



News Highlights

Portland CVBI Holdings LP, the vehicle created in 4Q 2013 to participate in the potential growth of Columbus International Inc. based on a \$3.08 share value of Columbus has, via its General Partner, accepted an offer to be bought out based on a \$5.00 share value of Columbus. This investment is currently held in Portland Global Income Fund, Portland Global Dividend Fund and Portland Global Banks fund with expectations the investment will be paid out within the next few weeks. Michael Lee-Chin was interviewed by Amber Kanwar of BNN on Friday morning and mentions this investment. The segments will air in two parts, the first at 11am and the second at 3:10pm today on the Business Day program hosted by Frances Horodelski.

Financial Services Companies

Financials underperformed the market last week, down ~1.95% vs the SPX down ~1.15%. Banks were the biggest underperformers, down almost 3%, driven by last Thursday's turmoil in Portuguese financial Espirito Santo International and spiking Portuguese bond yields. Espirito Santo has a 25% stake in the largest bank in Portugal, Banco Espirito Santo (BES), which caused the BES shares to fall hard before being suspended from trading by the Portuguese regulator. Banco Espirito issued a statement that it had a capital buffer of EUR 2.1 billion above the regulatory minimum and that its exposure to its parent company was only 1.18 Billion. The bank stock has since partially recovered with further reassurance coming from the Portuguese government. Additionally, the "streak" of 17 consecutive earnings beats from Wells Fargo was broken on Friday and dragged the bank sector lower....but today Citi's results beat expectations.

Barclays' planned sale of its index business could yield close to \$US1bn for the British bank, more than double what had been expected, according to people familiar with the matter (Source: Australian Financial Review).

Citigroup : reported \$0.03; however, after excluding the one-time charge associated with the \$7 billion legal settlement with the Dept of Justice (to resolve a long-running US government investigation into the bank's sale of mortgage-backed securities)

, the operating number was \$1.24. This result beats the consensus of \$1.06, as revenues came in much stronger than expected. Largely driven by better-than-expected Fixed Income, Currency and Commodities (\$3.0bn vs expected \$2.6bn) and Investment Banking results (\$1.4bn vs expected \$1.0bn), core revenues came in at \$19.4bn, or \$0.18 per share better than estimates. Global Consumer Banking revenues were largely in line at \$9.4bn vs. \$9.3bn. Importantly, the core results included \$0.18 additional legal and elevated repositioning costs. Although this level of legal may remain, its expected the \$0.09 repositioning costs could meaningfully reduce over the next few quarters. We expect the shares to be up on the revenue beat and the \$1.1bn utilization of the DTA despite the legal settlement. Importantly, despite the legal settlement, Citi utilized \$1.1bn of the Deferred Tax Allowance. The Basel 3 tier 1 equity capital ratio came in at 10.6% & SLR (Supplementary Leverage Ratio) at 5.7% - both strong. Non Conforming Obligations came in better than expected (\$2.19bn vs. \$2.33bn) resulting in a modestly lower than forecast provision (\$1.73bn) with reserve release of \$0.10. Citigroup stated the settlement with the Dept of Justice resolves ALL pending civil investigations related to its legacy Retail Mortgage Backed Securities and Collateralised Debt Obligations underwriting, structuring and issuance activities. It said it has also have now resolved substantially all of its legacy RMBS/CDO litigation. Cit's Tangible book increased 0.9% to \$56.89 (approx 0.85x).

Commerzbank is expected to pay between \$600mn and \$800mn to resolve investigations into its dealings with Iran and other countries under U.S. sanctions, sources familiar with the matter said, Reuters reports. The penalty, previously reported to be more than \$500mn, includes a demand from New York's top banking regulator, Benjamin Lawsky, for more than \$300mn from the bank, the sources said. Other U.S. authorities, including the Department of Justice, the Treasury Department, the Federal Reserve and the Manhattan District Attorney, are also involved in the talks. Among the violations being investigated are Commerzbank's transactions for the Islamic Republic of Iran Shipping Lines, one of the sources said. Commerzbank have around Eur900mln of legal provisions on their balance sheet.

Credit Suisse - has applied to the US courts to have sentencing delayed on the tax evasion case that it settled with US authorities in May. The motion asked for sentencing to be delayed until at least November (from 12 August) because the company has yet to receive permission from the US Dept of Labour to continue



providing services to pension funds in spite of its guilty plea. Without this permission the company would be precluded from managing pension assets. While the AuM figure quoted in the filing sounds modest (“several billion dollars”) this is nonetheless a further sign that life after a guilty plea may not be quite as straightforward as either Credit Suisse or BNP have tried to portray...lest we believe that US regulators are at risk of being deemed vengeful or arbitrary (as mentioned by the Financial Times)

Goldman Sachs: is expanding its European wealth management business to offer loans to rich clients in a bid to woo business away from private banks in Europeparticularly Swiss private bankssome of which ironically have been closed or come under severe pressure following US regulatory crackdown on tax disclosures. The new Goldman European business has a goal of building a US\$5 bn loan book within next 3 years....targeting its existing 1700 wealthiest clients across Europe and comprising mostly secured loans for purposes including liquidity facilities, portfolio diversification, tax payments or luxury purchases such as yachts. (Source: Financial Times).

ING - exercises over-allotment in NN Group thus reducing stake from 71.4% down to 68.1% - will impact Q3 book value downwards by EUR 288m - aim is to reduce holding below 50% by end-2015.

Lloyds Banking Group is cutting 500 jobs in Britain, mostly in its finance and retail operations, to take cuts in the last three years to more than 13,000. The bank said on Wednesday the job cuts are part of 15,000 announced three years ago. Unite, one of the main trade unions for Lloyds' staff, accused the bank of “continuous salami slicing job losses” that is adding to staff fears about losing their jobs. Lloyds said about 175 of the cuts would come from temporary agency staff or by not filling vacant positions. About 24 staff would go from risk functions. It said the latest cuts took the number of redundancies since its 2011 strategic plan was announced to 13,555. (Source : Reuters).

Standard Chartered - started legal proceedings in Hong Kong against Chen Jihong, who owns commodities trading firm Decheng Mining, which was suspected of illegally pledging same commodities collateral multiple times, which weighed heavily on Standard Chartered when reported in the press some weeks ago

Wells Fargo : although the bank could not extend its consecutive quarter streak of record earnings to 13 (or its streak of EPS growth to 18 quarters), results evidenced solid loan growth (commercial loans +2.7%), higher investment banking fees, and continued credit quality improvement. However, the spring selling season in mortgage was softer than originally anticipated, and its average share count was relatively stable despite repurchasing 0.7% of outstanding. Looking out, reserve releases are expected to continue, albeit at a decelerating pace; it remains focused on growing net interest income; and it is committed to returning capital to shareholders (executed a \$1bn forward repurchase contract expected to settle in 3Q for 19.4mn shares). Wells Fargo reported 2Q14 EPS of \$1.01, in line with consensus. Relative to 1Q14, results evidenced a larger balance sheet (avg. loans +1%, avg. securities +2%), continued net interest margin contraction (-5bps), higher fee income (mortgage, other), higher expenses (salaries and litigation), a lower loan loss provision, improved credit quality (NPA and NCOs lower), a higher tax rate (+589bps), and a relatively stable average share count (though period-end lower).

Despite buying back 39.4 million shares during the quarter, the average fully diluted share count only fell by 2.5 million.

Dividend Payers

ABB – was awarded a \$400 million order for a maritime link power project in Canada from NSP Maritime Link, a unit of Emera Inc., to supply a high-voltage direct current power transmission solution. ABB Inc says order was booked in the second quarter of 2014

Enbridge Inc. - is turning its eyes north to Alaska, entering talks with the state to build an \$8-billion (U.S.) natural gas pipeline there if a competing project falters. The Calgary energy company and the state-owned Alaska Gas Development Corp. (AGDC) “are undertaking substantive and exclusive discussion” which would see Enbridge become the builder and operator for the 1,163-kilometre pipeline. It would carry natural gas from the North Slope to Fairbanks and other communities in southern Alaska.



Mondelez International Inc - maker of Cadbury chocolate and Oreo cookies, said it would create a “stand-alone” European cheese and grocery business to focus on its fast-growing snacks business, including biscuits, gum and candy. The company has been increasing its focus on its portfolio of snack foods and refreshments, which includes 53 brands that each generated annual revenues of \$100 million or more in 2013. Mondelez and rival D.E Master Blenders 1753 said in May they would merge their coffee businesses in a deal aimed at taking on market leader Nestle SA. A stand-alone cheese and grocery category would likely have a dedicated sales team to focus on selling products exclusively. The cheese and grocery segment accounted for about 10% of European sales for the quarter ended March 31.

Nestlé completed last week the acquisition of L'Oréal's 50% stake in Galderma. Galderma will operate in the newly formed Nestlé Skin Health. L'Oréal acquiring 8% of the capital owned by Nestlé: 48.5 mn shares (8% of share capital) owned by Nestlé. This represents 27% of Nestlé's stake in L'Oréal. Nestlé's stake in L'Oréal is reduced from 29.4% to 23.3%. Nestlé's book gain CHF 7.5 bn. Together with the L'Oréal/ Galderma transaction last February, Nestlé announced a buy-back. The company was waiting for the deal to be completed in order to announce the amount. Logically, this shall be announced with the 1st Half 2014 results.

Pacific Rubiales – Pumping of oil from one of Colombia's most important pipelines, the Bicentenario, was paralyzed after an attack by leftist rebels, its operator said on Saturday. The attack took place on Friday near the municipality of Fortul, in Arauca province, on the border with Venezuela. There were no injuries. The pipeline, jointly run by a group led by state oil company Ecopetrol and Pacific Rubiales, has capacity to transport 110,000 barrels a day along its 230 kilometers (144 miles) from oil fields in Colombia's eastern plains to the Cano Limon-Covenas pipeline. The company did not provide an estimate for restarting operations. The pipeline crosses areas where there is a strong presence of the two main rebel groups, the Revolutionary Armed Forces of Colombia, or FARC, and the National Liberation Army, or ELN. Neither the company nor military sources said which armed group was behind the attack. Colombia is the fourth-largest producer of oil in Latin America, but its output has been reduced by heavy attacks in recent months by the insurgent groups. There were 259 attacks on oil installations in 2013, the highest number in a decade. Even though the FARC is engaged in peace talks with

the government, attacks have continued against economic and military targets. President Juan Manuel Santos, who was this month reelected to a second term, is also seeking peace talks with the ELN.

Rheinmetall – Germany's Krauss-Maffei Wegmann (KMW) downplayed a report that a rival could offer to buy the tank maker, saying it was barred from starting talks as long as it was in merger negotiations with France's Nexter. KMW and state-owned Nexter this month announced they were in talks to merge in a deal which would create Europe's biggest maker of tanks and other ground armaments. German daily Handelsblatt reported on Friday that German automotive and defence group Rheinmetall was interested in making an offer for KMW and had been in contact with the group at the highest management level. Rheinmetall and KMW have two joint ventures making Boxer armoured vehicles and Puma tanks. They also cooperate on other projects.

Roche Holding – An experimental drug from Roche helped people with an advanced form of skin cancer live longer without their disease worsening when used in combination with another treatment, the Swiss drugmaker said on Monday. Cobimetinib, which is being developed in collaboration with Exelixis Inc, is designed to be used with another Roche drug called Zelboraf for patients with tumors that have a mutation in a gene known as BRAF that allows melanoma cells to grow. Results of a Phase III study involving 495 patients previously untreated for advanced melanoma found those taking both drugs lived significantly longer without their disease worsening compared to those taking Zelboraf alone. Roche plans to present the results at an upcoming medical meeting and said it would file the data for approval with health regulators worldwide. Melanoma globally afflicts more than 232,000 new people each year.

Samsung Electronics posted another set of weak quarter results due to the struggles of mobile devices and unfavourable currencies. We believe that the ongoing headwind is largely due to the weak product cycle, on a miss in execution and the strategic decision on overhead cost increases, and it will not be fixed until the company can come up with a more differentiated product. However, we believe these concerns are fully reflected in the stock and it represents an attractive valuation on our expectation of catalysts that should drive a re-rating eventually. The preliminary earnings result for 2Q14 of



KRW7.2tn of Operating Profit (vs. KRW8.49tn in 1Q14) was weaker than the Bloomberg consensus of cKRW8.1tn. The company did not provide detailed divisional information, but explained that 1) struggles in the IM division (i.e. smart phones) due to inventory correction and the increase of market expense, 2) strength of the Korean Won against other major currencies and 3) low utilization rates at the Display and Logic divisions due to weak captive demand are the key reasons for the weak 2Q results. The company usually does not provide any future guidance at the release of preliminary results, but this time it did send out brief message for the 2Q review and 3Q outlook, in which the company mentioned that 1) additional increase of marketing expense at IM division might be limited, 2) moderate volume recovery on new products launch, 3) improvement of display panel division on increase of captive demand and 4) continued strength of memory division on seasonality, which implies a modest recovery of Operating Profit in 3Q, Bloomberg consensus is for KRW8.7tn.

SSE – British energy regulator Ofgem has approved the construction of a subsea electricity cable to connect two sides of Scotland's Moray Firth, a project that will help the connection of renewable energy, developer SSE said. The £1.2 billion (\$2.04 billion) project, led by SSE's subsidiary Scottish Hydro Electricity Transmission will add 1.2 gigawatts of new renewable energy capacity to the network when completed in 2018, SSE said. "This is a major step forward for an essential upgrade to the high voltage grid so that more renewable energy can connect to the networks," said Martin Crouch, senior partner for transmission at SSE.

Tesco – Marks & Spencer Chief Finance Officer Alan Stewart has quit to join Tesco in the same role, jumping ship from one struggling British retailer to another. Just two days after helping M&S Chief Executive Marc Bolland present first-quarter sales, Stewart has left Britain's biggest clothing retailer to join the world's third-biggest stores group on an increased salary and with a £1.7 million (\$2.9 million) golden hello. His appointment will be a boost to Tesco CEO Philip Clarke, who is currently the only executive on Tesco's PLC board, and who is facing questions over whether he has the right strategy to turn around the 95-year-old group. Tesco, which has been looking for a new finance chief since Laurie McLlwee announced his intention to quit in April, said Stewart would join "following satisfaction of existing contractual obligations."

Toyota – U.S. motor company Ford has suspended production at one of its South African plants and Japanese car-maker. Toyota plans to follow suit as a manufacturing workers' strike hits suppliers of car components. The two-week-old strike by 220,000 NUMSA union members, who are seeking 12-15% annual increases, follows on the heels of a five-month strike in the platinum sector that stunted economic growth and export earnings. The manufacturing strike has also forced General Motors to close its assembly plant in the southern city of Port Elizabeth over a week ago, despite efforts by Labour Minister Mildred Oliphant to mediate between the union and employees. Toyota said it will halt some production from Tuesday because of supply chain problems related to the stoppage.

Economic Activity, Consumer and Business Conditions

US – The US consumer continued to add to its indebtedness in May, to the tune of \$19.60 billion in consumer credit, largely in line with the expectations and somewhat lower than April's \$26.11 billion; as such it is reasonable to expect that the US consumer will continue to be a key growth driver of the US economy in the near term.

Canada – The Canadian economy lost 9,400 jobs in June, significantly lower than the expected increase of 20,000 job additions, driven lower by a 43,000 jobs drop in part time employment, mostly in manufacturing, agriculture and business services. Full-time employment grew, in fact, by 33,500 positions in the month. The headline unemployment rate surprisingly inched higher to 7.1%.

The Canadian housing market is showing little signs of pulling back, with both housing starts and building permits advancing in the most recent releases. May's building permits jumped by 13.8% on top of prior month's 2.2% improvement and miles above the expected 3.0% advance, while housing starts for June reached a 198,190 units annualized level, also exceeding the expectations, which were pencilling in a 189,000 units annualized level. New house pricing meanwhile has been chugging along, up 0.09% in May, though short of the expected 0.2% improvement.



US Federal Reserve minutes last week confirmed that Fed tapering will be ending in October. With the Fed cutting purchases by 10 Billion each meeting, purchases would either end in October or leave a small stump left for November and December. With purchases ending, the discussion now switches to when the Fed starts hiking and what it does with the balance sheet.

Australia employment climbed 16k vs the 12k expected but the unemployment rate still rose to 6.0% from 5.8%.

Chinese trade surplus fell to 31.6 Billion, disappointing 37 Billion expectations. Growth in exports (+7.2%) trailed the growth in imports (+5.5%) but puts the economy on track for a 7.4% growth rate which is slightly below China's forecasts of 7.5%.

Indian: Finance Minister projected a 4.1% 2015 deficit in the government's inaugural budget.

Financial Conditions

Bank Of England left rates and asset purchases unchanged last week

Malaysia raised its benchmark rate 25 bps to 3.25% for the first time since May 2011. Economic growth continues to accelerate and the Bank is trying to curb the risk of financial imbalances.

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 2.08% and the U.K.'s 2 year/10 year treasury spread is 1.78% - 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 4.15% - (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 11.57 (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:

Market Commentary



PORTLAND
INVESTMENT COUNSEL®

July 14, 2014

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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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.

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