



## News Highlights

### Financial Services Companies

Barclays agreed to sell its retail banking business in the United Arab Emirates to Abu Dhabi Islamic Bank PJSC (ADIB) for US\$177 million as the U.K.'s second-biggest lender by assets shrinks its business. Abu Dhabi Islamic Bank said it will add 110,000 customers and absorb all of Barclays' U.A.E. retail staff following the transaction, according to a statement to the local stock market. The deal is subject to regulatory approval. (Source : Bloomberg). Barclays is also exploring the potential sale of its Spanish business, Expansion and El Pais reported on Friday citing unnamed market sources. El Pais says the Spanish unit has accumulated losses of €81m from 2011 to Sept. 2013 and that Spain's three largest banks could be interested in purchasing the most profitable part of the unit.

Royal Bank of Scotland - has appointed Ewen Stevenson, a Credit Suisse AG investment banker, as its next chief financial officer.

The world's largest banks still receive implicit public subsidies worth as much as US\$590bn because of their status as "too big to fail" and the assumption of a government bailout if they get into trouble, the IMF warned last Monday. The warning, to be included in the fund's twice-yearly Global Financial Stability Report, highlights the failure of post-financial crisis reforms to solve the problem of too-big-to-fail despite a vigorous lobbying campaign by the largest banks claiming it is no longer an issue. According to IMF estimates, the largest, globally active banks alone benefit from implicit subsidies worth US\$15bn-\$70bn in the US, US\$25bn-\$110bn in Japan, US\$20bn-\$110bn in the UK and US\$90bn-\$300bn in the Eurozone, depending on the method used to calculate them. (Source : Financial Times)

#### Dividend Payers

Ares Capital Corp – Credit investment and private equity firm Ares Management LP, the manager of Ares Capital Corp, filed to go public last Monday in what would be the first initial public offering by a major alternative asset manager since Carlyle Group LP's flotation two years ago. While Ares is widely known for its high-profile leveraged buyouts, such as the \$6 billion acquisition of luxury department store operator Neiman Marcus Inc, it is its credit investment businesses that have

historically dominated its earnings and stand to gain from the rise of the shadow banking sector. Ares said in a filing with the U.S. Securities and Exchange Commission it planned to list on the New York Stock Exchange. It proposed raising up to \$100 million, though such amount is typically a placeholder that is revised closer to an IPO.

Ares said it planned to pay out 75% to 85% of its distributable earnings as dividends every quarter. Creating a publicly traded stock will allow Ares to use it as currency to fund acquisitions as well as incentivize its staff. It will also enable its founders to gradually cash out on their stakes over time. Ares said in the filing it would use IPO proceeds to pay down some of its debt and fund growth initiatives. More details will become available as its IPO filings get revised over time. The Los Angeles-based firm has in the past snubbed an IPO in favor of a private placement. Last July, it sold a 6.25% equity stake in the firm to insurer Alleghany Corp for \$250 million. The deal valued Ares' equity at \$4 billion. It was the second major private placement that Ares had accepted. In 2007, Abu Dhabi Investment Authority acquired a 20 percent stake in Ares for \$375 million, giving it a valuation of \$1.9 billion at that time.

Ares Capital which had \$8.1 billion in assets as of the end of December, accounted for 46% of Ares' management fees in 2013, according to the filing. Ares' management fees in turn made up 84% of the firm's total fee revenue in 2013. Ares' private equity division had about \$9.9 billion of assets as of the end of December, while its real estate arm had \$8.7 billion. Ares said it expected that its senior partners will own about 70 percent of the firm after the IPO. It plans to list under the symbol 'ARES'.

Barry Callebaut – the world's biggest chocolate maker, reported a rise in half-year profits on Thursday, boosted by the turnaround of the Petra Foods' cocoa business it bought over a year ago, and reaffirmed its medium-term sales growth target. Chocolate makers are facing sluggish growth, especially in mature markets in western Europe, but Barry Callebaut benefits from a trend at big food groups, such as Nestle and Unilever, to outsource chocolate production. On top of this industrial production, Barry Callebaut also supplies restaurants, bakeries and catering services with 'gourmet' chocolate products, a business area that is growing strongly, but has seen a setback in Asia recently. "We'll continue to grow in the second half thanks to our three growth drivers, emerging markets, outsourcing and gourmet," Chief Executive Juergen Steinemann told Reuters in



a phone interview. The Zurich-based firm said sales volumes in the first half increased 3.1% on a stand-alone basis, or 17.6% including the business acquired from Petra Foods at the end of 2012 and consolidated since July 2013. Net profit in the first half rose 8.9% to CHF119.6 million (\$135 million), just below analysts' forecasts. The company also said it was still on track to restore profitability to pre-acquisition levels by 2015/2016 and to achieve synergies of CHF30-CHF35 million from the Petra buy. Sales volumes only grew very slightly in Europe and North America, but strongly in South America and Asia-Pacific.

Seven&i – Japan's world's biggest convenience store operator, unveiled plans for a record pace of expansion at home, unfazed by the government's first sales tax hike in 17 years. The owner of the 7-Eleven chain is banking on a revolution in Japanese retailing, with shoppers increasingly inclined to pick up everyday necessities at convenience stores rather than making trips to supermarkets. Seven&i will open 1,600 new 7-Eleven convenience stores in the year started on March 1, helping it usher in another year of record earnings. The company posted its third record annual operating profit in a row on Thursday. Seven&i forecast a 4.8% rise in operating profit to ¥356 billion (\$3.43 billion) for 2014/15. In the prior year, operating profit rose 14.9%, although that was mostly due to changes in accounting for depreciation. Without those, 2013/14 profit would have risen only 4.2%. Seven&i said operating profit at its Japan 7-Eleven chain - which makes up about 60% of the total - would rise 2.9% this business year, compared with the prior year's 13.9%. Its 7-Eleven stores in the United States, where a weak yen has boosted profitability, are forecast to show 14.6% profit growth this year after last year's 34.1%. For the year ended on Feb. 28, Seven&i's operating profit rose to a record ¥339.66 billion, compared with the consensus forecast of ¥366.5 billion from 18 analysts surveyed by ThomsonReuters I/B/E/S. Sales rose 12.8% to ¥5.63 trillion.

Tesco – finance chief Laurie McLlwee quit on Friday, as the British-based supermarket operator is in the midst of a group wide turn-around. Announcing his decision just days before results that are expected to show another decline in profits, McLlwee said he would quit the board and resign after five years as CFO but stay on long enough to hand over to a successor. McLlwee became CFO in January 2009 and had been with the retailer since 2000. He had been the only other executive director on the board alongside Chief Executive Clarke.

Wesfarmers – Australian conglomerate Wesfarmers Ltd has agreed to sell its remaining insurance units for A\$1.01 billion (\$938.74 million) as the operator of the Coles supermarket chain streamlines its businesses and focuses more on retail. Wesfarmers, founded a hundred years ago in Western Australia as a farmers' cooperative, said on Monday that it is selling its insurance broking and premium funding businesses to U.S.-based Arthur J. Gallagher & Co. The Wesfarmers insurance broking unit reported A\$331.1 million in revenue in the year ended June 30, 2013. Wesfarmers expects to record a pre-tax profit of about A\$310 million to A\$350 million from the deal with Arthur J. Gallagher. In addition, Wesfarmers would receive A\$150 million to repay financing of the premium funding operations. The Arthur J. Gallagher deal comes four months after Wesfarmers announced the sale of its insurance underwriting business to Insurance Australia Group Ltd (IAG) for A\$1.85 billion. The IAG deal has received approval from the Australian Competition and Consumer Commission. The two sales, which could generate pre-tax proceeds of about A\$3 billion and a pre-tax profit of A\$1.01 billion to A\$1.085 billion for the group, are consistent with the company's focus on disciplined portfolio management.

Syngenta announced today that it has acquired Società Produttori Sementi (PSB), one of Italy's oldest seed companies and a leader in durum wheat breeding and production for pasta. PSB was established in the province of Bologna in 1911, and its durum wheat varieties are grown on more than 330,000 hectares. In addition to its headquarters and a 430-hectare farm, PSB has breeding programs in other crops such as common wheat and alfalfa. Syngenta will preserve the century-old PSB brand and know-how, which will continue to be synonymous with top-quality Italian durum wheat production. This will enable growers in Italy and in other countries to meet increasing demand for pasta – a global market valued at \$16 billion.

#### Economic Activity, Consumer and Business Conditions

US – Leading indicators of business activity in US have recovered in the month of March, with the Institute for Supply Management's (ISM) Purchasing Managers Index (PMI) advancing to a 53.7 index points level, albeit shy of the expected 54.0 reading. Its non-manufacturing counterpart, the NMI, also rebounded smartly to a 53.1 reading, just short of the expected 53.5 level. Readings above 50 indicate future economic expansion, while readings below 50 signal a slowdown.



The US foreign trade deficit widened in February, to \$42.3 billion, contrary to the expectations for a deficit reduction, as exports dropped 1.1% dragged by lower exports of capital goods, industrial supplies and food items, while imports inched higher, helped by the consumer goods and automotive categories.

US non-farm payrolls increased by 192,000 positions, just shy of the expected 200,000, in March, driven by the private sector, which added 192,000 new jobs, as employment in retail and construction sectors started recovering after a trying winter. The headline unemployment rate held steady at 6.7%, missing the expectations by one tenth, as the participation rate inched higher, to 63.2% from 63% in the month.

Canada – employment report for March revealed a stronger than expected 42,900 jobs addition in the month, yet most of the jobs added were part-time, 30,100, outside of which, the private sector delivered a more chequered picture. Manufacturing and retail jobs suffered significant drops in the month, while construction jobs advanced in March. The unemployment rate moved one notch lower in the month, at 6.9%, ahead of the expectations calling for a steady 7.0% read.

The Canadian foreign trade balance swung to a small surplus in February, some \$290 million, marginally ahead of the expectations, as exports rose 3.6%, driven by energy and autos, while imports were up 2.1%.

German unemployment fell by more than expected in March as the economy was boosted by the mild winter weather. The number of people registered as unemployed fell by 12,000 to 2.901mn, after accounting for the impact of seasonal variations, the Federal Labour Office said. (Source BBC News)

Greece - Euro-zone finance ministers agreed last Tuesday to unblock €3bn from Greece's bailout in three installments, the first coming just in time for the country to repay debt maturing in May. The country will receive €3bn by the end of April, €1bn in early June and another €1bn in early July, Jeroen Dijsselbloem, the Dutch finance minister who presides over

meetings with his euro-zone counterparts, said. Greece will have to implement additional policies that it is already agreed with its creditors to get the June and July installments. Still, he said Greece had to do more to return to growth and tackle its unemployment problem.

## Financial Conditions

The ECB kept interest rates steady at 0.25% at its regular meeting, but afterwards ECB President Mario Draghi said he and his colleagues were committed to doing anything they could to stop low inflation from dragging on too long. This included quantitative easing, the printing of money to buy assets, something that previously was considered highly undesirable by some euro zone central bankers, and only to be considered if prices were falling outright. ( Source : The Age).

UK: Interest rates could increase ahead of the next general election, the BOE Governor told The Northern Echo, but he wants to see more jobs created in the North-East before he will intervene. Mark Carney warned bankers they need to be more professional to repair their shattered public image, according to the North East England-based regional daily. Carney said "banking needs to be treated more as a profession. We also need to improve infrastructure, both in how markets are organised and the codes of conduct behind markets." The Governor told the Northern Echo that interest rates rises would be "gradual" even though Britain's economy is growing faster than any of the world's developed nations. (Source Reuters)

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 2.29% 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 4.41% - (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 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 13.96 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.

# Market Commentary



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April 7, 2014

Source: Thomson Reuters, Bloomberg, Company reports

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PIC14-035-E(04/14)