Market Commentary

PORTLAND INVESTMENT COUNSEL®

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News Highlights

Energy Sector

Crescent Point Energy Inc, Canada's No.4 independent oil and gas producer, agreed to acquire Legacy Oil + Gas Inc for shares and debt worth $1.53 billion, adding light oil production in its core regions in South East Saskatchewan and North Dakota. Crescent Point is offering 0.095 of its own shares for each Legacy share. Based on Crescent Point's closing price on May 26 of $29.82, the offer is worth $2.85 per Legacy share. Crescent Point said its offer was a 36% premium to Legacy's price prior to April 17, when the company was targeted by activist shareholders determined to place representatives on Legacy's board. Crescent Point said the acquisition, which has been approved by Legacy's board, would add 22,000 barrels of oil equivalent per day to its production. Nearly 70% of that production is in the company's core areas in Saskatchewan, Manitoba and North Dakota. "Legacy's combination of high-growth resource play assets and high-quality, low-decline conventional assets are a tremendous fit with Crescent Point and are expected to enhance our long-term dividend plus growth strategy," Scott Saxberg, Crescent Point's chief executive, said in a statement. Crescent Point said it is offering a total 18.97 million shares and will assume Legacy's $967 million in debt. To pay for its acquisition, Crescent Point has placed 21.06 million shares to a group of underwriters led by BMO Capital Markets and Scotiabank to raise gross proceeds of about $600 million. Crescent Point said the acquisition will boost its production and cash flow while adding about 102.7 million barrels of established reserves. The acquisition will raise Crescent Point's expected average production this year by nearly 7% to 162,500 boepd.

Chevron – Chevron-led Tengizchevroil (TCO), Kazakhstan's No.1 oil company, increased crude output by 4.4% year-on-year to 7.1 million tonnes (about 56.7 million barrels) in the first quarter of this year. TCO, which develops the giant Tengiz onshore field in western Kazakhstan, plans to boost annual output by 42% to 38 million tonnes by 2021. Last year, TCO produced 26.7 million tonnes of oil. Chevron holds 50% of TCO, while Exxon Mobil owns 25%. Kazakh state oil company KazMunaiGas holds 20% percent and Lukarco, controlled by Russia's Lukoil, the remaining 5%.

Royal Dutch Shell/ Total – Europe's top oil and gas companies urged governments around the world to introduce a pricing system for carbon emissions, as governments met in Bonn, Germany, to work on a U.N. deal to fight climate change. Criticised for not doing enough to tackle climate change, the chief executives of BG Group, BP, Eni, Royal Dutch Shell, Statoil and France's Total said carbon pricing "would reduce uncertainty and encourage the most cost-effective ways of reducing carbon emissions widely." In a joint statement, the companies acknowledged "the current trend" in greenhouse gas emissions is too high to meet the United Nation's target for limiting global warming by no more than 2 degrees. The European oil majors believe that "carbon pricing will discourage high carbon options and reduce uncertainty that will help stimulate investments in the right low-carbon technologies and the right resources at the right pace." U.S. oil majors ExxonMobil and Chevron chose not to take part in the initiative. Setting a price for each ton of carbon that emitters produce is meant to encourage companies to adopt cleaner technologies and shift away from using fossil fuels, primarily coal.

Financial Sector

Bank of Montreal - cash operating earnings up 5% YoY to $1.71 per share from $1.61 a year earlier, a beat vs. consensus at $1.66. The beat was a combination of better earnings in Capital Markets, Wealth Management and P&C U.S. with P&C Canada slightly disappointing due to higher expenses. The bank's Core Equity Tier 1 ratio of 10.2% was up from 10.1% in the previous quarter driven by lower Risk Weighted Assets (+25 bps) offsetting a 15 bps decline in capital as retained earnings growth was offset by share buybacks. The bank repurchased 3 million shares or 0.5% of outstandings under its buyback program this quarter. Adjusted Return on Equity: 13.2%.

Bank of Nova Scotia reported Q2 2015 core cash EPS (excl. IFRS dilution) of $1.43 versus $1.40 in Q2 f2014 and $1.36 in Q1 f2015. EPS beat consensus of $1.39. Return On Equity 15.3%, Core Equity Tier 1 10.6%. Canadian Retail earnings growth of 6% (ex-Wealth) as strong revenue growth of 8% helped drive positive operating leverage of 280 bps. International earnings continue to be weak down 1% YoY. Global Banking & Markets earnings growth of 3% YoY lags peers which delivered 15% earnings growth this quarter. Underwiting & advisory revenue was up 18%, while trading was up only 7%. Capital position strong at 10.6% with Int'l acquisitions expected to reduce the ratio by 20 bps in Q3.

Brookfield Partners – Center Parcs, and UK holiday-resort operator, could reportedly be sold to Brookfield, after the asset management group entered exclusive talks with Blackstone. The US private equity giant which owns Center Parcs, is understood to be finalising a deal with Brookfield following its offer of around £2.4bn for the company. A deal could be announced this week. Private equity giants CVC and KSL Capital Partners had been among the parties circling Centre Parcs. CVC put in a joint offer with Singapore's sovereign wealth fund, while Canadian pension fund CPP tabled a bid with KSL. However, sources said Blackstone is now in sole talks with Brookfield. Dalian Wanda and Fosun, two Chinese conglomerates that had previously indicated plans to bid, walked away earlier this year. Center Parcs runs five holiday villages in the UK, including sites in Wiltshire, Nottinghamshire and Cumbria. The company reported pre-tax earnings of £147m last year, up from £140m in the previous year. Brookfield, which recently took joint control of Canary Wharf in a £2.6bn deal, specialises on property, renewable power and private equity.

CIBC's adjusted EPS of $2.28 was above the consensus estimate of $2.23, with the beat largely accounted for by better-than-expected Wholesale Banking contribution and better-than-expected operating leverage in Retail and Business Banking (RBB). Credit fundamentals remain intact. CET1 ratio of 10.8% (above management's target range of 9.5-10.5%) is likely going to be peer group leading and included gains from a previously announced asset disposition. The bank also increased its quarterly dividend by about 3% to $1.09, which is an unexpected welcome. Overall a good set of results. The dividend increase is a pleasant surprise and we believe likely an indication of the management team's confidence in the earnings potential and outlook of the bank; CIBC continues to target a 40-50% dividend payout range and expects to operate at the upper end of this range.

ING/NN Group - ING last night completed an Accelerated Book Build to sell 45mn NN Group shares @ €25.46 ps, 3% discount to the close, for total proceeds of €1.1bn. NN Group has repurchased 5.9mn shares at the same price per share, for €150mn. The deal reduces ING's stake from 54.8% to 42.4%. This follows the last sale of 52mn shares which took the stake down from 68.1% to 54.6% @ €24ps Feb 17th. Lock up was 90 days. Settlement of this trade is 29th May. ING Group will deconsolidate its stake in NN Group in line with IFRS. As of that date, the retained minority stake in NN Group will be accounted for as an Associate held for sale.

The remaining shares in NN Group held by ING Group will be subject to a lock-up period of 90 days. The deal is expected to raise ING Group's fully loaded Core Equity Tier1 ratio by approximately 80bps to approximately 12.4% on a pro forma basis, and no impact on ING Bank's capital ratios. Q2 results will reflect a p&l loss of approx €100mn for ING. We believe ING remains one of the best capital return stories in Europe and this transaction serves as a timely reminder on how well capitalised the group is. This should underpin our investment case that ING can have a dividend payout higher than the >40% guidance, for instance a c60% payout implies a 4.6% dividend yield in 2016.

National Bank of Canada - Q2/2015 operating EPS increased 10% YoY, to $1.15, a beat vs. consensus estimate of $1.12. Earnings were driven by Financial Markets +39% YoY, Wealth +8% and +6% in Canada. The bank raised its dividend 4% this quarter. Return on Equity 17.9% and Core Equity Tier 1 ratio of 9.5%.

Royal Bank of Canada posted EPS of $1.64 vs. consensus of $1.59 (+10% YoY) – earnings were driven by solid operating results from all 3 main segments : Canadian P&C (+2.4% operating leverage), Capital Markets (massive $625mm quarter vs. $568mm expected) and Wealth Management (+2% operating leverage, best opportunity to take out costs) – on the capital front, RBC ended the quarter with Core Equity Tier 1 of 9.98% (+38bps sequentially) and Credit remains solid with total bank Provision for Credit Loss ratio of 25 bps.

Royal Bank of Scotland – Financial Times report RBS is inviting investment banks to pitch for an enlarged corporate broking role that includes acting as privatisation advisers. Senior RBS figures said the government would launch a share sale in the fourth quarter after the bank completes a settlement with US regulators for mis-selling subprime mortgage securities. A separate article in the FT talks of RBS needing to beef up Williams & Glyns' business following a government review into the lender's ability to challenge the established banks. The Competition & Markets Authority is to assess the impact a carved out W&G will have as a new challenger.

TD's adjusted cash EPS of $1.14, was better than the consensus expectation of $1.11 helped by noteworthy contribution from Wholesale Banking but also continued good contribution from Canadian Retail although net interest margin was down another 9 basis points. Credit quality remains intact and the Core Equity Tier 1 ratio improved to 9.9%. The bank also announced a restructuring charge of $337 million pre-tax/$228 million after tax, which is expected to help moderate the rate of expense growth over time and result in expense savings equivalent to about 2% of the bank's 2017 expense base.

Global Dividend Payers

Barrick Gold Corp. announced they had formed a strategic partnership with Zijin Mining out of China -- Zijin Mining will acquire 50% of Barrick (Niugini) Limited or BNL (ABX; 95%) in Papua New Guinea which manages the Porgera JV – the company will pay $298mm in cash and the transaction is expected to be completed in Q3/15 – the companies intend to collaborate on future projects and joint investments – with respect to Porgera, production in 2015 is expected to reach 500-550k/oz – the asset is sensitive to the gold price due to its higher operating costs (circa $800-$900/oz) – the sale is consistent with ABX's plan to divest of assets in order to reduce its net debt by $3.0Bn in 2015 – the price received for Porgera is ~$60mm higher than analysts' estimates which is based on reserves only – the sale of both Cowal and Porgera has raised $850mm for debt repayment. The real key takeaway here is that CEO John Thornton has finally brought in some long-awaited (and well-funded) Chinese partners, and notably partners who are clearly looking to deploy capital into the mining sector – in our view, this could bode well for ABX going forward with respect to future asset divestitures or JVs -- there are many more areas where Zijin could invest

Syngenta - According to the Swiss newspaper Finanz und Wirtschaft, Monsanto has been hunting Syngenta already for two years. A public leak of Monsanto's intention happened about a year ago, which Syngenta dismissed. A couple weeks ago, Monsanto announced publicly a merger proposal. The timing was not incidental as Syngenta is experiencing declining margins and recently had to delay its revenue sales target. The Syntenga shares have been constantly declining since two years and underperformed the markets. Investors doubt the company's strategy and that the management can reach its goals. After the move by Monsanto, Syngenta is engaging in talks with its shareholders through banks (JPM and UBS). However, for the Swiss company, the air grows thinner. If Syngenta would block the deal, the shares would correct substantially as they have risen by 1/3 since the intention of Monsanto became public. Monsanto is unlikely to back away from the transaction as most likely Syngenta is now part of the mid- to long-term strategy. The mentioned reasons by Syngenta why a merger with Monsanto is too risky from a regulatory perspective, are counter-argued by Monsanto which believes that it could meet regulatory requirements not least because the divisions of both companies are not significantly overlapping. The paper argues that there are several reasons why Monsanto could offer a higher price: Tax benefits, the potential that Syngenta could have much higher margins if efficiency potential would be exploited and the lower volatility of Syngenta's shares. Overall, the paper recommends to continue to hold Syngenta shares as a higher transaction price can be expected.

Economic Conditions

US personal income advanced by a higher than expected 0.40%in April, though consumption expenditures weren't as buoyant, virtually unchanged in the month, as Americans preferred to save. The savings rate moved higher, to 5.6%, the highest level in more than two years. The core personal consumption expenditures (PCE) price index, the US Fed's favourite inflation gage, inched lower in year-on-year terms, at 1.2% compared to March's 1.3% reading. The underwhelming growth in consumption expenditures is the results of relatively weaker consumer confidence. The US consumer sentiment, as measured by the University of Michigan, reached 90.70 index points in May, lower than April's 95.90 reading, with both the 'current conditions' and the 'expectations' components of this composite index losing ground in the month. However, the US consumer confidence, as measured by the Conference Board, improved marginally in May, to 95.40 index points, from 94.30 in April, slightly ahead of the expectations, suggesting that a rebound in consumption is not out of question.

On the US housing front, prices, as measured by the Case Shiller index for 20 metropolitan areas, were up 1% in March, or 5.0% in year-on-year terms, slightly ahead of the expectations. New home sales were also marginally better than expected, with April's level at 520,000 units annualized, a clear improvement over March's 480,000 units annualized reading.

CQ2 U.S. business spending: is starting off positively. U.S. durable goods orders fell 0.5% in April, which was in line with expectations and pulled lower by declines in a broad measure of categories (computers, communications, electrical, transportation….particularly the latter). Excluding transportation, however, orders were a smidgen above expectations at +0.5%, and on the heels of an upwardly revised March of +0.6% (was +0.3%).

New orders for nondefense capital goods ex. air rose a solid 1.0%, which follows a big upward revision to March, which is now reflecting a 1.5% gain (was +0.1%). Shipments of nondefense capital goods also rose for the 2nd month in a row. Core shipments jumped 1.6% in April, nearly doubling March's advance of 0.9%. After a weak 1Q two straight months of a pickup in core orders suggests that production will pick up in coming months.

Canada – Canadian economy shrunk by 0.6% in the first quarter of 2015, against expectations for a 0.3% advance, undoubtedly affected by the weakness in the oil patch, but also by the harsh winter. Outside the laggard business investment, consumer spending, government, housing, inventories and even net exports were actually net contributors to net growth in the quarter.

Greece - Over the weekend, Greece negotiators continued to talk with European creditors but missed self-imposed Sunday deadline of reaching a deal. Greek cabinet officials remain optimistic. Econ Min said a deal is expected in a few days and that Greece is not in danger of missing the IMF payment scheduled for June 5th. BNP Chairman Lemierre says agreement on Greece is likely, according to Les Echos. Greek PM Tsipras was supposedly holding the 3rd confernce call with Angela Merkel and Francois Hollande late last night. Tsipras wrote in French newspaper Le Monde that any intransigence wasn't the fault of his four-month-old administration as both sides blamed each other.

Financial Conditions

The Bank of Canada kept rates unchanged at 0.75% and kept to the same rhetoric. The Bank remains optimistic on second half year growth and swept aside the weak Q1 as temporary. The risks to the inflation outlook was unchanged and financial stability was viewed as elevated but evolving as expected.

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 1.52% and the UK's 2 year/10 year treasury spread is 1.33% - 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% 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 13.84 (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 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, KBW, BMO, Scotiabank

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

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