



News Highlights

Energy Sector

Royal Dutch Shell – has sought permission from the U.S. government to drill in the Arctic Ocean and is keeping open the possibility that it could drill there next summer, the Financial Times reported on Thursday.

Shell Canada has fitted the final module at the first carbon capture and storage (CCS) project in Alberta's oil sands, the company said on Wednesday, putting start-up on track for 2015. The Quest CCS project, now 70% complete, is being built with funding from the Alberta and Canadian federal government to help mitigate greenhouse gas emissions from the oil sands. Shell Canada president Lorraine Mitchelmore said the CCS project would be cost neutral for the company and there was a potential future market for carbon, although Shell was not looking at that right now.

Royal Dutch Shell said it had reached deals on some of the four Nigerian oil fields it has offered for sale as the oil major pushes ahead with divesting global assets to cut costs. Shell last year put up for sale its 30% shares in four oil blocks in the Niger Delta - Oil Mining Licences (OML) 18, 24, 25, 29 - as well as a major pipeline, the Nembe Creek Trunk Line. In several rounds of divestments, Shell has been moving away from Nigerian onshore oil, which is plagued by industrial scale oil theft, security problems and oil spills, the latter having become a growing legal liability for major oil companies. Other companies including Total, Eni, and Chevron have also looked to dispose of assets. ConocoPhillips sealed a \$1.5 billion deal with Nigeria's Oando last month. The Financial Times on Wednesday reported that Shell was close to selling the assets for about \$5 billion to domestic buyers, citing banking sources.

Total – Britain's Laggan-Tormore gas condensate fields in the North Sea are expected to start production next year, instead of at the end of this year, according to project stakeholder Dong Energy. Total is developing the two fields off the Shetland Islands in Scotland at a cost of about £3.3 billion (\$5.5 billion). As part of the project, the company is constructing a gas processing plant and export pipeline. Total E&P UK is the operator of the fields and has an 80% stake in the project, with Dong E&P UK holding a 20% stake.

Financial Sector

Bank of Nova Scotia cash operating earnings increased 8% Year-on-Year to \$1.41 per share, in-line with consensus expectations. Earnings were driven by wholesale growth of 8% and wealth at 6%, with Canadian banking and International both very modest at 3%. Earnings were also elevated by higher securities gains, which added \$0.05/share YOY. The bank increased the dividend 3% to \$2.64 per share, in-line with expectations. Canadian banking earnings growth was modest at 3% YOY. Operating leverage was weak at 20 bps YOY. Loan growth was 3% YOY (or 5% ex-Tangerine run-off), with Residential Mortgages loans increasing 3%, Business loans up 7% and Personal loans up 11%. The reported Retail Net Interest Margin was stable sequentially, and up 5 bps YOY to 2.10%. International banking earnings growth continued to be weak at 3% YOY. Loan growth was 12% YOY. On a constant currency basis, Latin America loans were up 14% YOY, Caribbean was down 3% YOY and Asia was up 8% YOY. The Net Interest Margin was up 5 bps sequentially and down 9 bps YOY to 4.05%. Provisions for Credit Losses increased to \$244 million from \$194 million in the prior year due to Caribbean and lower credit marks from the Colpatria acquisition in Colombia. Wholesale earnings of \$408 million were up 8% YOY and up 6% QOQ, driven by strong underwriting and advisory revenues of \$217 million which were up from \$160 million in the prior quarter and up from \$135 million in the prior year. Trading revenue at \$263 million, was down from \$344 million in the prior quarter and \$316 million in Q3/13. Equity trading revenue was \$19 million, down from \$39 million in the prior quarter and from \$39 million a year earlier. Provisions for Credit Losses were \$398 million or 37 bps of loans versus \$375 million or 36 bps of loans in the previous quarter and \$314 million or 31 bps of loans a year earlier. Global Wealth & Insurance earnings of \$312 million were up 1% YOY and down 10% QOQ. Accounting for the lost earnings from CI, underlying earnings were up 6% YOY. The solid results were driven by higher client assets with AUA/AUM up 17% / 22% YOY, respectively, partially offset by higher expenses (stock based compensation). BNS's Core Equity Tier 1 ratio of 10.9% was up from 9.8% in the previous quarter. The sale of CI added 1.16% bps to the CET1 ratio. Operating Return on Equity was 15.7%.

Barclays/ CaixaBank - CaixaBank announced an agreement with Barclays Bank PLC for the acquisition of Barclays Bank SAU. The estimated purchase price is €800mn based on a BBSAU net asset value of €1.7bn (0.47x NAV). The final purchase price shall be determined on the basis of BBSAU's net asset value as of 31st December 2014. For Caixa the deal appears EPS enhancing from year 1 at digestible negative capital impact of c.100bps (based on €2bn of Barclays Risk Weighted Assets as of Dec. 2013 and assuming full allocation of badwill for clean up and restructuring costs) – a deal that allows to redeploy excess capital whilst materialising further cost restructuring.



For Barclays, they have also reported sales of other non core operations, including its retail operations in the UAE to Abu Dhabi Islamic Bank, a portfolio of mortgages, unsecured credit and deposits. Both Spanish and UAE assets are included in Non-Core. At end 2Q 2014, Barclays had £88bn of Risk Weighted Assets which generated a £450m pre-tax loss in 1st Half 2014, ex restructuring costs. This sale to Caixa generates just a 4p NAV loss (to 275p) and 0.1% Core Equity Tier 1/Risk Weighted Asset benefit. This is modest but good news on further reduction in RWA in our views as management execute on their strategy of divesting non-core assets.

BNP Paribas is offering to buy all shares of Poland's bank BGZ for 80.47 zloty each, PAP reports, citing statement from Bank Handlowy's brokerage, which is in charge of transaction. Bids will be collected from Sept 12 through Oct 17. Deal is pending regulator approval. Note, BNP agreed to buy BGZ from Rabobank in Dec last year but has yet to get regulatory approval.

CIBC reported adjusted cash earnings of \$2.23 per share in Q3/14 compared to consensus expectations of \$2.21 per share. The slight beat in the quarter was mainly due to strong adjusted earnings in Wholesale Banking of \$254 million, up 17% y/y, mainly due to solid corporate and investment banking revenues, partially offset by lower trading revenues. Retail & Business Banking also had a good quarter with adjusted earnings of \$597 million driven by strong volume growth in CIBC branded mortgages (+15% y/y) and lower loan losses, partially offset by lower Net Interest Margin (-1 bp q/q). Wealth Management reported record adjusted earnings of \$124 million, up 20% y/y due to higher fee-based earnings from asset growth and the Atlantic Trust acquisition. Asset quality was stable this quarter with loan loss provisions of \$195 million, up 5% q/q but down 13% y/y. Capital was strong with a Core Equity Tier 1 ratio of 10.1%. The bank also announced a share buyback for up to 8 million shares (2% of outstanding shares).

Commerzbank - has sold a shipping portfolio worth €60m as the lender continues to wind down assets in its so-called bad bank, the Financial Times reports. In the latest sign of private equity demand for shipping loans, the Frankfurt-based lender said it had transferred nine container vessels to a joint venture backed by KKR and Borealis Maritime. The German bank has made faster than expected progress in shedding assets in its non-core unit, comprising shipping, commercial real estate and public finance. The lender announced fresh targets this month to cut assets in its bad bank to €7bn by 2016, from a previous target of €5bn.

TD reported adjusted cash earnings of \$2.12 billion, or \$1.15 per share, compared with consensus expectations of \$1.09 per share.

The earnings beat in the quarter was primarily due to better-than-expected results in Canadian Retail, which benefited from strong adjusted operating leverage of 380 bps, the contribution from the Aeroplan acquisition, and strong Wealth Management results. U.S. Retail also exceeded expectations but this was primarily related to the 46% y/y decline in loan loss provisions, partly offset by lower security gains. Capital Markets results were up 46% y/y due to higher trading revenues (up 14%) and strong underwriting and advisory fees. Credit was exceptionally strong in Q3/14 with loan loss provisions of \$329 million coming in 20% below expectations due to material recoveries in U.S. Commercial. The Core Equity Tier 1 ratio was in line with expectations at 9.3% with return on equity 16.8%.

Canadian Dividend Payers

Barrick Gold – is reportedly eliminating its entire corporate development team and more cuts are in the works as the world's top gold miner looks to trim costs. The corporate development team's main role was to identify and evaluate assets worth buying. Barrick, in the last few years, has been largely focused on cutting costs and selling over \$1 billion worth of assets deemed non-core. The latest round of cuts comes a little more than a year after Barrick moved to lay off up to a third of the staff at its headquarters in Toronto and other offices. Last month, the miner announced that Chief Executive Officer Jamie Sokalsky would step down in September and not be replaced. The move concentrates power in the hands of Executive Chair John Thornton, who earlier this year took the reins from Barrick founder and long-time Chairman Peter Munk. Thornton, a former senior executive at Goldman Sachs, has already driven many of the company's recent initiatives, including an failed attempt to merge with rival Newmont Mining and a joint venture with Saudi Arabian Mining Co, which is known as Ma'aden. Barrick named Kelvin Dushnisky, its head of corporate and government affairs, and Chief Operating Officer Jim Gowans as co-presidents with overall responsibility for execution of the company's strategic priorities and operating plans, at the time of Sokalsky's ouster.

Global Dividend Payers

Bunzl – British business supplies distributor Bunzl expects underlying sales growth for the rest of its financial year to beat broader economic growth, after a strong pound dented first half revenue by 8%. Referring to like-for-like growth at constant exchange rates, Chief Executive Michael Roney said this should be ahead of the GDP forecasts in the countries in which it operates, and that acquisitions would help boost revenues further. The company, which supplies supermarkets, hospitals and hotels with products ranging from carrier bags to toilet rolls and generates 83% of revenues



abroad, said on Tuesday it had posted strong sales growth in North America, Britain and Latin America. But Australia and some parts of Continental Europe remained sluggish. Helped by the impact of recent acquisitions in Brazil, Germany and the Netherlands, the company posted a 7% rise in first-half revenue at constant exchange rates - just ahead of a forecast of 6% it gave in June. But adjusted for currency fluctuations, sales fell 1%. Pretax profits rose 5% to £176.6 million (\$292.9 million). The company has been on a steady acquisition drive, spending £1.7 billion on 80 deals over the past ten years. Roney said it would continue to look for new businesses in the second half of the year and that it was making progress in seeking out an anchor acquisition in Asia. Bunzl said it had acquired four new businesses in the past two months, with annualised revenue of £34.8 million pounds, bringing its total acquisition spending this year to £119 million for 12 business. Last year, Bunzl spent £295 million pounds on 11 acquisitions, the highest amount in a single year since 2004, in countries including Brazil, Australia and Canada.

Novartis – Sales forecasts for Novartis’s new heart failure drug are being ramped up by analysts after good clinical trial results. Doctors expect the new medicine to transform treatment of the deadly disease. Trials showed the drug slashed deaths and hospitalisations, worked across all groups of patients, and had no serious side effects. The results of a keenly-awaited clinical trial on LCZ696 were released at the annual meeting of the European Society of Cardiology on Saturday and published in the New England Journal of Medicine with a glowing editorial. Investigators working on the study and the company itself believe it has potential to replace drugs that have been central to treating heart failure for a quarter of century, opening up a multi-billion dollar sales opportunity. LCZ696 success is a vindication of Novartis’s strategy of stepping up its research efforts outside oncology, according to David Epstein, Novartis’ head of pharmaceuticals, who is keen to build up a broad portfolio when it comes to reinvesting profits from this drug on future research. Novartis is looking to LCZ696 to help revive its fortunes as the blood pressure pill Diovan - a major source of profits in the past - faces generic competition.

Epstein said the profitability of the new drug would be higher than with Diovan, since the cost of marketing LCZ696 will be lower. That reflects the more specialised nature of heart failure, which requires a smaller sales force. As a result, LCZ696 should become profitable relatively quickly, though Novartis will be investing to ensure a strong launch. The drug is on track to be submitted for regulatory approval by the end of the year and Novartis is hoping for a “priority review” in the United States, which would mean a decision is made within eight months. With a compelling clinical profile and very little in the pipelines of other companies in terms of competing products, Novartis looks to be in a strong position, in our view. LCZ696 is a two-

in-one pill, taken twice a day, combining Diovan’s active ingredient valsartan and another class of drug called a neprilysin inhibitor.

Tesco: last Friday Tesco revised down its profit forecasts for 1st Half and Full Year 2014/15. Trading profit for FY in the range of £2.4 billion to £2.5 billion, Trading profit for H1 in the region of £1.1 billion, Interim dividend cut to £1.16 per share, a cut of 75%, Capex for the current year at £2.1 billion, £0.4 billion less than previously planned and the new CEO, Dave Lewis, will now start on 1 September, one month earlier than previously planned. The profit guidance reflects the ongoing difficult trading conditions and the slower-than-expected response to recent initiatives. However, the cuts in the dividend and in capex are designed to give maximum flexibility to the incoming CEO. The statement is clear that Lewis will be reviewing ‘all aspects’ of the group and that he will consider “all options that create value for customers and shareholders”. Although another cut in profit forecasts sharply illustrates the challenges Tesco faces in its core UK business, the statement hints at the possibility of more radical approaches towards restoring health to the UK core business and towards highlighting the value in its other assets.

Economic Conditions

Canada: Real GDP rebounded smartly in Q2 by an annualized 3.1% rate of growth following a downwards revision to Q1 from 1.2% to 0.9%. The Q2 increase was ahead of the market consensus and consistent with the upside risk we had flagged heading into the release. The composition of growth was also encouraging with a solid lift from exports and domestic demand. Industry-level real GDP rose by 0.3% m/m (unannualized) which was stronger than the consensus expectation but in line with our forecast. Gains were noted in both the goods and service producing sectors. The handoff to Q3 is generally encouraging where it’s expect to see annualized growth in the ballpark of 2.8%.

US: Bernanke: 2008 Crisis Worse Than Depression “September and October of 2008 was the worst financial crisis in global history, including the Great Depression,” Mr. Bernanke is quoted as saying in the document filed with the court. Of the 13 “most important financial institutions in the United States, 12 were at risk of failure within a period of a week or two.” (source Wall Street Journal).

US economy: revised its estimated Q2 real GDP growth resulted in a surprising upward revision to 4.2% from 4.0%, due largely to a hefty upward adjustment in business investment. Business spending on equipment and machinery rose 10.7% annualized, instead of 7.0% as initially thought, and is up 7.0% in the past year. Investment in nonresidential structures was equally stellar, up 9.5% (5.3% previously), and is up 9.0% y/y. Piling on, exports rebounded 10.1%, a little faster than previously thought and more



than retracing Q1's 9.2% plunge (when snowy weather disrupted transportation). Consumer spending growth was left at a respectable 2.5%, residential construction was lowered a notch to 7.2%, and government spending was trimmed to 1.4%. All in, this marks a decent economic rebound from Q1's 2.1% contraction that stemmed from a number of special factors, most notably severe winter weather but also the expiration of extended jobless benefits and tax breaks on capital equipment, as well as uncertainty about health care coverage. Importantly, growth looks to have remained solid in the current quarter at around 3%.

Headline durable goods orders in the US skyrocketed in July, up 22.6%, driven by extraordinary aircraft orders. Durable goods orders excluding the notoriously bulky transportation sector was actually down by 0.80% in July, short of the expectations for a modest 0.5% increase and offsetting some of June's 0.79% advance. Orders of electrical equipment, computers and machinery were all significantly lower in the month after a relatively strong June showing. Just released, the Institute for Supply Management's (ISM) purchasing managers index (PMI), a leading indicator of business activity for the manufacturing sector in the US, is pointing towards continued acceleration in the sector in the near term. The 59 index points reading for August was ahead of the expected 56.8 and an improvement over July's 57.1 reading.

On the consumer front, the US personal income increased by 0.2%, short of the expected 0.3% advance, while consumption actually retreated in July, by 0.1%, again short of the expected 0.2% improvement. Part of the same report, the core personal consumption expenditures (PCE), Fed's favourite inflation gauge, provided no surprises, at a 1.5% year on year rate, broadly in line with the expectations and on par with June's rate of 1.5%. Consumer confidence meanwhile continues to strengthen, with US Conference Board's reading of 92.4 index points ahead of expectations and University of Michigan's consumer sentiment index also advanced, to an 82.5 level.

US pending home sales advanced by 3.32% in July, ahead of the expectations for a 0.50% increase and more than reversing June's 1.25% retreat. US home prices, meanwhile, measured by the Case-Shiller index, were up 8.1% year on year in June, just short of the expectations for an 8.4% rate, but a deceleration from May's 9.4% rate.

Europe: Some weaker economic news out of Europe where German unemployment unexpectedly rose and consumer confidence fell, along with accusations by Ukraine that Russia is bringing troops into the southeast region of the country in support of pro-Moscow separatist rebels.

Financial Conditions

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 US 2 year/10 year treasury spread is now 1.89% and the UK's 2 year/10 year treasury spread is 1.58% - 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 US 30 year mortgage market rate has increased to 4.10% - (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 US housing inventory is at 5.5 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 11.98 (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 6 Mutual Funds:
- Portland Advantage Fund
- Portland Canadian Balanced Fund
- Portland Canadian Focused Fund
- Portland Global Income Fund
- Portland Global Banks Fund
- Portland Global Dividend Fund

Private/Alternative Products

Portland also currently offers 4 private/alternative products:

- Portland Focused Plus Fund LP

Market Commentary



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- Portland Private Income Fund
- Portland GEEREF LP
- Portland Advantage Plus Funds

Net Asset Value:

The Net Asset Values (NAV) of our investment funds are published on our Portland website at <http://www.portlandic.com/prices/default.aspx>

Sources: Thomson Reuters, Bloomberg, Macquarie, Credit-Suisse, KBW, Bank of America, TD, BMO

Source: Thomson Reuters, Bloomberg, Company reports

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