grew at a decent 2.6% rate in Q4, not bad after a 4.1% sprint the prior quarter. The underlying momentum is spurring better profit growth and, now that the weather is cooperating, stronger job gains. U.S. initial jobless claims unexpectedly fell 10,000 to 311,000, the lowest since November 2013.

Brazil - S&P have cut Brazil's credit rating one level to BBB-, its lowest investment grade rating, from BBB. They said sluggish economic growth and an expansionary fiscal policy are fueling an increase in the country's debt levels. S&P expects Brazil's growth to slow to 1.8% this year from 2.3% in 2013.

Financial Conditions

US Bank Stress Tests: The Federal Reserve yesterday released the results of the 2014 Comprehensive Capital Analysis Review (CCAR) for the 30 largest bank holding companies (BHCs). In sum, 25 of the 30 "passed," and five "failed." Citi, HSBC, RBC Citizens, and Santander Holdings) received qualitative objections, and 1 (ZION) received an objection for falling below the 5% minimum capital level.

US – US Federal Reserve policymakers remain determined to flatten the yield curve as much as possible, having indicated they expect 'exceptionally low levels of interest through 2014 with the Federal Reserve carefully calibrating the beginning of unwinding quantitative easing and undertaking that the Federal Reserve will keep rates low until mid 2015. The U.S. 2 year/10 year treasury spread is now 2.31% and the U.K.'s 2 year/10 year treasury spread is 2.03% - 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 their costs of capital. It seems the top tier 8-10 investment banks will continue to command their market and possibly increase their share – as barriers to entry for newcomers have in our view been raised.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 4.40% - (was 3.31%, end of November 2012 the lowest rate since the Federal Reserve began tracking rates in 1971), as the Federal Reserve effectively continues to give priority to incentivising home ownership. Existing U.S. housing inventory is at 5.1 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, a more promising economic recovery, job creation, and low prices are finally supporting the housing

Market Commentary



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market with housing inventory well off its peak of 9.4 months and we believe now in a more normal range of 4-7 months.

The VIX (volatility index) is 13.87 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

Mutual Funds

Portland currently offers 5 mutual funds:

- Portland Advantage Fund
- Portland Canadian Balanced Fund
- Portland Canadian Focused Fund
- Portland Global Income Fund
- Portland Global Banks Fund

Private/Alternative Products

Portland also currently offers 3 private/alternative products:

- Portland Focused Plus Fund LP
- Portland Private Income Fund
- Portland GEEREF LP

Net Asset Value:

At the close of business each day we publish the Net Asset Values (NAV) of our mutual funds onto our Portland website at <http://www.portlandic.com/prices/default.aspx>

Closed-End Fund

Spreads on the closed-end fund remain, in our view, very attractively priced to purchase.

The Portland Investment Counsel's 2013 Fourth Quarter Fund update is now available on the website.

At the close of business each day we publish the Net Asset Values (NAV) of our funds onto our Portland website at <http://www.portlandic.com/prices/default.aspx>

The price details published are replicated here below from which you can see we also highlight whether the funds share prices are trading at a premium or discount to their respective NAV.

Source: Thomson Reuters, Bloomberg, Company reports

Certain statements included in this document constitute forward-looking statements, including those identified by the expressions "anticipate," "believe," "plan," "estimate," "expect," "intend" and similar expressions to the extent they relate to the Fund. The forward-looking statements are not historical facts, but reflect the Portfolio Management team's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Portfolio Management team has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise. PORTLAND INVESTMENT COUNSEL and the Clock Tower Design are registered trademarks of Portland Holdings Inc.

Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel.:1-888-710-4242 • www.portlandic.com • info@portlandic.com

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