Market Commentary

PORTLAND INVESTMENT COUNSEL®

September 29, 2014

# News Highlights

## Energy Sector

Enbridge – announced that it has entered into an agreement to purchase additional ownership stakes in two Quebec wind projects from existing partner, EDF EN Canada Inc. Under the agreement, Enbridge will invest approximately $225 million to acquire an additional 17.5% stake in the 300 megawatt (MW) Lac Alfred Wind Project and an additional 30.0% stake in the 150 MW Massif du Sud Wind Project. Enbridge Inc. and EDF EN Canada became co-owners of the Lac Alfred project in December 2011 and expanded their partnership in December 2012 with the purchase of 50% of Massif du Sud. On completion of the investment, Enbridge will hold 67.5% interest in Lac Alfred Wind and 80.0% interest in Massif du Sud. Enbridge invested approximately $3 billion in renewable energy assets over the past five years, and plans to continue growing its renewable business with the objective of doubling capacity by 2017. Combined, the two projects generate enough clean electricity to meet the needs of more than 100,000 Quebec homes. Electricity generated by the facilities is delivered to Hydro-Quebec Distribution under 20-year Power Purchase Agreements. EDF EN Canada will continue to provide management services to both projects and EDF Renewable Services will continue to provide long-term operations and maintenance services.

Enbridge Inc. has entered into an agreement with Enbridge Income Fund to transfer a package of natural gas and diluent pipeline interests to the Fund for total consideration of $1.76 billion. Enbridge will receive on closing approximately $421 million in cash, $878 million in the form of a long term note payable by the Fund and bearing interest of 5.5% and $461 million in the form of preferred units of Enbridge Commercial Trust, a subsidiary of the Fund.

Suncor – Canada's largest oil and gas producer is shipping its first ever tanker of Western Canadian heavy crude from Canada's East Coast to Europe. The crude was delivered by rail to a storage facility in Sorel-Tracy that is owned by Kildair Service Ltd. For years producers in the oil sands in the landlocked province of Alberta in Western Canada have been seeking ways to get their crude to tidewater and higher-priced international markets. The shipment also shows how Canada's heavy crude is starting to compete with crude from producers such as Russia and Saudi Arabia for customers in Europe. Pipeline company Enbridge Inc shipped a first cargo of re-exported Canadian crude from the U.S. Gulf Coast to Europe earlier this year. Since July 19 Suncor has been sending 30 rail cars per day from Western Canada to the Sorel-Tracy terminal, according to Kildair Chief Executive Officer Daniel Morin. Suncor also regularly ships crude by rail to its 137,000 barrel-per-day Montreal refinery. The Sorel-Tracy facility has a rail offloading terminal, 3.2 million barrels of crude oil and petroleum-product storage capacity, and a dock that can accommodate vessels up to 260 metres in length.

Financial Sector

BNP Paribas - BNP's board will decide on the departure and the successor of its chairman Baudouin Prot this week, French daily newspaper Le Figaro reported on Monday. The report follows weeks of speculation about the departure of Prot, who was the bank's chief executive at the time of criminal activities admitted by the group during the U.S. investigation of sanctions breaching that cost France's biggest retail lender a record $8.9bn fine. A special committee of the board of directors, designed to work on the succession of the chairman, is to meet on Tuesday in order to take note of the decision of Prot to leave the bank, Le Figaro said. The board of directors is to choose the next chairman on Friday. The new head of BNP's investment banking unit Yann Gerardin interviewed on Bloomberg saying the bank is looking for further acquisitions in the equity and commodity derivative space following the purchase of equity derivative books from both RBS and Macquarie in recent years. The Corporate Investment Banking division is central to BNP's growth plans over the next 3 years accounting for ~60% of total targeted balance sheet growth of the group to 2016. Also, the bank, which pleaded guilty in July to violating U.S. sanctions after agreeing to pay a record $8.97bn to resolve state and federal probes, got a two-month postponement of its sentencing until Dec. 5. U.S. District Judge Lorna Schofield in Manhattan granted the request by a lawyer for the bank, who said it has applied to the U.S. Labor Department for a waiver to allow it to continue serving clients and hasn't received an answer. BNP said in its plea agreement with the U.S. that it sought the regulatory approvals or waivers "to avoid putting the bank out of business and disrupting the financial markets." ( Source: Bloomberg).

JP Morgan: Webster Financial announced that it had signed a definitive agreement to acquire the health savings account (HSA) business from JPMorgan. Under this agreement, about 700,000 accounts including an estimated $1.3bn in deposits and $175mn in investments will migrate from JPM to WBS. At 2Q14, WBS' HSA Bank ranked as one of the most experienced and largest HSA providers in the nation with $2.4bn in assets under administration ($1.75bn in deposit and $700mn in investment accounts), 700,000 accounts, and 30,000 employer relationships. HSA deposits tend to be longer-duration transaction deposits and thus should provide WBS with a stable source of funding for its continued loan growth. While the purchase price was not disclosed, the deal is structured as an all-cash transaction. WBS expects the acquisition to be modestly accretive to earnings per share and return on equity in the first year following closing (anticipated in 2015). The transaction is expected to improve its loan-to-deposit ratio to 80% from 87% at 2Q14. The acquisition is anticipated to be 3% dilutive to its tangible book value. WBS intends to use about 60% of the acquired HSA deposits to pay down short-term borrowings, with the remaining deposits invested in securities.

Lloyds Banking Group has sold an 11.5% stake in its TSB offshoot, seizing on the expiry of a lock-up period and the increased certainty over Scotland's future to raise about £160mn. The bank on Thursday evening launched an accelerated book-building process to sell 57.5mn shares to institutional investors at the closing price of 280p. This values the stake being sold at £161mn. Its IPO price was 260p. Lloyds said it would be left with about 50% of TSB and that its offshoot would continue to be consolidated in its accounts. ( Source : Financial Times).

Royal Bank of Scotland: Announced the IPO of first 25% of Citizens US. Disposal at $21.50 against initial guidance of $23-$25 (c10% shortfall) and tangible book value of $22.79 (0.94x). Reasonably disappointing although not hugely material in the context of the Group. Low single digit returns were always likely to weigh on the price, with investors clearly unwilling to give RBS the full benefit of rising US rates. Implies total value of the business at $12bn. and on first day of trade the shares rose 5%. Current Chairman Sir Philip Hampton has been selected to head the board of GlaxoSmithKline as the drugs company overhauls its leadership in the wake of a series of ethical scandals. Hampton will join the board at the end of the year then take the chair at GSK in the spring. The timetable will give the government a period of at least six months to find a replacement to head RBS.

Santander - New appointments. Ana Botin has made some new management appointments, according to Expansion. Javier Maldonado and Victor Matarranz have been pointed general managers overseeing coordination of regulatory projects and managing the chairman's cabinet respectively. Not major appointments and both Maldonado and Matarranz worked with Ana at Santander UK. I think it would be expected that having taken over the Chairmanship of Santander Group that Ana Botin was likely to elevate some of her previous close colleagues.

Standard Chartered - are in advanced talks to sell their Hong Kong consumer finance business PrimeCredit to Pepper Australia Pty Reuters reports. The deal could reach HK$500mn - HK$700mn and is awaiting HKMA approval. Separately Standard's Hong Kong CEO, May Tan, told a conference that there are bound to be more loan impairments amid China slowdown.

Standard Chartered/HSBC - Standard Chartered and HSBC were among banks that shuttered some branches in Hong Kong as pro-democracy protesters remained on the streets following weekend clashes with police. About 36 bank branches, offices and automated teller machines were temporarily closed today, according to the Hong Kong Monetary Authority, as congregations of protesters began to dwindle.

Grupo Aval – Colombian banking group Grupo Aval SA raised $1.26 billion, more than expected, from its initial public offering in New York on Tuesday, and plans to use the funds to bolster its banks' capital. The offer was priced at $13.50 per American Depositary Share for the sale of 81.48 million ADSs. The shares debuted on Wall Street with a 0.96% price rise to $13.63 per ADS. The offer was above the $1.1 billion the company had originally predicted. J.P. Morgan Securities LLC, Goldman Sachs & Co, Citigroup Global Markets Inc and Morgan Stanley & Co LLC are underwriting the offering. The company is Colombia's largest banking group and is controlled by the country's richest man, Luis Carlos Sarmiento, who holds about 95% percent of the company's outstanding shares. Sarmiento, estimated to be worth $16.9 billion according to Forbes, derives most of his wealth from his holding in the company. Grupo Aval $1.26 billion Grupo Aval operates four banks in Colombia and Central America: Banco de Bogota, Banco Popular, Banco de Occidente and Banco AV Villas. It also owns the financial entity Corficolombiana and pension fund Porvenir.

Colombia's multibillion-dollar investment in new highways and bridges is likely to boost the business of the nation's largest banking group, Grupo Aval, by 10%, its president said in an interview. Grupo Aval SA expects to finance around $5.4 billion of the $17 billion the government must raise to pay for the upgrade of 8,000 km of roads in the next five years, as estimated by its president, Luis Carlos Sarmiento Gutierrez. The entire project will cost $25 billion. Grupo Aval's estimated participation would represent a more than 10% increase over its current loan balance of $52 billion. The Grupo Aval president said that the banking group also expects to boost its lending by 15% annually as the Colombian economy continues to expand. Colombia has pinned its economic growth prospects on a major overhaul of the nation's roadways. Trucks carrying oil and manufacturing goods take days to crisscross the mountainous nation on inadequate roadways. The economy is expected to grow 4.7%, faster than the 4.3% seen in 2013, and above estimates for other Latin American nations. Additionally, Grupo Aval is taking steps to increase the size of its credit card and mortgage businesses in Latin America.

The world's largest banks face curbs on how much they can rely on selling debt to each other to meet a planned international standard on their ability to absorb losses in a crisis. The Financial Stability Board (FSB) reached a provisional deal last week on the plan for so-called total loss-absorbing capacity in a bid to take taxpayers off the hook when banks fail. The plan requires banks to have capital and other loss-absorbing securities, such as subordinated debt, equivalent to 16% to 20% of their risk-weighted assets by 2019. Banks must also have a loss-absorbing buffer equivalent to 6% of total assets. The FSB blueprint will be sent for approval to a summit of Group of 20 leaders in Brisbane in November. The FSB will then hold a public consultation on the rules, which it plans to complete next year. (Source: Bloomberg).

Canadian Dividend Payers

Brookfield Property Partners LP: HBC has signed 540,000/sf of leases in Lower Manhattan (LM), including a 485,000/sf lease at Brookfield Place New York (BPNY) – HBC is a big retail tenant of BPY's at 2 Bloor Street East in Toronto, highlighting a benefit of Brookfield Property's global platform, in our view – overall, positive downtown NY leasing momentum continues. The ~20-year leases include a 400,000/sf office lease at BPNY (58% at 225 Liberty and 42% at 250 Vesey), an 85,000/sf Saks store anchoring BPNY's revitalized retail offering (LM's first luxury department store), and a 55,000/sf Saks OFF 5TH store at One Liberty Plaza – the office lease consolidates HBC's U.S. headquarters, including Saks' current mid-town office – we think BPY is best-positioned among publicly traded vehicles to benefit downtown's resurgence, we believe every 100,000/sf of leasing at BPNY is worth ~$0.06 of value per BPY unit, with this announcement leaving another ~0.400k/sf of former BoA-Merrill space to go.

Canfor Corp – announced it will construct pellet plants in Chetwynd and Fort St. John, BC. The plants are scheduled to commence production in the third and fourth quarters of 2015. The two plants will have a combined annual production capacity of 175,000 tonnes of wood pellets, the sale of which is tied to a long term agreement with a power utility customer. The total investment of $58 million will include electrical self-generation capacity of 3 megawatts supported through BC Hydro's Power Smart Load Displacement Program.

Global Dividend Payers

BHP Billiton – Global miner played down the chance of a recovery in iron ore prices, saying that recent declines reflected the reality of demand and supply in the market for the steel-making ingredient. Iron ore has staged a near-uninterrupted drop since mid-July, shedding nearly 20% of its value. The introduction of millions of additional tonnes into the iron ore market by lower-cost miners, such as BHP, was driving down prices. Australia's official forecaster this week estimated 2015's average price at $92.40 a tonne, rebounding as higher cost producers are forced out of the market. BHP plans to increase its iron ore output to 245 million tonnes in the current financial year from 225 million tonnes in the year to the end of June 2014. It hopes to expand to 290 million tonnes in the next few years. Vale wants its output to grow to 450 million by 2018 from 306 million last year. Rio Tinto aims to boost output to 295 million tonnes this year from 266 million last year, and plans to reach 360 million by 2015.

BHP Billiton is considering a secondary listing in London for shares in its planned new company after requests from some UK-based investors. In August, BHP said it would spin off some aluminium, coal, manganese, nickel and silver assets worth an estimated $16 billion into a new company headquartered in Perth and listed in Australia, with a secondary listing in South Africa. Shareholders in BHP Billiton Ltd and BHP Billiton Plc would receive shares in the new company, which is yet to be named, on a pro-rata basis. Some UK-registered shareholders had expressed concerns about the lack of a London listing.

Industry sources said BHP had not pushed ahead with a London listing due to tax issues and because the new company would be unlikely to qualify as part of the UK FTSE index. However, given the level of interest from shareholders, BHP decided to reconsider the decision. After the spin off, BHP Billiton will focus on four main areas: iron ore, copper, coal and petroleum, with potash as a potential fifth sector, the company has said.

Copa Holdings – Panama's Copa Airlines and U.S. low-cost carriers Spirit and Allegiant are the three most profitable carriers in the world by operating margin, respectively, according to a ranking of 75 companies published Monday by Airline Weekly. Budget carriers claimed six of the top 15 spots, which suggests that their no-frills strategy is paying off as travelers hunt for the lowest fares. U.S. legacy carriers all ranked in the top half, while a number of airlines in Asia had negative income and the poorest results. Copa kept about $0.22 of every dollar of revenue for the year ending June 2014, according to the ranking. Spirit kept about $0.18 while Allegiant kept about $0.16 - both more than triple United Airline's margin of about $0.05, which stuck the carrier in 34th place. Delta ranked 11th, Southwest came in at 14th and American - the world's largest airline by passenger traffic - ranked 15th.

The ranking was based on operating income and did not account for interest, taxes and other factors because countries have different accounting standards, Kaplan said. Airlines that do not release audited financial statements, such as Etihad Airlines and Qatar Airways, were not included in the list.

Deere & Co – the world's largest farm equipment maker, said it was exploring strategic options for its low-margin crop insurance business and had hired Citigroup as its adviser. The business underwrites policies through John Deere Insurance Co, offering protection to farmers from losses stemming from a variety of causes such as natural disasters and declines in crop prices. The insurance business is a part of the company's financial services arm. Financial services accounted for 7% of Deere's total revenue of $9.5 billion in the third quarter ended July 31.

Novartis – Swiss drugmaker said two late-stage trials showed its drug secukinumab improved symptoms of psoriatic arthritis, a type of arthritis associated with the skin disease psoriasis that causes joint pain, stiffness and swelling. The trials, which involved a total of more than 1,000 people, showed the drug improved peripheral joint disease and prevented joint damage compared with a placebo and helped clear patients' skin. The company plans to file for regulatory approval of secukinumab to treat psoriatic arthritis around the world next year. It expects to receive approval of the drug to treat moderate-to-severe plaque psoriasis later this year or early next year. It is also testing the drug for the treatment of ankylosing spondylitis (AS) and rheumatoid arthritis (RA).

Samsung Electronics – Samsung SDS has reportedly set a preliminary price for its share listing, valuing the firm at around 15.47 trillion won ($14.88 billion) ahead of what may be South Korea's biggest listing this year. The sale of shares in Samsung SDS, the IT services affiliate of Samsung Group, could raise at least 1 trillion won ($962 million), local media have reported. A spokesman for Samsung SDS said the firm is expected to list sometime in November. The sprawling Samsung group, South Korea's biggest conglomerate, is restructuring its complex ownership ahead of an eventual generational succession. Samsung Electronics Co Ltd Chairman Lee Kun-hee, 72, the group patriarch, has been hospitalised since suffering a heart attack in May. Samsung SDS is 19.05% owned by Lee's three children. Cheil Industries Inc, considered the de facto holding company of Samsung Group, also applied for preliminary listing approval on the Seoul exchange this month after saying it would likely complete a listing by the first quarter of 2015. Samsung Electronics is SDS' biggest shareholder with a 22.58% stake. Goldman Sachs, Korea Investment & Securities and JPMorgan are advising on the listing.

Tesco announced last week it has managed to bring forward the starting date of the its new CFO (Alan Stewart, formerly of M&S) from 1 December to September 23rd . This is positive news in our view, especially given yesterday's profit warning. Tesco's - also new - chief executive Dave Lewis said last Tuesday that M&S boss Marc Bolland had now agreed to release Stewart early. The 54-year-old, CFO must now set about restoring the credibility of Tesco's finances after Monday's revelation that the firm's first half profit forecast had been overstated by £250 million pounds. Stewart is expected to immediately start preparing Tesco's interim results, the date of which was pushed back on Monday from Oct. 1 to Oct. 23. Stewart is vastly experienced and has a reputation for cost cutting. He had held the CFO role at M&S since October 2010 and before that was finance director of WH Smith. He has also held executive roles at HSBC and Thomas Cook. Hopefully his arrival could also be seen as good news in the sense that any disposals were unlikely to occur without a CFO at the helm.

Economic Conditions

Canada – Retail sales in Canada retreated 0.1% in July, against expectations for a 0.5% advance, despite a 1.6% increase in sales of auto vehicles and parts. Core retail sales, which excludes sales of autos were down 0.6% in the month, offsetting some of the June's 1.5% advance. Clothing, food and general merchandise were the retail categories most affected in the month.

US: the American economy is firing on virtually all cylinders and cruising at a decidedly stronger rate than in recent years. The Commerce Department's final estimate of Q2 real GDP was revised up to 4.6% annualized from 4.2%, in line with expectations. This marked a strong rebound from Q1's 2.1% contraction, and raised the year-over-year rate to 2.6%. That's a decidedly firmer growth track than the 2.1% norm in the first four years of the recovery from the Great Recession. Most importantly, recent indicators, including strong data on capital goods shipments and auto sales, suggest growth remained strong in Q3. With business capex looking to post another quarter of double-digit gains, expectations are for Q3 growth of 3%- 3.2%

Ireland : grew at annualized rate of 7.7% in the second quarter, a pace unseen since the early 2000's and which can be attributed to stringent austerity measures over the last 7 years plus the fortune of having its two biggest trading partners – the USA and Britain – both growing strongly.

Spain's government Friday raised its estimates for economic growth this year and next, outlining a positive outlook that is in contrast to the gloom surrounding other large eurozone countries and the concerns of some Spanish economists. Finance Minister Luis de

Guindos said the Spanish economy is expected to grow 1.3% this year, up from an April forecast of 1.2%, and 2% in 2015, compared with the April forecast of 1.8%. The government also raised its estimate for job creation over 2014 and 2015 to 620,000 net jobs from 580,000. It expects unemployment to drop to 22.2% of the workforce by the end of 2015, from 24.5% at the end of June.

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 1.92% and the UK's 2 year/10 year treasury spread is 1.60% - 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 4.20% - (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 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 14.85 (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
- 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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PIC14-074-E(09/14)