

May 19, 2015

News Highlights

Energy Sector

Pacific Rubiales announced first quarter 2015, including record net production, sale volumes and lower cash operating costs. Net production for the quarter was a record 152,650 boe/d, an increase of 4% compared to the fourth quarter of 2014, and within the company's guidance (150,000 - 160,000 boe/d). Increased production was mainly due to higher light and medium oil production, and increases in the Quifa SW Field. Light and medium oil production increased 18% from the first quarter of 2014 and up 8% from the fourth quarter of 2014 to 55,587 bbl/d. Revenues for the quarter were \$800 million, a decrease of 19% compared to the fourth quarter of 2014, due to the decline in crude oil market prices. Average oil and gas sales (including trading) for the first quarter were a record 180,086 boe/d, an increase of 19% compared to the same period in 2014. Combined operating netback on oil and gas production for the quarter was \$22.73/boe compared to \$38.36/boe in the fourth quarter of 2014. Significant and continuing cash operating cost reductions with underlying operating costs declining 20% from the prior quarter and 34% from the same period a year ago. Adjusted EBITDA (earnings before interest, tax, depreciation and amortization) decreased by 36% to \$270 million from \$419 million in the fourth guarter of 2014. Cash flow for the quarter was \$157 million. Net loss for the first quarter of 2015 was \$722 million, reflecting the significant decline from crude oil price realization as well as a non-cash impairment on assets. Total capital expenditures decreased to \$226 million in the first quarter of 2015, compared with \$758 million in the fourth quarter of 2014 and \$469 million in the first guarter of 2014.

Financial Sector

Barclays - Bloomberg reports the company will pay only a \$60m fine for breaching its Libor Non Prosecution Agreement and, unlike UBS, will not be forced by the US Dept. of Justice to submit a guilty plea. The bank will, though, plead guilty in the Foreign Exchange probe, where media reports say the penalties will range from \$0.5-1bn. This seems in our view a good outcome, certainly relative to UBS, which has avoided a guilty plea on FX but will be forced to plead guilty on Libor.

JPMorgan Chase has agreed to buy rights to service \$45bn of prime mortgages from Ocwen Financial, the home-loan servicing group being watched closely by regulators, as it seeks to improve the stickiness of earnings from its core retail division. The deal involves servicing rights for 260,000 mortgages owned by government-supported Fannie Mae, and will bring JPMorgan's portfolio for overseeing billing, collections and foreclosures on US mortgages to about \$1tn, second only to Wells Fargo's \$1.8tn. Financial Times

State Street faces enforcement action due to deficiencies in its compliance with the Bank Secrecy Act. The firm is required to improve its compliance programs and hire an independent firm to conduct a transaction review. The firm says that the enforcement action, thus far, is not due to an instance of money laundering, but rather processes that they use to monitor such violations. At this point, it is difficult to draw any firm conclusions about the ramifications. Expense pressure may be modest because the firm says that the impact of this action was already considered in previous comments about higher compliance spending.

Activist Influenced Companies

Hertz reported first quarter results, including updates on its U.S. fleet renewal program, cost reduction and financial restatement process. During the quarter, the company reported a 47% improvement in the number of vehicles at or below 30,000 miles in its U.S. fleet. By the end of Q2 2015, the company anticipates closing approximately 200 stores, representing 5% of its total off-airport locations and less than 1% of the vehicle fleet, which would result in approximately \$10 million in annual savings. Hertz previously announced an ongoing accounting review and investigation of its financial statements, and currently anticipates filing restated financial statements for 2012, 2013 and 2014, as well as selected restated financial information for 2011. The company also continues to expect that it will not be able to file its Form 10-K for 2014 and Form 10-Q for Q1 2015 before mid-2015. Hertz is still working to determine how the accounting issues will impact its profitability for 2015, but the company expects its consolidated corporate EBITDA for the quarter to be likely between \$200 million and \$215 million. Management emphasized that 2015 should be seen as a transition year, not reflective of the ufll potential of the business. Consolidated revenues for the quarter were \$2.44 billion, down 3% from \$2.53 billion reported in Q1 2014, with weather playing a significant role. Hertz flagged an ambitious price increase program, including a \$5 per day rise for on-airport rental locations and \$3 per day for off-airport locations. The company remains committed to the divestment of the heavy equipment rental business. Jana Partners, the renowned activist investor firm, already the second largest holder of Hertz Global Holdings stock, behind Icahn Associates Corp, announced it increased its stake by a further 20% as at March 31, 2015.

Canadian Dividend Payers

Northland Power reported an in-line set of results for the first quarter of 2015. Sales and gross profit were 12% and 2% lower, respectively, than the same period in 2014 primarily due to non-recurring natural gas resale margins earned in the first quarter of 2014. Quarterly adjusted EBITDA and free cash flow were 5% and 11% lower than 2014, largely attributable to non-recurring natural gas resale margins in 2014. Net loss of \$30.6 million for the quarter was primarily



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due to an \$85.9 million marked-to-market non-cash adjustment on Northland's financial derivative contracts. The quarterly cash dividend payout ratio was 60% of free cash flow in the first quarter of 2015 compared to 49% in the first quarter of 2014 (81% excluding the effect of the Dividend Reinvestment Plan versus 63% in 2014) primarily due to lower quarterly free cash flow combined with dividends declared on the additional shares issued to fund the Gemini and Nordsee projects. Northland has successfully completed offerings of \$157.5 million of convertible unsecured subordinated debentures and \$281 million of common shares, primarily used to fund a portion of Northland's investments in Nordsee One and the Grand Bend wind farm in Ontario. During the quarter, the company reached financial close on the 332 MW Nordsee One offshore wind project, with all of the equity and debt totaling €1.2 billion required for the project and also reached financial close on the 100 MW Grand Bend wind farm. Northland sold its 66.7% interest in the 24 MW Frampton wind project for net proceeds of approximately \$10.2 million. The company received a favourable ruling with respect to its claim against Ontario Electricity Financial Corporation on changes made to the methodology of calculating electricity rates to be received by certain Northland facilities under their respective PPAs (power purchasing agreements). The 332 MW Nordsee One project is now in construction, along with Project Gemini (600 MW), which is progressing well.

Transalta Renewables met with the management of Transalta Renewables last week, part of a non-deal marketing road-show. The management seems to be aware of the market's need to see further assets drop-down from Transalta (TA) to Transalta Renewables (RNW) to drive further cash available for distribution (CAFD) growth and subsequent dividend growth. Conversely, they made no secret of the fact that the drop-down of TA assets into RNW is driven by TA's need to improve its credit metrics, in particular the ratio of its funds from operations (FFO) to its net debt, which currently sits at just below 17%. They were encouraged by the management belief that there is scope to refinance some of RNW's debt, while saving some interest and increasing RNW's leverage. The management seems to be paying close attention to the counterparty risk related to Fortescue Metal Group (FMG) and there seem to be a number of levers in place to mitigate such risk, which is also encouraging. The early indication for a number of potential third party acquisitions, with a bias towards joint ventures and emphasis on developed markets and proven technologies was also useful.

Global Dividend Payers

Aggreko has reported its Q1 trading update. With the FY 2014 results management had warned that the H1 profit performance was likely to be weak YoY, but had highlighted strong order intake. Management's previous guidance was for capex in H1 '15 of £150m and FY'15 underlying trading profit flat YoY, but a soft H1 2015 . The new guidance is capex of £140m in H1, down £10m

on the previous guidance, a new guide of £300m full year capex and profit guidance remaining "broadly in line with last year", with first half profits expected to be lower than last year. For the group underlying reported revenues are +4%. This compares with +9% for FY'14, +6% for Q4 '14 and +5% for Q1 '14. Looking at the regional performances: Americas was flat in Q1 against strong comparisons (Q4'14 +15%, Q1'14 +12%). EMEA was +6% in Q1 with growth from Africa and Baku European games (Q4'14 +4%, Q1'14 +15%). ACPAC was "slightly down" in Q1 with continued declines in Australia (Q4'14 -5%, Q1'14 -10%). In Q4 2014 order intake was soft (-69% at 60MW) and underlying revenues were subdued, +2% YoY compared with +14% in H1 '14 and +10% in Q3 '13. Therefore the lead into the quarter was weak, but with the FY'14 results management stated a strong order intake of 287MW for the first two months of the year and its is now 388MW for the Q1 '15 period. This soft period into the quarter and subdued comparative period has helped drive revenue growth of 7% in Q1 '15. In our view, Aggreko is a high returns, quality company operating in a tough environment, with substantial exposure to emerging markets utilities, mining, oil & gas, petrochemical & refining and military markets. End-market challenges have prompted Aggreko to keep capex spend in line with its depreciation charge, something which we expect to continue. While this has resulted in strong free cash flow, growth has been minimal. The recent increase in the age of the fleet is indicative of a pent-up capex requirement to renew it.

AT&T the No. 2 U.S. wireless company, said its users will be able to access the Hulu streaming video service on its website and mobile app starting later this year. The service will be available to AT&T customers who subscribe to Hulu. In addition to using the Hulu app. users will be able to view Hulu content on AT&T's app and website alongside the wireless company's existing library of videos such as those from video maker Fullscreen. As part of efforts to deliver video over the Internet outside of a TV subscription or "over the top," the company has been partnering with content makers such as Hulu and Amazon Prime Video to bring online video to users. The company has been bundling video content with its Internet packages and pay TV packages. AT&T announced its plans a day after rival Verizon Communications Inc VZ.N, which plans to launch a mobile video service this summer, said it would buy AOL Inc to access its mobile video advertising technology. AT&T is also considering bringing a Hulu app to TV. AT&T's \$49 billion deal to buy satellite TV provider DirecTV is being reviewed by regulators and both companies say they expect to close the deal this quarter. Through the acquisition, the company could bundle phone Internet and TV services and offer new packages.

GEA Group AG – German food-processing equipment maker lifted its 2015 core profit forecast and promised to keep dividends stable this year, following an increase in its cost-cutting targets. GEA Chief Executive Juerg Oleas is revamping the group to focus on customers in the food and beverage industries, where demand is relatively steady even when the economy weakens. The group last month



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increased the number of jobs it plans to cut as part of a restructuring programme to 1,450, or almost 8% of staff, to increase its cost savings to €125 million a year from 2017. Thanks to savings from the programme, it now expects adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) to come to between €590 million and €640 million this year. The new forecast, which compares with previous guidance for €580-€620 million, brings GEA closer to analysts' consensus estimate for 2015 core profit of €642 million in a Reuters poll. In the first quarter through March, core profit jumped 15% to €98.2 million, beating analysts' average estimate of €91 million. GEA also said it would pay shareholders a dividend for 2015 of no less than €0.70 per share, which would be at least on a par with its payout for 2014.

Economic Conditions

US retail sales fell short of the expectations for the month of April, posting a flat reading compared to the expected 0.2% advance. Sales of vehicles, electronics, furniture and electronics were all lower in the month, while the increase in sales of building materials, clothing and health care items was barely enough to offset the former. The core retail sales, which excludes the results in the auto retail sector, were marginally positive, up 0.1%, compared to an expected 0.5% improvement. And, if the latest reading of consumer sentiment is any indication, things are unlikely to improve soon. The consumer sentiment suffered a drastic, and unexpected, correction in May, to 88.60 index points, compared to the expected 96.00 level and April's 95.90 reading. Both the 'current conditions' and the 'expectations' components of this composite index tanked in the month.

Much like the retail sales, the US productive sectors were not a great support for the economy either in April, as the US industrial output retreated 0.3% in the month, contrary to the expectations for a small improvement. The resource extractive sector suffered, as expected, but consumer goods and business equipment producing industries, as well as utilities, were also a significant drag. The US capacity utilization was lower than expected, at 78.2%, relative to 78.4%, and also lower than March's reading of 78.6%.

Canada – Manufacturing sales performed much better than expected in March, up 2.9% relative to the expected 1.2% improvement, though it only partly offset the previous months' drop. The biggest help came from the notoriously bulky transportation sector.

The Bank of England cut its growth forecasts for the U.K. economy last Wednesday, but signalled it remains on course to lift its

benchmark interest rate from its historic low in the middle of next year. The BOE said in its quarterly inflation report that it expects the U.K economy will expand 2.5% in 2015 and 2.6% in 2016, compared with its February forecasts for growth of 2.9% this year.

Unemployment in the UK has continued to fall and the number of people in work has continued to rise, according to the latest official figures. The number of people out of work in the January to March period fell to 1.83 million, down 35,000 from the previous quarter and the lowest for seven years. At the same time, the total number in work rose to 31.1 million.

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 earliest mid-late 2015. The US 2 year/10 year treasury spread is now 1.67% and the UK's 2 year/10 year treasury spread is 1.43% - 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 3.85% (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 4.6 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 12.79 (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.



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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 5 private/alternative products:

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

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, Canaccord, Bernstein, Credit Suisse, Macquarie

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