



News Highlights

Energy Sector

Canadian Oil Sands Ltd the largest shareholder in the Syncrude Canada Ltd joint venture, said it expects 2014 Syncrude production to be lower than its previous outlook due to outage in a sour water treatment facility. The company, which has a 37% stake in the Syncrude project, said it expects total production of about 94 million barrels this year. Canadian Oil Sands had earlier said it expected production of 95-100 million barrels in Syncrude. The unit is expected to be repaired by the end of December. The Syncrude project, which can produce 350,000 barrels per day, has a history of unplanned shutdowns caused by equipment malfunctions, particularly at its complex upgraders, which convert tar-like bitumen stripped from the oil sands into refinery-ready synthetic crude.

Chevron Corp is putting a plan to drill for oil in the Beaufort Sea in Canada's Arctic on hold indefinitely because of what it called "economic uncertainty in the industry" as oil prices fall. In a letter to Canada's National Energy Board, the company withdrew from a hearing on Arctic drilling rules because it has walked away from plans to drill in the EL 481 block, 250 kilometers (155 miles) northwest of Tuktoyaktuk, Northwest Territories. The drilling project is the largest yet put on hold after oil prices dropped by nearly half over the last six months, even as a long list of oil companies cut their budgets for 2015 because of the price drop. Imperial Oil Ltd, which leads a joint venture with Exxon Mobil Corp and BP Plc, said that it has not changed early-stage plans to drill in the Beaufort Sea and that a final decision on the project has yet to be made. Chevron has two licenses to explore in the Beaufort, holding EL 481 outright and controlling 60% in the other alongside Norway's Statoil.

Pacific Rubiales Engery Corp. announced last Wednesday that it has executed definitive agreements with the International Financial Corporation ("IFC"), a member of the World Bank Group, the IFC Global Infrastructure Fund ("GIF" managed by the IFC Asset Management Company LLC) and a consortium of investors, whereby it has agreed to sell approximately 43% of its interest in Pacific Midstream Ltd. ("Pacific Midstream") which holds certain of the Company's pipeline and power transmission assets for a total consideration of U.S. \$320 million. The agreements will provide the Company with US \$240 million in cash, which will be received by year-end. In addition, Pacific Midstream will receive U.S. \$80 million in the first quarter of 2015, plus a commitment for an additional U.S. \$60 million in cash to develop future infrastructure projects. Ronald Pantin, CEO of the Company, commented: "We are pleased to announce this sale, which will significantly improve our cash position and provide additional flexibility as we enter into uncertain oil price environment in 2015. The participation by IFC underlines the strategic importance and value of our infrastructure assets in Colombia. We will continue to hold a majority interest in Pacific

Midstream and capacity rights in its assets, allowing us to maintain the cost advantage that we currently enjoy with respect to crude oil transportation and low cost electricity in our main oil fields in Columbia". We will continue to monetize our midstream assets and plan to sell non-core E&P assets, the proceeds from which will be used to reduce debt."

Financial Sector

Barclays - The Financial Times reports that Barclays is on track to hit two of its main targets for boosting capital and reducing indebtedness as much as a year ahead of schedule after taking an axe to the investment bank that was once its profits engine. Antony Jenkins, CEO, in an interview with the Financial Times said they are looking for an FX settlement sooner rather than later next year. "I think we are very well positioned to deal with the requirements of the regulators and in the course of next year I think that is going to become very apparent to the market," Antony Jenkins, also stated, "I think we have definitively answered the capital question." Signalling a likely cut in bonuses for Barclays staff to reflect the expected drop in profits at its investment bank this year, Mr Jenkins said: "I do not expect to be in a situation where profits are down and the bonus pool is up."

Barclays have asked the judge to throw out the lawsuit over dark pools. Though Barclays has the burden to show why the New York attorney general's lawsuit over the bank's dark pool conduct shouldn't proceed, the judge at a hearing yesterday flipped the burden of proof, asking the state to show why the case should proceed. The judge repeatedly said the Attorney General must show that Barclays's alleged misrepresentations were material to investors.

Commerzbank wants to wind down its mortgage unit Hypothekbank Frankfurt International, previously known as Eurohypo, by 2016, Handelsblatt reported last Friday.

Element Financial Corp – Equipment finance company, which has enjoyed a meteoric rise since going public three years ago, said it expects 35% growth in new equipment loans and leases in 2015. Toronto-based Element Financial, which provides financing for industrial, aerospace and automotive equipment leasing, expects to organically add about \$6.5 billion of new equipment loans and leases during 2015, as compared to the roughly \$4.8 billion originated in 2014. The firm expects roughly 75% of this new business to come from the United States, with the vast majority of the growth coming from its fleet management segment. In the fleet management business, Element expects to originate some \$2.6 billion in new loans and leases in 2015 versus the roughly \$1.3 billion added in 2014. Earlier this summer, Element agreed to acquire PHH Corp's auto fleet leasing business for about \$1.4 billion in cash. Element said it expects 2015 earnings of 99 Canadian cents a share. Separately, the firm also named two Canadian financial industry veterans, William Lovatt and Richard Venn to its board, effective immediately. Lovatt is the chief financial officer of Great-West Lifeco Inc, while Venn served as CIBC's former head of investment banking.



Lloyds Bank - The Treasury announced yesterday that it is to sell off a stake of Lloyds over the next 6 months. The Treasury said it would not sell more than 15% of the aggregate total trading volumes and would not sell below the average price the government paid of £0.74. The current shareholding is 17.8bn shares or 24.9%. Using historic numbers we estimate the Treasury could sell up to 5.4bn shares which is 30% of the govt stake, or 8% of the total shares. This might weigh on the stock, but against the alternative, this is sensible we think. Also, the government stake is not part of the free float, so there should be some natural demand there as the free float increases.

Nordea said its credit quality at its Russian unit remains unaffected by the country's worst financial crisis since 1998. "Our clients are relatively unaffected by the turbulence in Russia as we don't finance their Russian operations," Rodney Alfvén, head of investor relations at Nordea in Stockholm, said. "Of course, all else equal, this isn't a good situation but we currently have good credit quality in Russia and, in principle, we have no bad loans to speak of."

Standard Chartered - is to sell its Hong Kong and Shenzhen consumer finance subsidiaries to a consortium led by China Travel Financial along with Pepper Australia and York Capital Management, according to an e-mailed statement. While no terms have disclosed as yet people familiar with the matter say it's for more than \$600m. Standard Chartered had been seeking as much as \$700m for the business called PrimeCredit. (Source Keefe Bruyette & Woods, Inc.)

UK Banks – Bank of England published the results of the 2014 stress test last Tuesday, involving eight major UK banks.

- Five banks received a clean pass – including HSBC, Barclays and Standard Chartered.
- Two banks (Lloyds and RBS) received a conditional pass on the basis that as at the end of 2013 they "needed to strengthen their capital position further" but that subsequent actions have improved resilience.

Co-op was the only bank that failed the stress test out right

Canadian Dividend Payers

BCE – The Canadian government unveiled a major update to its wireless airwave policy, as it seeks to lower cellphone bills and increase its tax receipts. The plan for making more of the invisible infrastructure available for fast-growing mobile uses like video includes an auction of high-frequency AWS-3 spectrum beginning on March 3. The same frequency of airwaves is being auctioned in the United States - raising \$44 billion so far - which should encourage device makers to produce compatible gadgets. The Canadian government, eager to promote competition to lower prices, said overall spectrum available for mobile services will have grown almost 60% by May compared with early this year. By that point, a quarter of all wireless spectrum will be held by companies other than the three dominant national wireless providers - Rogers Communications Inc,

Telus Corp and BCE Inc's Bell - that had previously controlled some 97% of the airwaves, Industry Minister James Moore said at an event in Vancouver.

Global Dividend Payers

ABB – Swiss engineer has named former Royal Dutch Shell boss Peter Voser as its new chairman, a homecoming for a man who was previously finance chief at the company. Voser, a Swiss national, had been seen as a possible candidate to become chairman at Basel-based drugmaker Roche, where he is a board member. At ABB, Voser will succeed Hubertus von Gruenberg, 72, who has decided not to stand for re-election at its annual shareholder meeting next year. Voser was finance director at ABB from 2002-2004 and served as chief executive at Shell from 2009 to 2013. He led the oil company from a position as a laggard in the wake of the 2004 reserves crisis to sector leader in the growing liquefied natural gas industry.

ABB and Hitachi Ltd have set up a joint venture to sell high voltage systems in Japan, looking to benefit from reforms in the electricity industry after the Fukushima disaster. For ABB the reforms offer an opportunity to sell high voltage direct current (HVDC) systems for transferring electricity across Japan's fractured regional networks as well as linking up renewable energy supplies that have surged in recent years. ABB is betting Hitachi's long-term relationships with Japan's utilities as a supplier of equipment and technology will help it make inroads in the country as the market opens up. Hitachi will take a 51% stake in the venture, which will be based in Tokyo, with ABB taking the remainder. ABB built the world's first commercial HVDC link in Sweden in 1954. It has since been awarded around 100 HVDC projects, including a contract to deliver a 2,375 km transmission link in Brazil, the world's longest power line.

Barrick Gold announced last Thursday that it will be suspending operations at its Lumwana copper mine in Zambia and placing the mine on care and maintenance following the passage of legislation that raises the royalty rate to 20% from 6%. The news is not surprising as the company had previously indicated that mine economics do not support a 20% royalty at current copper prices however, there was some hope that a concession for a lower rate could be had. With today's announcement Barrick is expected to also write down the remaining carrying value of Lumwana (~\$1.035 bln) with its Q4/2014 results. At the end of Q3/2014 Barrick had a consolidated tangible net worth ('CTNW') balance of about \$7.3 bln so we do not expect the Lumwana impairment charge to cause a breach to the company's CTNW threshold of \$3 bln that is required to maintain access to its \$4 bln credit facility. In addition to the impairment charge, Barrick will incur care and maintenance charges in the order of \$3-4 mln per month at Lumwana once the transition is completed in Q2/15.

Dufry the no. 1 in travel retail with 15% share: The CEO of Dufry, Julian Diaz, gave an interview. With the acquisition of Nuance, Dufry



got the no. 1 position with a market share of 15% in travel retail and he believes to reach 20% with small/mid acquisitions. He confirmed that the CHF 70mn synergies (50% in gross profit, 50% in cost savings) will come through with the full impact in FY 2016. In FY 2013 Dufry reached an EBITDA margin of 14.3%, but due to the acquisition of the lower margin Nuance business (13: 9.7% excl. Australia), margin will be below 14% in FY 2015, but should come back to old levels in FY 2016. (Source Vontobel)

Kingfisher – Home improvement group Kingfisher said on Monday it had agreed to sell a 70% stake in its loss-making B&Q China business to Wumei Holdings Inc for £140 million. The agreement follows Kingfisher's announcement in March of its plans to look for a strategic partner to help develop its B&Q business in China, which is made up of 39 stores and employs 3,000. Kingfisher, which trades as B&Q and Screwfix in Britain and Castorama and Brico Depot in France, is Europe's biggest home improvement retailer. The deal is conditional on Chinese Ministry of Commerce approval and, if approved, is expected to close during the first half of 2015.

Roche announced last Friday that the MARIANNE trial has failed. This is an unexpected negative. The study looks at three breast cancer regimens using three already-approved Roche products that all fall within the "HER2+" class of drugs. This is a major franchise for the company, driven at present by Herceptin (2014E sales of 6.3B CHF), and less so by Perjeta (2014E sales of 900M CHF) and Kadcylla (2014E sales of 530M CHF). The latter two drugs are still in the early days of their commercial roll-out, and they have been widely viewed as very important future growth drivers of the overall HER2+ franchise; they are also intended to serve as partial offsets for eventual Herceptin biosimilars (coming in the 2016 timeframe perhaps) which adds to their importance. Roche says that in the first-line breast cancer setting, the three different arms of the trial (Kadcylla vs Kadcylla+Perjeta vs Herceptin+chemo) were all about the same on the primary endpoint of "progression free survival" (PFS). The goal of the trial, in simple terms, was largely to show that Kadcylla was better than Herceptin (in first-line disease) but this did not occur. At first blush, this reads very poorly for Roche given the importance of the HER2+ breast cancer franchise, but in reality the earnings per share impact is we believe less negative than might be expected. Kadcylla is already selling and growing in the second-line breast cancer setting, and nothing should change here, albeit in the first-line setting its prospects are now probably nil likely reducing its eventual (by say 2020) sales capacity levels to about CHF 1 billion (rather than potentially 2x-3x higher). Perjeta, on the other hand, is basically untouched by the failed MARIANNE trial. It has already shown fantastic data when added to Herceptin in the first-line setting (the CLEOPATRA trial) and this will remain standard care. It was hoped, however, that Kadcylla could replace Herceptin and that Perjeta would then be added to Kadcylla as a preferred first-line regimen instead. Unfortunately, this won't happen now. Perjeta will continue to be an important product, but its usage will remain

principally with Herceptin instead of Kadcylla and so likely we believe still to achieve (by 2020) a sales capacity of CHF 4+ billion. Lastly, Herceptin growth should probably increase a bit because Kadcylla will now not cannibalize it very much, which Roche had wanted to do ahead of biosimilars. In terms of EPS impact, on a preliminary basis if we cut Kadcylla down from 3B CHF to 1B CHF by 2020, boost Herceptin slightly, leave Perjeta alone, and make no material cost-adjustments, earnings in 2015/2016 are essentially unchanged but they decline by 4-6% across the 2017-2020 period.

Syngenta today announced that it has received the safety certificate for its Agrisure Viptera® trait (event MIR162) from China's regulatory authorities, formally granting import approval. The approval covers corn grain and processing byproducts, such as dried distillers grains (DDGs), for food and feed use. The Agrisure Viptera® trait is a key component of Syngenta's insect control solutions, offering growers protection against the broadest spectrum of above-ground corn pests and enabling significant crop yield gains. Agrisure Viptera® has been approved for cultivation in the USA since 2010 and has also been approved for cultivation in Argentina, Brazil, Canada, Colombia, Paraguay and Uruguay. Syngenta originally submitted the import approval dossier to the Chinese authorities in March 2010. In addition to China, Agrisure Viptera® has been approved for import into Australia/New Zealand, Belarus, the European Union, Indonesia, Japan, Kazakhstan, Korea, Mexico, Philippines, Russia, South Africa, Taiwan and Vietnam.

Economic Conditions

US – Housing starts in the US retreated more than expected in November, to a 1.03 million units annualized level from a 1.05 million units annualized reading in October. Building permits were also weaker than expected in the month, at a 1.04 million units annualized pace, falling short of the expected 1.06 million units annualized level. All in, the US home building seems to be taking a bit of a breather on the back of some strong improvements in September and October.

US industrial production doubled expectations in November with a 1.3% jump, the largest gain since May 2010. Adding to the positive headline was October's revision. Output in October actually grew 0.1%, thanks to an upward revision to manufacturing. The coldest November in 14 years helped push utilities output up a hefty 5.1% in the month, the biggest increase since the end of 2009. But even without the impact from utilities, industrial production still grew a solid 0.7%. Manufacturing (which accounts for 73% of industrial output) rose 1.1%, the third monthly gain. (And it was during the same month that aggregate hours worked in manufacturing jumped 0.5%). The auto industry, after slowing for three consecutive months, accelerated 5.1%. However, in another sign of the direct hit created by low oil prices, mining output slipped for the 2nd straight month, down 0.1% but still stands a lofty 9.3% above year-ago levels.

Market Commentary



PORTLAND
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December 22, 2014

US consumer price inflation remains very modest, with the headline measure falling a more-than-expected 0.3% in November, pulling the y/y trend down to 1.3% from 1.7% in the prior month, the slowest increase since February. This is the first monthly drop since August, and the largest since December 2008. As expected, it was all about energy, or the lack thereof. Note that in the 6-months to November, core costs are rising at their slowest rate in four years at +1.3%. All of this support the Fed keeping the “considerable time” reference to when rates will rise and stimulus will end.

Canada – Retail sales in Canada in October were flat, though marginally better than the 0.2% retreat expected, dragged lower by weak auto sales. The core retail number, which excludes the effects of sales of motor vehicles and parts, was up 0.2%, as expected. Sales of electronics and appliances, as well as building materials led the improving retail categories.

The consumer price index (CPI) retreated 0.4% in November, leading to an annualized inflation rate of 2.0%, lower than the expected 2.2% level and a significant deceleration compared to October's 2.4% level. Gasoline prices dropped 7.5% in the month. The core CPI reading, which excludes the effects of eight most volatile price series, also tempered in the month, to a 2.1% level from October's 2.3% reading. A retreat in clothing, entertainment and travel costs was partly offset by continued price strength in food prices.

Italy - Italian Prime Minister Matteo Renzi won a confidence vote to get his tax-cutting 2015 budget through the Senate on Saturday and it is expected to be definitively approved by the lower house of parliament this week. In a session that ended shortly before dawn, the Senate voted 162-37 to pass a financial package that includes tax cuts for low earners worth almost €10bn and a reduction in labour taxes for businesses.

Japan : On 14 December 2014 (Sunday), Prime Minister Shinzo Abe cruised to a big election victory as his Liberal Democratic Party (LDP) won 291 seats while its coalition partner, New Komeito Party, won 35 seats. Together, the LDP and Komeito garnered 326 seats, one more seat than the 325 seats during their 2012 elections, and comfortably maintaining the 2/3s majority in the 475-seat House of Representatives which is the lower house of the National Diet of Japan.

Financial Conditions

US Federal Reserve policymakers remain determined to signal that although Quantitative Easing has stopped, the stimulus remains via keeping rates at present low until mid 2015. The US 2 year/10 year treasury spread is now 1.53% and the UK's 2 year/10 year treasury spread is 1.36% - 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 3.80% - (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 5.3 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 16.49 (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, KBW, Bernstein, Barclays, BMO, Macquarie, Vontobel, Syngenta

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