



News Highlights

Investment Fund Deal of the Year: Portland Global Energy Efficiency and Renewable Energy Fund LP

Last week, the 2014 PCMA Private Capital Markets Annual Conference entitled “Spotlight on the Private Capital Markets & Capital Raising Opportunities” announced the winners of the 2014 PCMA Awards – Private Capital Markets Deals of the Year. The nominees were evaluated based on their leadership in the industry, their contribution to the deal, innovative market, product or investment opportunities created and the benefits of the deal for the issuer and for investors. The award selection committee was comprised of independent members of the PCMA Board of Directors.

Our Portland Global Energy Efficiency and Renewable Energy Fund LP was announced as the ‘Investment Fund Deal of the Year’. The fund provides investors a unique opportunity to invest alongside supranational institutions and sovereign states in a renewable energy investment strategy.

Financial Services Companies

Barclays has last week cut several hundred jobs in its investment bank as part of its plan to shrink the business by 7,000 staff over the next three years to save costs. The cuts will mostly be in Fixed Income, Currency and Commodities trading and markets businesses, rather than in advisory and equities. The precise number of job losses was not known, but there will be cuts in Asia, Europe and the United States. The latest cuts add to more than 400 already made by the bank in its investment bank this year (Source : Reuters).

Deutsche Bank AG, Europe’s biggest investment bank, offered shareholders a discount of 24% to buy new stock as it sought to raise a total of €5.5bn (\$11.6 billion) to strengthen its finances. Deutsche Bank will offer €6.75bn worth of new shares to investors at €2.50 apiece, exceeding an original target of €6.3bn, it said in a statement. The price compared with yesterday’s close of €9.72 in Frankfurt. The announcement follows the €1.75bn Deutsche Bank raised by selling shares at €9.20 to Paramount Holdings Services Ltd., an investment vehicle owned by Sheikh Hamad bin Jassim bin Jabr Al Thani, Qatar’s former prime minister. (Source : Bloomberg).

ING Groep, the biggest Dutch financial-services company, plans to sell shares of its European insurance unit this year as it seeks to cut its stake by more than 50% before the end of 2015. The company, may sell the remaining shares before December 2016, according to an ING statement. The company plans to list the unit on the Euronext Amsterdam exchange. “With the IPO of NN Group, we will have substantially completed the repositioning of ING as a pure bank,” CEO Ralph Hamers said in the statement. ING was ordered to dispose of insurance businesses from the U.S. to Malaysia to comply with a European Union restructuring plan, a condition for receiving a government bailout in 2008. The company has until the end of 2016 to complete that process. (Source : Bloomberg).

Lloyds/TSB - Lloyds has formally announced the TSB price range at 220-290p, equivalent to £1.1-1.45bn. Final pricing will be announced on 20 June. It will start trading on the same day. There will be 500m shares in total, of which 125m/25% (prior to over-allotment) will be sold in the initial sale. The mid-point of £1.275bn implies a pro-forma loss of c£125m (on the assumption that the equity is £1.5bn) on 100%.

Dividend Payers

EnSCO – announced that, effective June 2, 2014, Carl Trowell Became the chief executive officer and president of EnSCO PLC. The company said Dan Rabun remains on the board of directors as non-executive chairman.

Johnson Matthey – the world’s biggest maker of catalytic converters used to control car engine emissions, said it expected no annual profit growth this year due to the loss of a supply contract and adverse foreign exchange rates. The UK-based specialty chemicals company posted a slightly better-than-expected profit for the year ended March 31 on Thursday, helped by stricter EU vehicle emission rules which boosted sales of its catalytic converters. However, it said it expected results in its current financial year to be unchanged from 2013/14, as growth would be offset by the impact of the loss of commission revenue from Anglo American Platinum (Amplats), and by the strength of Britain’s sterling currency. “The underlying business is strong,” said exiting Chief Executive Neil Carson, who is stepping down on Thursday after a decade at the helm of the company. “The thing that will hold us back next year is the loss of the Anglo Platinum contract but also the foreign exchange rate.” A long-standing deal with the world’s No.1 platinum producer Amplats - which had involved Johnson Matthey buying the metal at a discount under a marketing arrangement - came to an end last year. The two companies have agreed a new supply contract this year, but it will not involve a discount. Johnson Matthey said this would hit revenue by about £30



million. It also said the strength of the sterling exchange rate would cut its underlying profit before tax this year by over £20 million. Most of its costs are in sterling while its sales around the world are in other currencies. The company, which in addition to its vehicle emission controls business also refines and recycles platinum group metals, said it was not overly concerned about the four-month old South African mining strike which is cutting output from the top three platinum producers.

Johnson Matthey reported an underlying pretax profit of £427.3 million (\$716 million) for 2013/14, up 12% on the year before. Analysts on average had been expecting £417 million, according to Thomson Reuters estimates. Johnson Matthey's Emission Control Technology division, which makes catalysts for trucks and cars, was the strongest performer among its five business units, with underlying operating profit up 25%. The division, which accounts for more than half of the company's sales, benefited from stronger demand for its higher-value catalysts for diesel trucks, driven by emission control legislation introduced in Europe this year. The company expects more legislation of this type due to be implemented on vehicles in Europe and China, and a recovery in car sales in Europe, will continue to boost its sales. The other divisions also grew but at a more moderate pace. The weakest performance was in the Precious Metal Products division, which refines, processes and recycles platinum group metals, with underlying operating profits up 5%, hit by the Amplats contract change. Finance director Robert MacLeod will replace Carson after Thursday's results presentation.

Roche – Swiss drugmaker said it was buying privately held U.S. gene-sequencing firm Genia Technologies for up to \$350 million, securing access to a technology that should allow it to decipher human genes more quickly at a cheaper cost. Gene sequencing is vital to the development and use of new medicines by allowing researchers and physicians to better understand the human genome. Under the deal announced on Monday, Genia's shareholders will receive \$125 million in cash and up to \$225 million in contingent payments depending on certain milestones, Roche said in a statement. Dan Zabrowski, head of Roche's sequencing unit, said the new technology had the potential to be more accurate, faster and less expensive than existing systems. In 2012, Roche abandoned an attempt to buy gene-sequencing company Illumina for \$6.7 billion after the U.S. firm's shareholders held out for a higher price.

Roche also released strong, potentially startling data last week on its PD-L1 blocker MPDL3280A which shrank tumours in 52% of patients with metastatic bladder cancer expressing the programmed cell death ligand -1 (PD-L1). This eclipses the 5% to 15% response rate of current standard of care. Although only a phase I study and in a small group of patients Roche revealed that the drug had been given breakthrough status by the FDA, which should accelerate approval. Filing on phase II data may come as early as next year. The drug is being evaluated in a wide range of tumour types and should hit the market ahead of Astra Zeneca's blocker MEDI4736.

Samsung – Barnes & Noble Inc will develop a tablet with Samsung Electronics America, in a bid to revive its money-losing Nook digital business. The tablets will combine Samsung's hardware with Nook's software and give access to Barnes & Noble's digital collection of more than 3 million books, leading magazines and newspapers, the companies said in a joint statement. Samsung Galaxy Tab 4 NOOK tablets are expected to be introduced in a 7-inch version in the United States in early August.

Tesco – Britain's biggest retailer recorded its worst quarterly UK sales drop in 40 years, raising questions over boss Phil Clarke's strategy to counter the challenges of a rapidly-changing grocery industry. British consumers are looking around to save money, trying to waste less by buying little and often in local convenience stores instead of a big weekly shop at large out-of-town stores. They are turning to fast-growing discounters Aldi and Lidl for basics and Waitrose and Marks & Spencer for top end treats. Tesco is caught in the middle and has posted two straight years of profit decline with a third forecast for 2014-15. With its key measurement of underlying sales at British stores down 3.8% in its fiscal first quarter, Clarke is accelerating an investment programme to modernise stores in the 95-year-old group and is cutting prices to try to woo back shoppers and rebuild long-term loyalty.

Phil Clarke is two years into a multi-billion pound turnaround plan for its British business which contributes two-thirds of sales and profit for the group, the world's third-largest retailer after Wal-Mart and Carrefour. Clarke has invested in store refits, staff, product ranges and online services, and dropped an industry leading profit margin target, but has so far failed to deliver any improvement in underlying sales. The CEO again cautioned that like-for-like sales would continue to be negative as price cuts hit



sales going through the till and are not offset by volume gains and as 200 more stores are refreshed in the second quarter.

Tesco said international sales tumbled 8% due to currency effects, but rose 0.5% at constant currencies, with like-for-like performance in Asia improving compared with the previous quarter despite political turmoil in Thailand. The firm said last week it had failed to reach a deal with unnamed parties over its struggling business in Turkey.

Total – French oil major signed a 10-year deal with Singapore's Pavilion Energy for the supply of 0.7 million tonnes per year of liquefied natural gas (LNG) to Asia, including Singapore, from 2018, the group said on Wednesday. The deal was signed on May 31 with Pavilion Gas, a subsidiary of Pavilion Energy, Total said in a statement. "This long term sales agreement to deliver LNG to Asia, including Singapore, reinforces our strategy to expand LNG trade in this region," said Philippe Sauquet, head of gas and power at Total.

France's Total and Germany's E.ON plan to withdraw from a pipeline scheme to bring Azerbaijan's gas to Italy, an Azeri official said, as falling Italian demand puts energy projects there into doubt. The move comes less than a month after Russia's Gazprom said that it would re-route its massive South Stream pipeline, which plans to bring Russian gas to Europe later this decade, to Austria instead of Italy. European forward gas prices, which are used to make investment decisions for big pipeline and gas field projects, have dropped over 15% since the beginning of the year. Total, whose capital discipline efforts have been credited as leading the industry, has been selling non-core assets as the industry is confronted with lower or stagnant energy prices and raising exploration, development and production costs.

Economic Activity, Consumer and Business Conditions

US –business activity leading indicators issued by the Institute for Supply Management (ISM) for May, the Purchasing Managers Index (PMI) and its non-manufacturing/services counterpart (NMI) advanced more than expected. The PMI reached 56.3 index points, ahead of April's reading of 55.2 and expectations for a 55.5 level, while the NMI improved to

55.4 index points from a 54.9 reading in April, just shy of the expected 55.5 level. Both indicators readings continue to depict and expansionary picture for the US business activity. The US labour productivity dropped a larger than expected 3.2% in the first quarter of 2014, undoubtedly impacted by weather, but also by the buoyant jobs market.

The US international trade balance swung even deeper into deficit, to the tune of \$47.2 billion in April, as the US exports suffered an unexpected retreat in the month, while imports advanced by 1.2%, led by gains in automotive and consumer goods imports, which is yet another indicator that the US consumer sector is likely a large contributor to GDP growth in the current quarter.

U.S. nonfarm payrolls rose 217,000 in May, in line with market expectations, following a slightly downwardly-revised gain of 282,000 in April. This marked the fourth month of job growth surpassing 200,000, extending an upward trend in the past year. The industry gains were widespread and no sector stood out, though the federal government cut 5,000 positions, more than offset by hiring at the municipal level. The household survey showed a more moderate 145,000 advance in employment, but that was enough to hold the unemployment rate steady at 6.3%. The participation rate stayed at a 36-year low of 62.8%, confounding expectations of a slight upturn following April's hefty slide, even as the number of discouraged workers fell for the fourth time in five months, as retiring baby boomers continue to undercut labor force participation. Of note, private industry jobs jumped 725,000 following strength in previous months, adding backbone to the sturdy establishment survey figures.

Canada – Canada's employment numbers included a 25,800 positions gain for May, offsetting most of the April job losses, yet gains were only reported in part time positions, up by 54,900, while full time employment actually retreated by 29,100 jobs in the month. Against the expectations, the participation rate did not improve in the month, holding steady at 66.10%, while the headline unemployment actually moved up a notch to 7.0% from 6.9%.

Disappointing news came also from the Canada's balance of trade announcement, which once again dropped into a deficit position of \$640 million, short of the expectations for a \$200 million surplus, impacted by weaker energy exports and increasing imports.



On the Canadian housing front, building permits recovered in April some of the 3.2% drop in March, inching higher by 1.1%, yet falling short of the expected 4.0% improvement. Housing starts, meanwhile, benefited from the mending weather and improved to a 198,300 units annualized level in May, handily exceeding the consensus expectations calling for a 185,000 units annualized level.

Financial Conditions

European Central Bank last Thursday cut its refinance rates as expected by 0.1% to 0.15% and lowered its 'deposit' rate to banks that leave money with it to minus 0.1% the first time it has taken the Europe into negative rates territory. The surprise came on the liquidity side where the ECB provided new "targeted" LTRO's (Long Term Refinancing Operation) which allows European banks to borrow at favourable rates for non-financial corporates and households excluding mortgages. At current 7% allowed ratio, banks can borrow up to Euro 400 Billion from the ECB through their quarterly tenders from Sep 2014 through to Jun 2016 with all having maturities in Sep 2018. The ECB also ended the sterilization of SMP purchases and said it is diligently working on scheme to outright buy Asset Backed Securities which looks to come into place sometime in the near year. From the program, the ECB hopes to improve liquidity and broaden the ability of the banks to fund themselves in the wholesale markets by packaging their own loans and reduce the reliance on the ECB and reduce borrowing costs.

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 2.20% and the U.K.'s 2 year/10 year treasury spread is 1.98% - 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 6-9 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 4.14% - (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 5.2 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 10.73 (a post-recession low) 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 Banks Fund
- Portland Global Income Fund
- Portland Global Dividend Fund

Private/Alternative Products

Portland also currently offers 3 private/alternative products:

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

Market Commentary



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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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June 9, 2014

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Source: Thomson Reuters, Bloomberg, Company reports

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