



News Highlights

Financial Services Companies

Barclays will withdraw from most of its global commodities activities. The “refocused” business will emphasise electronic trading, Barclays said in an e-mailed statement. It will continue to trade precious metals and derivatives tied to the price of oil and US gas, as well as commodity indexes, the statement showed. The bank already cut raw-materials jobs in January as part of a reduction in fixed income, currencies and commodities, and shut power-trading desks in the US and Europe in February. Barclays will keep its gold fixing seat and its precious metals vault, a person familiar with the situation said yesterday. The reduction in the business should be mostly completed by May 31, (Source: Bloomberg). This makes sense given that most Investment Banks seem to be exiting as Basel 3 rules tough on capital for business. Scale is difficult to ascertain, but Barclays’ commodities business was reported to employ 160 people which makes it similar in size in to JP Morgan (200 employees) which was recently sold for \$3.5bn (£2.0bn) - i.e. c5% value of business. Most recent separate disclosure (2009) suggests that the business contributes c£10bn of Total assets (incl derivatives & v £1.3trn Group) or c10% of DVAR - which applied to Market risk RWAs suggests c£4bn of Basel 2 RWAs, but likely to be significantly higher under Basel III. Barclays has reached a \$280mn accord with the FHFA resolving allegations it mis-sold mortgage-backed bonds in the run-up to the US financial crisis. Barclays said they are pleased with the settlement and it will not impact the 2014 earnings.

CIBC CEO Gerry McCaughey is to retire in April 2016, the latest in a series of leadership changes at the Canadian banks. The announcement extends a generational changing of the guard at Canada’s top five banks, which together dominate the country’s domestic banking sector. Brian Porter replaced Rick Waugh as CEO of Bank of Nova Scotia last fall, while Dave McKay will take the reins of Royal Bank of Canada in August, replacing longtime CEO Gord Nixon. Bharat Masrani will take on the top job at Toronto-Dominion Bank in November, replacing Ed Clark. Unlike its rivals, who indicated likely successors well ahead of their CEO retirement announcements, CIBC has not hinted who might replace McCaughey, as the succession plan is currently under way.

Goldman Sachs Group’s asset-management business has agreed to buy Westpeak Global Advisors, a firm that aims to beat market indexes by using factors other than company size to pick stock investments. The deal comes as Goldman is working to bulk up its asset management unit, partly by strengthening its quantitative product offerings. Goldman declined to provide terms of the acquisition, which it expects to close in June. (Source : Reuters).

BNP/Credit Agricole - BNP has suspended its operations in Crimea, closing 18 branches, while Credit Agricole shut its four branches, according to Les Echos.

Dividend Payers

Bayer – the German drugmaker posted a quarterly rise in underlying core earnings, beating estimates, due to growth at its plastics and chemicals business. Bayer said on Monday earnings before interest, tax, depreciation and amortization (EBITDA) before special items rose 11.6% to €0.74 billion (\$3.79 billion). Sales, up 2.8% to €0.56 billion, were marginally below the consensus expectations for €0.67 billion on negative currency effects. The MaterialScience division - which makes polycarbonate plastics for panoramic roofs in luxury cars and for blu-ray disks - posted a 79% jump in adjusted core profit to €66 million. Bayer’s biggest division, HealthCare, meanwhile saw adjusted EBITDA rise 1.9% to €0.30 billion, despite being affected by adverse currency effects. Bayer confirmed its 2014 outlook for currency-adjusted sales of around €1 billion - €2 billion, compared with €0.16 billion last year. It said it continued to expect a low to medium single-digit percentage increase in adjusted EBITDA for the year. Recent reports revealed that the company is exploring the sale of its \$10 billion plastics unit to focus on growing its health business. Chemicals company Evonik Industries AG showed interest in the unit several months ago.

Novartis – posted a weaker-than-expected 1% rise in quarterly sales, underscoring the pressures from generic competition and tighter healthcare budgets that led it to announce a radical business overhaul earlier this week. On Tuesday, Novartis unveiled a series of deals worth over \$25 billion aimed at strengthening its cancer business and exiting underperforming operations - part of a wider trend among drugmakers to focus on their best assets. The group said on Thursday it made first-quarter sales of \$14.02 billion, below analysts’ average forecast of \$14.25 billion. Sales were negatively impacted by



cheap generic competition for its bone repair drug Zometa, as well as a slowdown of sales of leukemia drug Glivec and cancer drug Afinitor in the United States. Novartis also reported a 24% jump in first-quarter net profit to \$2.97 billion, beating analysts' mean estimate of \$2.7 billion. The figure was boosted by higher operating income which included a \$900 million pretax gain from the divestment of its diagnostics unit to Spain's Grifols last November. Core earnings per share rose 1% to \$1.31, in line with expectations and blunted by the stronger Swiss franc and weaker emerging market currencies. Novartis is banking on new products such as Afinitor and multiple sclerosis pill Gilenya to help it grow sales through the upcoming patent expiry of leukemia drug Glivec. Novartis confirmed its guidance for sales to grow in the low-to-mid single digits this year in constant currencies, while core operating income is expected to grow ahead of sales.

Novartis' business overhaul, which includes buying GlaxoSmithKline's cancer drugs as well as selling the British company its vaccines business and also divesting its animal health arm to Eli Lilly, marks the conclusion of a year-long portfolio review. In a further move to boost profitability, the group said on Thursday it would consolidate some back office functions - which are currently spread across its divisions - into one shared service organisation. These include IT, financial reporting and procurement services. A spokesman for Novartis said the number of employees in back office functions would remain stable at around 7,000.

Schindler Holding AG – The Swiss elevators and escalators company Schindler reported strong growth in orders received, revenue and cash flow for the March quarter. Orders received reached CHF2,442 million in the first quarter of 2014, exceeding the same period of the previous year by 3.6% (+8.9% in local currencies). Revenue grew by 3.4% to CHF2,047 million (+8.8% in local currencies). Operating profit (EBIT) amounted to CHF205 million, corresponding to an EBIT margin of 10.0%. At CHF160 million, net profit decreased by 3.6% compared to the first quarter of 2013. Cash flow rose by 16.4% to CHF355 million. Currency translation effects had a significant negative impact on the performance reported in Swiss francs.

Siemens – Germany's Siemens said in a statement its board would convene as soon as possible following a meeting with French President Francois Hollande to decide whether to make an offer for Alstom and what this would consist of. Three people familiar with the matter earlier told Reuters that Siemens'

supervisory board would discuss a possible deal with Alstom at an extraordinary meeting on Tuesday. The German engineering group has made a proposal to rival an offer for Alstom made by U.S.-based General Electric.

A new strategy to be unveiled by Siemens on May 7 will include thousands of job cuts, Germany's Manager Magazin Online reported on Monday, citing several senior Siemens managers. It said the strategy would see Siemens' four main divisions - Industry, Energy, Healthcare and Infrastructure & Cities - dismantled, creating a flatter hierarchy and resulting in job cuts of roughly between 5,000-10,000. It also said Siemens would announce an acquisition in the energy sector worth at least 1 billion euros (\$1.38 billion), separate to the deal with Alstom ALSO.PA currently being considered by Siemens.

Total – French oil major Total SA has put its liquefied petroleum gas unit, Totalgaz, up for sale and has received around 10 expressions of interest from potential buyers, the daily Les Echos reported on Monday. Investment funds like First Reserve, Platinum, Pamplona and PAI Partners are said to be among the bidders, in addition to industry rivals like Antargaz or Primagaz, Les Echos said.

Economic Activity, Consumer and Business Conditions

US – March brought a significant improvement in US durable goods orders, higher by 2.6% in the month, ahead of the 2.0% expectations and building on February's 2.2% advance. Even when accounting of the notoriously volatile transportation orders, the durable goods orders were up a strong 2.0%, compared to February's flattish 0.2% read and the expectations for a 0.6% rate of growth. Most sectors contributed to the upbeat numbers, including computers, communications, appliances and capital goods. A significant part of the rebound in manufactured goods is likely driven by a sharp improvement in the consumer sentiment, on the back of record levels of household wealth. The consumer sentiment, as measured by the University of Michigan, reached an 84.1 index points level, ahead of the expected 83.0 read, with both the 'current conditions' and the 'expectations' components of this composite index beating expectations.

The US housing sector continued to cool off in March, with both existing home sales and new home sales retreating in the month. While the 4.59 million units of existing home sales is



only a notch below the previous month's level, the new home sales took a 15% tumble in March. A lack of inventory is partly to blame, which also explains an accelerated price increase for new homes, up 12.6% year on year.

Canada – core retail sales were up a better than expected 0.6% in February, despite the weather. Growth in retail sales was driven by the clothing and drugstore categories. Sales of motor vehicles and parts were also marginally better than expected in the month.

Portugal's economic outlook has sharply improved, but the country faces challenges to make growth sustainable, including still high production costs that hurt competitiveness and massive private-sector debt that is putting too much strain on banks, the International Monetary Fund said. In a staff report following another quarterly evaluation of Portugal's 78 billion euros (\$108 billion) bailout program, which ends next month, the IMF said it expects the economy to grow 1.2% this year, 0.4 percentage points more than it previously expected, thanks to stronger consumption and exports and a recovery in investments, particularly in equipment and machinery. In the longer term, it expects annual growth of 1.8%. Last week, Portugal successfully launched a 10 year Euro 750m bond at just 3.57%.

Financial Conditions

ECB Bank Supervision - The European Central Bank will fully assume its bank supervisory tasks on Nov. 4, the ECB said in a news release Friday. The largely expected announcement came as the ECB published the legal groundwork for how it will deal with national banking supervisors going forward, as the ECB takes over as the euro zone's banking supervisor.

Canadian Home Buyers Putting Up Bigger Down Payments: The Globe & Mail reported last week that bankers at some of Canada's biggest lenders say they are seeing a shift toward larger down payments on home purchases. Sean Amato-Gauci, senior vice-president of home equity financing at Royal Bank of Canada, the country's largest mortgage lender, tells me that the bank has seen average down payments in its uninsured portfolio of mortgages rise by about 10 per cent in the last

two years (uninsured mortgages are generally those where the down payment is greater than 20%). Down payments in the bank's insured portfolio (banks must insure mortgages if the borrower puts down less than 20%) are also increasing. And, interestingly, Mr. Amato-Gauci says that down payments are rising not just in terms of dollar value, but also in terms of the percentage that they make up of the mortgage loan. That suggests that there's more going on here than just rising home prices forcing buyers to put down more cash up front. And since down payments are rising even in the bank's uninsured portfolio, the trend appears to be something more than people just trying to avoid paying for mortgage insurance. Mortgage insurance premiums are set to rise by about 15% on average, effective May 1. They vary depending on the size of the borrower's down payment, but generally add thousands of dollars to the cost of a mortgage. "Consumers have saved more for down payments in recent years, driven by a number of factors, including improvements in income levels, employment and equity markets," Mr. Amato-Gauci says.

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 2.25% and the U.K.'s 2 year/10 year treasury spread is 1.95% - 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 4.33% - (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 14.06 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



PORTLAND
INVESTMENT COUNSEL™

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Source: Thomson Reuters, Bloomberg, Company reports

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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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