Market Commentary

PORTLAND INVESTMENT COUNSEL®

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News Highlights

Energy Sector

Canadian Oil Sands/Suncor/Royal Dutch Shell – More than 10% of Canada's synthetic crude supply is set to go offline during the second quarter of 2015 as oil sands producers in northern Alberta carry out planned maintenance at four major facilities that upgrade tar-like bitumen into crude. Royal Dutch Shell, Suncor Energy Inc and Canadian Oil Sands Ltd, which is the largest interest owner in the Syncrude Canada project, all confirmed this week they have scheduled maintenance for this spring. Maintenance on the upgraders, which convert mined bitumen from the oil sands into refinery-ready synthetic crude, is likely to support prices over the next couple of months. Light synthetic oil-sands crude for April delivery has been trading at a premium to West Texas Intermediate crude throughout March in anticipation of curtailed supply. Canadian Oil Sands said Syncrude's Coker 8-3 would undergo a turnaround in the second quarter. It is one of three 100,000 barrel per day cokers at the project, meaning Syncrude output will be cut by about a third. The company's spokesman Scott Arnold said the company did not typically comment on planned turnarounds, but on average they take 40 to 50 days and reduce production by four to five million barrels. Royal Dutch Shell will carry out maintenance at its 255,000 bpd Scotford, Alberta, upgrader in the spring, a major turnaround that takes place every four to five years. Suncor has maintenance scheduled for the second quarter at its U1 and U2 upgraders in northern Alberta, which have a combined capacity of 350,000 bpd.

Chevron – U.S. energy firm is seeking to sell its entire stake in Caltex Australia Ltd for about A$4.6 billion ($3.6 billion), exiting Australia's biggest refiner after nearly 40 years as falling oil prices and high costs hurt margins. A successful sale of Chevron's 50% stake, which the company is offering at a discount to market prices, would make the deal Asia's largest block transaction after the government of India raised $3.6 billion by selling a stake in Coal India Ltd in January. Chevron is the latest global major to exit Australia's refining industry. Last year, Royal Dutch Shell Plc sold its Australian petrol station and refinery operations for A$2.9 billion and BP Plc, which shut down its Bulwer Island oil refinery in Queensland, is also selling its Australian bitumen business. Australia has experienced a rush of block trades in the past month as investors look to capitalize on frothy valuations following a share market that is rising on hopes of more rate cuts. Goldman Sachs is the sole underwriter for the deal.

Royal Dutch Shell is planning further job cuts in its UK North Sea oil and gas business in 2015. "Shell UK plans to reduce the number of staff and agency contractors who support the company's UK North Sea operations by at least 250 in 2015," Shell said in an emailed statement. The reduction is in addition to 250 job losses announced in August, Shell said, and follows North Sea job cuts by BP, Talisman Sinopec, Chevron and ConocoPhillips. Britain's North Sea oil and gas sector employs over 400,000 people and is worth about £5 billion a year to the state. But investment activity has stalled due to a combination of high costs, high taxes and falling oil prices.

Financial Sector

Bank Shift Bond Portfolios -The Wall Street Journal reported that banks are shuffling big chunks of their securities portfolios around the balance sheet to shield capital levels from rising interest rates. The moves, also encouraged by recent changes by regulators in bank capital requirements, mean that billions of dollars in bonds and other debt held by banks have gone from being available for sale at a moment's notice to being parked in an area of their books where they can't easily be traded. In the 18 months ended Dec. 31, U.S. banks moved $293 billion of their securities investments to the "held to maturity" bucket on their balance sheets, according to data from the Federal Deposit Insurance Corp. that covers more than 6,500 banks. That 84% increase since June 30, 2013, means that about $640 billion, or one in five dollars in banks' securities portfolios, can't be sold easily, up from about one in nine dollars in mid-2013. The change shields banks' capital if interest rates move higher, as many expect them to later this year, but could put them in a bind if financial conditions deteriorate and they need to raise cash fast. If a security is held to maturity, its loss of value doesn't affect banks' capital levels. Under the alternative, "available for sale," the biggest banks must count gains and losses in the prices of those securities as part of their Tier 1 common equity, a key measure of regulatory capital under new global bank-capital rules known as Basel III. The big shift in securities portfolios shows banks increasingly striving to keep their financial ratios strong in a new rising-interest-rate environment, while also being responsive to new regulations. But some warn that banks' decision to move assets could limit their flexibility later in raising cash. Once banks put securities into the held-to-maturity bucket, they generally aren't permitted under accounting rules to take them out and sell them.

Berkshire Hathaway – Ketchup maker H.J. Heinz Co, backed by Warren Buffett's Berkshire Hathaway Inc and Brazilian private equity firm 3G Capital, will combine with Kraft Foods Group Inc in a $46 billion deal to create the third-largest North American food company. The deal gives Buffett more leading U.S. food brands, as well as that of 3G founder Jorge Paulo Lemann, Brazil's richest man. The two teamed up to buy control of Heinz in 2013 and collaborated on the 2014 merger of fast-food chain Burger King and Tim Hortons Inc. Food industry experts see Kraft benefiting from Heinz's international presence, which generates more than 60% of its sales. Kraft brands are in 98% of North American households, the companies said, but would have a greater opportunity to expand overseas. The combined company, which will be publicly traded under the name Kraft Heinz Co, expects to save about $1.5 billion in annual costs by the end of 2017. 3G has a reputation for introducing aggressive cost cuts and improving efficiencies at other companies it has invested in, including Heinz and Anheuser-Busch InBev NV. The deal calls for the exchange of each Kraft share for one share in the combined Kraft Heinz Co, plus a special cash dividend of $16.50 per share to existing Kraft shareholders. The $10 billion behind the special dividend will be funded by an equity investment by Berkshire Hathaway and 3G. Heinz shareholders will own 51 percent of the combined company and Kraft shareholders the rest. Berkshire Hathaway will own more than 320 million of the approximately 1.22 billion Kraft Heinz shares outstanding, Buffett told CNBC, adding “We will be in the stock forever.”

BNP Paribas - The US Fed and FDIC provided feedback on 23 March on the resolution plans (the “living wills”) of RBS, HSBC and BNPP, which will have one year to re-submit plans to the US authorities. Fundamentally, living wills go against the essence of a Global Bank such as BNPP with both cross-border revenue synergies (cross-selling global products to the local client base) and cross-border cost synergies (IT, products, operations). The more operational and product units, the wider the web of inter-relationships with an exponential complexity, and the more challenging the preparation of living wills.

HSBC Bank Canada has appointed Sandra Stuart as its president and chief executive, replacing Paulo Maia who is leaving for HSBC Latin America just two-and-a-half years into his current position. The bank called Mr. Maia’s move a “significant promotion” because he will now oversee five countries and 40,000 employees. But Ms. Stuart’s move to chief executive from chief operating officer, effective June 1, is arguably more significant. Canada is viewed as a bright spot within the parent company’s global operations, even though the Canadian operation failed to impress with its most recent quarterly results. HSBC Bank Canada – Canada’s seventh largest bank, based on assets – is seen as a comparative gem among the various operations within the holding company, and has been tapped by the bank’s leaders as a priority growth market. Still, there are challenges ahead. Ms. Stuart has a 33-year history with HSBC, with a number of roles in North and South America. She has been chief operating officer since 2010.

Lloyds Bank - UKFI (arm of the UK Government) announce their stake has fallen to 21.99%, so 700m shares/1% have been sold in a couple of weeks. Government now holds 15.7m shares worth £12.6bn.

Nordea CEO Christian Clausen says that while the bank remains committed to Russia, it is “not actively seeking new engagements in Russia” and “it is likely that we will have somewhat of a decrease in our balance sheet.”

The Royal Bank of Scotland is selling more of its stake in the US bank Citizens. The sale of the shares, worth up to $3.3bn (£2.2bn), will mean that the UK bank owns less than half of Citizens. It is part of a plan by the state-owned bank to concentrate more on its main UK retail business and reduce its operations abroad (Source BBC News). Citizens Financial announced on Wednesday they had upsized their secondary offering from 115mm to 135mm shares and priced the deal at $23.75. The deal reduces Royal Bank of Scotland’s stake down from 70.3% to 45.6% or 41.9% if the overallotment is completed. Immediately following the deal, CFG will issue $250mm of sub-debt and use the proceeds to buy back common stock from RBS on April 1 using the previous five days VWAP as a basis. Also ANZ Bank is interested in acquiring RBS’s Asia-Pacific assets the head of its international & institutional banking business has said. “I’m interested in looking at their assets across the region,” Andrew Geczy said in an interview in Sydney last Wednesday. “There’s opportunities that happen as many of the European and American banks retrace back home.”

Standard Chartered is preparing to launch its inaugural Additional Tier 1 bond as it kicks off investor meetings on Tuesday. The road show meetings will take place in London on Tuesday and Wednesday, with calls for US investors on Wednesday. The bank will also market to Asian accounts on Wednesday and Thursday. Standard Chartered said earlier this month that it planned to issue AT1 capital this year to manage its total capital efficiently and to meet tougher capital rules. Standard Chartered Bank and Barclays are structuring advisers and joint lead managers, while Bank of America Merrill Lynch, Goldman Sachs, JP Morgan and UBS are also joint leads (Source:Reuters).

Activist Influenced Companies

Cable &Wireless – confirmed it had obtained the necessary approval for the acquisition of Columbus in Trinidad and Tobago following its receipt of consent from the Telecommunications Authority of Trinidad and Tobago. Further to the consent, CWC has agreed to divest its 49% shareholding in TSTT (Telecommunication Services of Trinidad and Tobago) within an appropriate period following completion of the acquisition. Cable & Wireless announced on 6 November 2014 that it had agreed terms to purchase 100% of the equity of Columbus International Inc, a leading privately-owned fibre-based telecommunications and technology services provider operating in the Caribbean, Central America and the Andean region, for $1.85 billion. Completion of the acquisition remains subject to the satisfaction or waiver of certain other conditions, as set out in the circular to CWC shareholders dated 19 November 2014, including the receipt of all necessary regulatory approvals in Barbados.

Global Dividend Payers

ABB won a $160m control and instrumentation equipment order for Eskom’s Kusile power plant in South Africa. This includes engineering, installation and commissioning for the 4.8 GW coal-fired plant. Eskom, which generates 95% of South Africa’s power, stated last Friday that it had agreed with Alstom to terminate the existing contract for instrumentation. Alstom will continue to work on Eskom’s

4.76 GW-megawatt Medupi plant, which, like Kusile, has suffered years of delays. ABB was selected from two suppliers, according to Eskom.

National Grid : According to StockMarketWire.com (26 March), National Grid has announced that it is intending to sign an ownership agreement with Statnett, the operator and main owner of the Norwegian electricity transmission system, for the proposed 730 km 1400 MW 'NSN link' interconnection project. The estimated cost of the project is around £2bn, with the investment to be shared between the two grid operators. Contracts to build the NSN Link are expected to be awarded this summer, with the construction phase to begin later this year. In terms of HVDC VSC converter technology, we see only ABB, Siemens and Alstom as potential suppliers. In terms of HVDC submarine cables, only ABB, Prysmian and Nexans can offer the required technology, in our view.

Dufry, the Swiss travel retailer and Qatar Investment Authority are believed to be teaming up to bid for Italian travel retailer World Duty Free (WDF) WDF.MI , which belongs to the Benetton family, two sources familiar with the matter told Reuters on Monday.

Zoetis – The U.S. government is developing a vaccine to protect poultry from new strains of avian flu that have recently killed birds from Arkansas to Washington state. Within two months, scientists at a U.S. Department of Agriculture (USDA) research lab in Georgia will test the vaccine on chickens to see how well it prevents them from getting sick and dying of the virus, which the government says is spread by wild birds. In response to the cases, key overseas buyers have limited imports of U.S. poultry, and the world's biggest poultry producers, including Tyson Foods Inc and Sanderson Farms Inc, have increased biosecurity at farms. Zoetis Inc, the world's largest animal-health company, said it was in contact with USDA about the flu infections. The company has a vaccine approved for use in countries outside the United States.

Economic Conditions

US durable goods surprised on the downside in February, retreating 1.4% relative to an expected improvement by 0.4%. Transportation orders, notoriously bulky, dropped 8.9% in the month. Even excluding orders for transportation equipment, durable goods orders were down 0.4%, short of the expected 0.3% advance. Orders for general machinery and computers were also down in February, offset by improvements in electrical appliances and communications equipment. The final reading of the fourth quarter GDP was also mildly disappointing, at 2.2% falling short of the expected 2.4% reading and on par with the Department of Commerce's previous estimate.

US inflation provides little support for an increase in the US Fed funds rate, as the reading for February revealed a 0.0% growth in prices at headline level. The core reading, which excludes the effects of the food and energy prices, was 1.7%, a notch ahead of expectations, yet still comfortably below the Fed's target. Prices retreated for healthcare services, recreation, electricity and apparel, while autos and rent increased in the month.

U.S. new home sales unexpectedly jumped in February…..despite all of the terrible weather in the month. Sales of newly constructed/unlived in homes jumped 7.8% in February to a 7-year high of 539,000 units annualized. That is the 3rd increase in a row and the largest increase since last August. Plus, there were net upward revisions to the prior two months. Mother Nature did show up….. in the Midwest, where major winter storms took sales down 12.9%. Sales rebounded in the Northeast, from 17,000 units to an 8-year high of 43,000 (+152.9%). In the South, sales rose 10.1% to an 8-year high, while they fell 6% in the West. The # of homes available to be bought slipped 1.4% and although they are 12.9% above a year ago, they're still historically low. Combined with the rise in sales, the months' supply was cut to a 2-year low of 4.7. That's three consecutive months of gains, a trend which fits well with the number of homebuilders who have been reporting stronger orders and have been making optimistic noises about the upcoming spring season……even with confidence at an 8-month low. This is a break from the disappointing round of housing numbers of late, and suggests some support for home sales starts in coming months.

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 1.38% and the UK's 2 year/10 year treasury spread is 1.16% - 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 3.69% (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 5.1 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 15.52 (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, Credit Suisse, KBW, Barclays, BMO

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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.

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