



## News Highlights

### Financial Sector

Royal Bank of Scotland - Bloomberg reports, citing Sky News, that Investec is one of at least 6 companies looking at buying RBS's Coutts International wealth management unit. According to the article, it is unclear how much Coutts International is worth, although analysts have estimated £500-650mn. RBS is keeping Coutts domestic business. Investec declined to comment.

DNB/Nordea/Danske - DNB, Norway's biggest bank, cut its mortgage lending rates late on Friday following similar moves for the Norwegian market by competitors Nordea and Danske Bank. DNB's rates were cut by up to 0.4%, reducing its lowest available rate to 2.9%, it said in a statement. The cuts follow a quarter-point rate reduction by Norway's central bank in December.

### Canadian Dividend Payers

Barrick Gold – Chile's Supreme Court has declined to hear Barrick Gold Corp's appeal of a lower court's decision involving fines imposed on its Pascua-Lama project by the country's environmental regulator. Chile's environmental regulator, known as the SMA, fined Barrick \$16 million in May 2013 for not complying with some of the country's environmental requirements for its massive Pascua-Lama gold and silver project. At one time its biggest new development project, Barrick halted the development of Pascua-Lama in October 2013 after spending more than \$5 billion. The project, on the border between Chile and Argentina, had been plagued by political opposition, permitting issues, labor unrest, cost-overruns and a falling gold price.

Brookfield Property Partners – Canary Wharf owner Songbird Estates Plc has told shareholders to take no action on a Qatari-led \$4 billion takeover bid, reiterating that the 350 pence per share cash offer undervalued the company. Qatar Investment Authority (QIA) and U.S. investor Brookfield Property Partners LP earlier published their final offer document for the majority owner of the London financial district and Songbird said on Tuesday it would send a formal response within the next 14 days. Songbird said that the £2.6 billion (\$4 billion) offer undervalued the company but stopped short of formally rejecting it, as it had done with a previous £2.2 billion proposal. QIA and Brookfield said they already had commitments to the Songbird deal from shareholders Third Avenue Management, Madison International and EMS Capital, amounting to around 32% of the company's "free float" of readily tradeable shares. But any deal would have to gain the approval of Songbird's other major shareholders, including New York-based investor Simon Glick, who has almost 26%, and China's sovereign wealth fund, with 15.8%. Shareholders have until January 29 to accept the offer. Songbird owns 69% of Canary Wharf Group,

established about 25 years ago on former docks as a new financial zone. It is also a part-owner of the "Walkie Talkie" skyscraper in the City, London's traditional business area. QIA already has a 29% stake in Songbird, while Brookfield has 22% of Canary Wharf Group. They said on Tuesday they planned to retain key management in Canary Wharf Group, singling out Chairman and CEO George Iacobescu for praise, if their bid was successful. U.S. fund Franklin Mutual Advisers, which owns around 7% of Canary Wharf Group, has written to Songbird to indicate it plans to accept any cash offer for its Canary Wharf Group shares. If the bid for Songbird is successful, QIA and Brookfield said they would make an offer for all Canary Wharf Group shares not held by Songbird.

### Global Dividend Payers

Kingfisher is to sell a controlling stake in its loss-making China business for £140m as it focuses on its core European market. Kingfisher, which has 1,176 stores across 11 countries in Europe and Asia, plans to sell a 70% stake in the B&Q operation to Beijing-based retail group Wumei Holdings. B&Q opened its first Chinese store in 1999 and now has 39 outlets, employing more than 3,000 staff. Kingfisher had indicated that it was looking for a credible partner in China for the last couple of quarters. A full business update by the new CEO is expected in March together with the FY results.

Siemens: As reported by the Spiegel yesterday, Siemens aims to cut its travel budget by €100m in 2016. We are assuming this forms part of the ongoing process to reduce overhead costs by €1bn by 2016.

### Economic Conditions

US – US manufacturing activity could be facing lower growth in the near future, as indicated by the Institute for Supply Management's (ISM) most recent reading of the Purchasing Managers Index (PMI), which, for the month of December, dropped more than 3 points to 55.50, also falling short of the expectations for a 57.60 index points reading. Most components of this composite index worsened in the month, however a reading of above 50 points to continued, albeit slower growth ahead. However, on the plus side, the increased pace of hiring continued. The employment subindex rose 1.6 pts to 56.8, the highest since August, which bodes well for the factory component of the nonfarm payroll report, due out this Friday.

The US consumer sentiment, as measured by the Conference Board's consumer confidence index, advanced in December, to 92.60 points, from November's 91.00 reading, albeit short of the expected 93.00 points level.

News out of the US housing sector last week were more upbeat, with the pending home sales, a key indicator of future existing home sales, up 0.8% in November, ahead of the expected 0.5% and partly reverting October's 1.2% retreat. The US home prices, as measured

# Market Commentary



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by the Case-Shiller Home Price index for 20 US metropolitan areas, was up 4.50% in October, a touch better than the expected 4.40% reading, cooling-off however compared to September's 4.80% reading.

Europe: A busy weekend in Europe that started with a Der Spiegel article on Saturday morning suggesting both Chancellor Angela Merkel and Finance Minister Wolfgang Schaeuble believe the euro zone has implemented enough reforms since the height of the regional crisis in 2012 to make a potential Greece exit manageable. The article went on to quote a source that suggested the European Stability Mechanism (ESM), the euro zone's bailout fund, is an "effective" rescue mechanism that was now available. Greek Prime Minister Antonis Samaras said the upcoming election in three weeks will determine the fate of the country's membership in the euro currency area. Samaras used a Jan. 2 speech to warn that victory for the main opposition Syriza party would cause default and Greece's exit from the 19-member euro region. All of that led to the Euro trading down to the lowest levels in nine years this morning as concerns about a fallout from a Greek exit are likely just beginning to get priced.

The weakness in the Euro follows the ECB signaling more stimulus is imminent, which also sent European bond yields to record lows. Germany's five-year borrowing costs dropped below zero for the first time and 10-year yields from Belgium to Portugal reached new lows.

## 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 1.39% and the UK's 2 year/10 year treasury spread is 1.25% - 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 3.87% - (was 3.31%

Source: Thomson Reuters, Bloomberg, KBW, BMO, Barclays

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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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 20.35 (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, BMO, Barclays