News Highlights

Financial Services Companies

Bank of America is in talks to pay at least US$12bn to settle civil probes by the Justice Department and a number of states into the bank's alleged handling of shoddy mortgages. At least US$5bn of that amount is expected to go toward consumer relief--consisting of help for homeowners in reducing principal amounts, reducing monthly payments and paying for blight removal in struggling neighbourhoods. The bank's total tab to end government probes and lawsuits related to its pre-crisis conduct is increasingly likely to surpass the record US$13bn that JP Morgan paid last year to settle similar allegations. (Source : The Wall Street Journal)

BNP - The Financial Times follows a Wall Street Journal report that Benjamin Lawsky, the head of New York's top banking regulator Department of Financial Services, is asking for BNP to remove senior advisor Vivien Levy-Garboua, a one-time head of compliance for BNP in the US, as part of the settlement with US authorities. The DFS had asked BNP a few months back to remove Georges Chodron de Courcel COO. In a separate article the US Chamber of Commerce voices concern over potential BNP fine The US Chamber of Commerce, has voiced concern about the potential scale of a fine on French bank BNP Paribas by US regulators, echoing anxious demands by the French government for moderation. Speaking in Paris, Myron Brilliant, head of international affairs for the USCC, said the Chamber might "weigh in" on the issue if BNP was hit by "excessive" penalties for breaking US sanctions.

COMMERZBANK : Has announced sale of €5.1bn of Commercial Real Estate exposure in Spain + Portugal (€4.4bn sold to JPMorgan and Lone Star) and Japan (€0.7bn sold to PAG). This is the largest S.European distressed disposal to get completed. Reduces CRE exposure by 16% and represents continued progress in non-core disposals. Deal generates P&L loss of €100m but will boost capital by net €200m given relief on Risk Weighted Assets (€3.2bn of RWAs removed).

Deutsche Bank has warned the continuing investigations by global regulators into whether foreign exchange rates were manipulated could have a "material" effect on the lender. The bank said its financial exposure to the misconduct probes could be material. It added that its reputation could also suffer as a result. The lender also warned that revenues in its investment bank in the second quarter of the year were likely to be lower than the same time last year as the decline in fixed income trading continues to harm the bank. (Source : Financial Times).

Deutsche Bank said on Thursday it would sell roughly 300 million new shares at €22.50 each in a capital increase roughly 6% larger than initially announced. The bank said last month it would issue new shares to quell concerns about its financial strength. "We have taken decisive steps to protect Deutsche Bank against known capital challenges, sharpen our competitive edge, and accelerate investments in growth in all our business divisions," the bank's co-chief executive, Jürgen Fitschen and Anshu Jain, said in a statement. The issuance of 300 million more shares now will generate proceeds of around €6.7bn, bringing the overall amount to €8.bn. The total is roughly 6% above the "approximately EUR8 billion" the bank said it would raise on May 18. (Source : The Wall Street Journal;)

JPMorgan, may have to cut jobs and reduce compensation if trading revenue fails to rebound as expected, Chief Financial Officer Marianne Lake said. With results holding at current levels, "compensation will come down," Lake said last week at an investor conference in New York. "Then in the longer term, the question is whether we will have too much capacity." JPMorgan warned investors last month that second-quarter fixed-income and equities trading would probably drop about 20% from a year earlier amid low volatility across asset classes. Lake, 45, affirmed the New York-based bank's forecast today and said the slowdown appeared to be cyclical, rather than a permanent shift. "Over time, we should expect to see these cyclical headwinds abate and get replaced with tailwinds," including stronger global economic growth and higher interest rates, Lake said. (Source : Bloomberg).

Dividend Payers

Chevron Corporation - announced on Friday that its subsidiary, Chevron Global Energy Inc., has sold its 25% non-operated interest in a producing oil concession in southern Chad and the related export pipeline interests to the Republic of Chad for approximately $1.3 billion. The sale closed June 13. The transaction includes the sale of the Chevron subsidiary`s interests in seven fields in Chad`s Doba Basin, which in 2013 had an average net daily crude oil production of about 18,000 barrels. The sale also includes the Chevron subsidiary`s approximate 21% non-operated interest in a pipeline system that transports crude oil to the coast of Cameroon as well as associated marine facilities.

Enbridge – The Canadian government could technically delay an imminent decision on whether to approve the controversial Northern Gateway pipeline from Alberta's oil sands to the Pacific coast, Natural Resources Minister Greg Rickford said on Wednesday. But Rickford's office stressed he was not signaling a delay was necessarily the direction the government would take. Rickford said the Conservative government was considering an extensive report by the country's energy regulator, the National Energy Board, for the proposed pipeline, which is opposed by many environmentalists and aboriginal groups. The government has until June 17 to make its decision on Enbridge Inc's proposal to build the 525,000-barrel-per-day pipeline at a cost of C$7.9 billion ($7.3 billion). One of three major domestic projects currently on the books, it would carry crude from Edmonton, Canada's oil sands hub, to a deepwater port in British Columbia.

Pacific Rubiales – Canadian oil company announced Wednesday the creation of a subsidiary in Mexico, amid increased interest in the energy sector there due to recent reform which ended the state monopoly of Pemex. Rubiales currently has operations in Colombia, where it is the largest oil producer of the country, as well as Brazil, Peru, Guatemala and New Guinea. Last week, the Mexican conglomerate Alfa, one of the largest in the nation, increased its stake in Pacific Rubiales to 12.26%, from 10% held at the end of May.

Tesco Bank - the financial services arm of Britain's biggest retailer, has launched its first personal current or checking account, looking to challenge established lenders and bring shoppers back into its parent's stores. The bank is aiming for a slice of a market dominated by Lloyds Banking Group, Royal Bank of Scotland, Barclays, HSBC and Santander UK, which provide over three-quarters of accounts. Parent Tesco also hopes the service will help entice customers back into its supermarkets. Account holders will be offered credits via Tesco's loyalty scheme Clubcard, which they can spend inside Tesco's 3,000 UK outlets. Tesco Bank's chief executive Benny Higgins said the potential for growth was illustrated by the progress of Tesco Bank's credit card, which has built up a 12% share of the market in the UK. If that was replicated in current accounts, it would give Tesco the same share as HSBC. He wants to target the 6 million customers already using Tesco Bank for credit cards, loans and savings products and the 16 million Tesco customers who use Clubcard. Tesco is offering interest of 3% on balances of up to £3,000. Customers depositing less than £750 a month into the account will have to pay a £5 monthly fee. Current accounts are seen as key because they enable banks to cross-sell other products.

Total – French oil major said it had started production on Thursday on the CLOV development on offshore block 17 which it operates in Angola. CLOV is the fourth floating production storage and offloading (FPSO) unit on block 17 and will contribute to bringing the block's production to 700,000 barrels a day, Total said in a statement. Total had said previously it aimed to start up the CLOV development by the end of June.

Toyota – the world's largest automaker, called back 1.62 million vehicles outside of Japan that it recalled last year as well as 650,000 more in Japan not previously recalled. The additional vehicles brought to more than 7 million the total number of cars equipped with air bags supplied by Takata Corp to be called back worldwide over the last five years. The 2.3 million cars, many of them sold in the United States, are being recalled to replace faulty air bag inflators. Takata, the world's No. 2 manufacturer of auto safety equipment, said other automakers may have to issue recalls because of problems with tracking potential defects related to air bag inflators that date back over a decade. Toyota expanded its recall because Takata said it had discovered record-keeping errors at a Mexican plant where potentially faulty air bag inflators were made in 2001 and 2002. Takata did not disclose how much it expected Wednesday's Toyota recall to cost, but last year's recall cost the Tokyo-based auto supplier $300 million.

Economic Activity, Consumer and Business Conditions

US – Released this morning, the US industrial production report revealed a better than expected 0.7% advance in May, more than offsetting the 0.3% pull-back in the month prior. Most industries participated in the improvement, led by the mining and materials sectors. Manufacturing improved by 0.6% in the month. The US capacity utilization moved higher by a couple of notches, to 79.1% from April's 78.9% level.

U.S. retail sales grew at slower-than-expected pace of 0.3% in May, while sales excluding autos were up only 0.1% in the month. There were also upward revisions to the prior month and they were pretty significant. Example: The headline gain of 0.1% is now 0.5%. The flat ex. auto reading is now +0.4%. Forget the April decline in furniture sales…..they actually rose 1.6%. The discretionary expenditure, sporting goods, rose twice as fast as was initially calculated……up 1.4%, not 0.7%.... The strong revised April results therefore help explain the sales declines in May, which saw the likes of electronics and appliances, sporting goods, clothes, general merchandise.

For the purposes of GDP, the core sales component (subtracts building materials, gasoline and autos), slipped 0.1% in May but after an upwardly revised gain of 0.2% in April (first reported as a decline). So even if June was unchanged, this still works out to 4% annualized in Q2.

Meanwhile, on the housing front, the just released June reading of the housing market index by the National Association of Home Builders (NAHB) shows increased confidence from the US home builders, at 49 index points (just shy of the 50+ 'optimistic' territory), ahead of the expectations for a 47 points reading and a significant jump from May's 45 points level.

Canada – The Canadian new housing price index inched higher by 0.2% in April, much as expected and in line with March's 0.2% increase. The year on year rate of change was 1.6%, which lags the rate of price increase of existing homes being sold.

The Canadian capacity utilization improved to an 82.5% level in the first quarter of 2014 from 82.2% in the last quarter of 2013 and ahead of the expected 82.4% read, slowly getting making its way towards 85% level typical of prior economic cycles peak; assuming of course the most recent recession hasn't caused any capacity to permanently be removed.

U.K. unemployment fell to the lowest level in more than five years as the strengthening economic recovery boosted payrolls by a record. Jobless claims in the U.K. fell by 27,400 in May, while April's decline was revised to -28,400 (from -25,100 initially), both better than expected. Employment rose by 345k in the three months to April, which tugged the jobless rate down to a 5-year low of 6.6%.

Reserve Bank of New Zealand raised rates 0.25% for the third consecutive time to 3.25%. The central bank kept the language that NZD was expected to fall in line with "weakening commodity prices" but with the RBNZ not providing guidance on pausing, NZD strengthened 1.5% against US$ last Thursday when the rate increase was announced.

Australia jobs disappointed at -4.8k against expectations of +10k.

Financial Conditions

Bank of England Governor Mark Carney last Thursday surprised the markets with the comment that the BOE could raise rates sooner than the markets expect. GBP shot up immediately 1% and UK interest rate futures and equities were hit hard. Carney clearly sees growing strength in the UK economy as he said there are "few signs of a deceleration in output growth". Carney also stressed that the BOE is not time dependent but data dependent on when it will raise rates. Better UK data will lead to a hike and many in the markets have pulled forward their rate hike call now from Q1 2015 to Q4 2014. On housing, Carney says he is not worried about housing prices per se, but instead, the BOE is focusing on household indebtedness and household balance sheets that can lead to problems.

Bank of England Widens Lending Access to Shadow Banking Sector : The Financial Times reported today that the Bank of England has decided upon a significant extension of the range of institutions it is willing to lend to as it responds to the rise of shadow banking and the rapid evolution of the financial system. On Thursday night Mark Carney, the BoE governor, said he was ready to extend the scope of the BoE's liquidity facilities to the

UK's biggest broker dealers and to central counterparties, taking its "sterling market framework" beyond its traditional ambit of commercial banks. "Just as there will be times when central banks must backstop the banking system, there are also times when they should backstop core markets in a way that supports their contribution to the real economy but doesn't encourage excessive risk taking." Among the major broker dealers operating in the UK are Goldman Sachs, Morgan Stanley and Merrill Lynch. The decision marked a big departure for the central bank, which has in recent decades focused its lending facilities on commercial banks and building societies. The moves reflect the rise of market-based finance and the migration of some activities away from traditional lenders. They also reflect the growing systemic importance of central counterparties amid regulatory changes requiring more products to be cleared on them. The changes come as the BoE also reviews the scope of its regulatory "perimeter" to decide whether any changes need to be made to the range of systemically important firms it supervises directly. Again, this reflects the growing importance of big shadow banks, for example money market funds and hedge funds.

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 2.13% and the U.K.'s 2 year/10 year treasury spread is 1.85% - 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 4.20% - (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 12.18 (compares to a post-recession low of 10.7 achieved in early June) 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

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

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

PIC14-050-E(06/14)