Market Commentary

PORTLAND INVESTMENT COUNSEL®

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Energy Sector

Crescent Point Energy Corp. has closed its previously announced bought deal financing of common shares at $28.50 per share, raising gross proceeds of approximately $660 million. Net proceeds from the Financing are expected to be used to reduce assumed debt and transaction costs in connection with the acquisition of Legacy Oil + Gas Inc. to approximately $334 million. If the Legacy acquisition is not completed, the net proceeds of the Financing will be used to reduce Crescent Point's indebtedness, improving its strong financial position from 1.6 times net debt to funds flow from operations to approximately 1.3 times based on net debt levels reported at the end of first quarter 2015, adjusted by the net proceeds of the Financing. "We are very excited about the Legacy acquisition and the opportunity that it provides on a near and longer term basis. The overlap of our asset base in southeast Saskatchewan, combined with our financial strength and technical advantage, provides Legacy shareholders an enhanced ability to unlock significant value from Legacy's assets," said Scott Saxberg, president and CEO of Crescent Point. The Legacy acquisition is expected to provide Crescent Point with approximately 20,000 boe/d of high-netback production for the remainder of 2015, which is expected to increase the Company's 2015 average production guidance by 10,000 boe/d to 162,500 boe/d, reflecting six month's contribution from Legacy's assets. The Company expects the Legacy assets to generate production of 20,000 to 25,000 boe/d in 2016 and the acquisition is expected to be accretive by 5% to 9% to debt-adjusted production per share for 2016. In addition, the $1.74 billion of tax pools acquired as part of the Legacy acquisition are expected to further extend the Company's tax horizon.

Enbridge Inc. – Canada's largest oil pipeline company Enbridge said on Friday it has reached a long anticipated deal to transfer some of its Canadian pipeline and renewable energy assets valued at $18.7 billion to Enbridge Income Fund, as it moves to boost its dividend and accelerate growth. In December, Enbridge outlined plans to transfer ownership of the assets and boost its dividend by 33%. At the time, the company said it would be transferring $17 billion worth of assets. Enbridge had said it was aiming to complete the deal by mid-2015. Calgary-based Enbridge said in addition to dividend growth, the move would improve its funding costs for new projects and in turn drive its growth initiatives beyond 2018. Enbridge wants to build the ambitious and controversial Northern Gateway pipeline that would take oil from Alberta's oil sands to a Pacific coast port in British Columbia. Enbridge Income Fund, which is operated by Enbridge, already holds a diversified portfolio of energy transportation and power generation businesses. Enbridge will receive upon closing $18.7 billion worth of units in the Fund, comprised of $3 billion of Fund units, along with $15.7 billion of equity units of Enbridge Income Partners L.P., an indirect subsidiary of the Fund. The Fund is also going to assume $11.7 billion of debt, linked to the assets being transferred. The deal to transfer the assets is expected to close in August.

Pacific Rubiales Energy's largest group of shareholders has begun a proxy fight to block the roughly $2 billion takeover of the Canadian oil producer by Alfa SAB de CV and Harbour Energy Ltd. O'Hara Administration, speaking for a group of shareholders holding about 20% of Pacific Rubiales shares, said it had filed a proxy circular and letter urging other minority investors to vote against the deal. The group said it was not attempting to unseat the Pacific Rubiales board at this time. Pacific Rubiales responded in an emailed statement that it will seek to disqualify some 21.3 million shares, or 6.74% of all common shares, held by O'Hara, on the basis that they were acquired in "contravention of applicable Canadian securities laws." The Toronto-based company also noted that no other bidders have come forward to counter the $6.50 per share offer from Mexican conglomerate Alfa and Harbour Energy, a joint venture between Asia's Noble Group Ltd and U.S. private equity firm EIG Global Energy Partners. That prompted a swift response from O'Hara, which has long opposed the deal it says undervalues the company and "incentivizes" management at the expense of minority shareholders. Besides O'Hara, the group includes IPC Investments Corp; Telmaven Overseas Inc; Volbor Trading Ltd; Memphis Investment Limited; Agency Partner Corp; Orlando Alvarado; Fundacion Nemone; and the Adar Macro Fund.

Royal Dutch Shell PLC – Canada's environment ministry said it approved a Royal Dutch Shell Plc-led liquefied natural gas export terminal on British Columbia's coast, contingent on the project meeting 50 environmental, social and operational conditions. In her decision, federal Environment Minister Leona Aglukkaq concluded that the effects of the proposed LNG Canada project "are justified in the circumstances." She said the project would create thousands of jobs and contribute billions of dollars to the economy. The province of British Columbia also issued an environmental certificate for the export terminal, listing 24 conditions, including monitoring its environmental impact and ongoing consultation with aboriginal people and local communities. Shell and its partners are expected to make their final go or no-go decision on the project in 2016, with construction of the first phase set to take roughly five years. The development, located in the northern British Columbia town of Kitimat, is anticipated to cost between $25 billion and $40 billion. It is one of 19 such terminals proposed for the Pacific Coast province as companies from around the world look to export cheap Canadian gas to energy-hungry markets in Asia. A consortium led by Malaysian state-owned energy company Petronas gave a conditional go-ahead last week for its Pacific NorthWest LNG project, which is still in the federal environmental review process. Shell holds a 50% stake in LNG Canada, PetroChina Co Ltd has a 20% share, while Korea Gas Corp and Mitsubishi Corp each hold 15%.

Financial Sector

Ares Capital Corporation announced the establishment of a joint venture with Varagon Capital Partners to make senior secured loans to middle market companies; the new program will be called the Senior Direct Lending Program (SDLP). Via the SDLP, Ares Capital will commit and hold individual loans of up to $300 million and may co-invest with the SDLP to accommodate larger transactions.

Barclays Plc is ending trading in $700 billion of U.S. mortgage bonds that were issued before the financial crisis, the latest move by global banks that are adapting to new regulations. The firm no longer will regularly buy and sell the residential securities, which lack government backing, according to Adam Yarnold, the bank's head of securitized-product trading in the U.S. No traders will lose their jobs because its securities arm is allocating resources to other businesses, he said. "This is a refinement to our strategy meant to improve our return on equity," Yarnold said in a telephone interview. (Source:Bloomberg)

Berkshire Hathaway Inc. – H.J. Heinz Company said that Warren Buffett's Berkshire Hathaway has become its majority shareholder by exercising a warrant ahead of the ketchup maker's planned merger with Kraft Foods Group Inc. In a regulatory filing, Heinz said Berkshire exercised a warrant to acquire about 46.2 million shares. Heinz said the shares represent about 5.4% of its outstanding common stock, and that their issuance gives Berkshire a 52.5% overall stake. The warrant was issued in connection with Heinz's $23 billion acquisition by Berkshire and Brazilian private equity firm 3G Capital in 2013. Shareholders of Kraft are scheduled to vote on July 1st on the Heinz merger, which would create one of the world's largest food and beverage companies. Heinz owners would get a 51% stake in the combined company, which would be known as Kraft Heinz Co. Berkshire would own about 27% of the combined company, but 3G would oversee day-to-day operations.

Fifth Third Bank: Announced this morning a plan to sell/consolidate up to 100 branches with the hopes of saving $60mill per year. In light of this, they expect to take a $85mill impairment charge. Not all of the 100 branches will be sold. Some will be consolidated. No break-down between number of potential sales versus number of potential consolidations was provided. Location of the branches being sold/consolidated has not been disclosed and will not be disclosed until after the fact. Not all of the $60 million ($0.05--0.06) in potential cost saves will positively hit the bottom line. Management indicated that some will be reinvested into the company via technology spend to better position the company for the changing behavior of customers.

HSBC Holdings PLC - Reuters reports Bradesco considers making binding offer for HSBC Holdings' Brazil unit in July, citing CEO Luiz Carlos Trabuco. Bloomberg reported on June 8th that HSBC was likely to sell the unit to Bradesco and the Wall Street Journal reported on June 2nd that Banco Itau, Bradesco, and Banco Santander Brasil all bid for HSBC's Brazilian unit.

Global Dividend Payers

Dufry AG successfully completed its capital raise in order to fund the purchase of World Duty Free SpA. The final no. of new shares to be issued is 16.2mn and the offer priced was set at CHF 136.16, resulting in the targeted CHF 2.2bn cash inflow (gross). 9.74 mn shares (CHF 1.33 bn) have been subscripted by existing shareholders, representing 60% of total issued shares.GIC, Qatar Investment Authority and Temasek have taken up the remaining share of 6.4 mn, which will give them a stake of 4.0% each in Dufry. We now expect the takeover of 50.1% in WDF from Edizione for EUR 1.31bn to proceed after the public offering for remaining 49.9% in WDF (EUR 10.25 per share). Synergies of EUR 100mn are expected in 2017.

Novartis International AG hosted its 2015 Meet Management event in Boston last Thursday. Overall the message remains the same – the new portfolio mix (61% pharma, 21% Alcon, 18% Sandoz) is leaving Novartis in a stronger and more focused position to deliver growth and profitability. But whilst new pharma products Cosentyx (psoriasis) and LZC696 (heart failure) will drive momentum, 2016 and 2017 remain transition years during which operational efficiencies will have to make up for necessary launch costs and the much anticipated Gleevec patent loss. Cosentyx is unlikely to be profitable in its first two years on the market and LCZ696 will have to negotiate Medicare reimbursement (majority of heart failure patients). As such the margin expansion may be slow in both years. We continue to see high commercial potential for heart failure product LCZ696 and believe management's $5bn peak sales estimate for Cosentyx portrays confidence. The performance of the recently acquired GSK oncology portfolio could offset some pressures but we recognize there is uncertainty in regards to the melanoma franchise. Data presented at the recent ASCO cancer conference from new drugs Opdivo and Keytruda in melanoma has heightened the possibility these immune-oncology assets will take share from the targeted BRAF/MEK inhibitors. Novartis' ophthalmology division continues to struggle with slower than expected uptake of the premium intra-ocular lenses, loss of exclusivities and continuing underperformance of the lens solution business. There clearly is more work to do and following some recent management changes in Asia we wouldn't be surprised to see further operational changes in Alcon.

Syngenta AG: Finanz und Wirtschaft writes in the weekend issue that most Syngenta investors would like that Board and management negotiate a takeover with Monsanto Company. However, Syngenta is not talking to Monsanto nor its own shareholder base. On the other hand, Monsanto is actively talking with larger Syngenta shareholders. Syngenta investors are not happy with the share price performance and particularly with CEO Mike Mack. The offered 40% premium by Monsanto is equivalent to CHF 10bn, a value creation for Syngenta investors which would clearly not be achieved on a stand-alone basis. According to the paper, Syngenta in two weeks will address its shareholder base but it will be very difficult to convince them to go 'solo'. Syngenta mgmt and board believes the offer by Monsanto is not reflecting the company's perspectives and would fundamentally undervalue Syngenta's future. Monsanto on the other hand, would be willing to revise its offer price if it could look into Syngenta's books, however, this seems not to be the case, likely because Syngenta's current CEO will not play a part anymore in the case of a Syngenta takeover.

Economic Conditions

US – The headline inflation rate in the US was 0% in year on year terms, driven by lower gasoline prices, while the core reading, which strips-off the effects of food and energy prices, was 1.7%, a notch lower than the expected 1.8%. The US industrial production surprisingly retreated 0.2% in May, relative to expectations for a 0.2% improvement, with weakness relatively evenly spread across the sectors. The US capacity utilization retreated to 78.1% from 78.3% in April.

The most recent reading of the National Association of Home Builders (NAHB) housing market index exceeded expectations in June, at 59 index points, relative to 56 index points, and represented a 5 points jump from May's 54 points reading, indicating a substantial shift in the homebuilders outlook. The number of building permits for May also jumped, to a 1.28 million units annualized level, while housing starts were actually lower, at a 1.04 million units annualized level, for the month.

U.S. industrial production surprisingly fell in May, down 0.2% in the month while April was revised lower, to -0.5% from -0.3%, initially. March, at least, is reported as being flat instead of -0.3%.

U.S. housing market: Existing home sales jumped a greater-than-expected 5.6% in May to 5.35 mln units annualized, the highest since November 2009. This comes on the heels of an upwardly revised April --- now coming in at 5.09 million units instead of 5.04 million units. The increase in buying activity spanned the country, with all four regions recording gains. And, the fact that pending home sales have grown for four consecutive months supports this move.

Canada – Headline inflation in Canada did not appear to pose any major challenges in May at an year on year rate of 0.9%, a tenth ahead of the expectations, as gasoline prices, even though up 5.5% on the month, are still below last year's levels. The core inflation rate, which excludes the eight most volatile price series, including food and energy, clocked-in at 2.2%, a tad below April's 2.3%, but ahead of the expectations for a 2.1% rate. Retail sales for May were significantly slower than expected, down 0.1% in the month, against expectations for a 0.7% advance, despite a robust 1.3% advance in auto sales in the month. The core retail sales reading, which excludes the contribution from auto sales, were down by 0.6%, against expectations for a 0.3% improvement, dragged lower by the sales of electronics and groceries, with most other categories in positive territory.

UK average earnings rising much faster than expected (+2.7% vs +2.1% exp). This number puts wage growth at the highest level since August 2011. The Bank of England minutes saw a 9-0 vote to keep rates unchanged and nothing from the hawks on the board, Weale and McCafferty, who had dissented in the past. Inflation remains benign and the central bank along with the rest of the world's economists are surprised that the savings from lower oil prices are not materializing into higher consumer spending and instead people are choosing to pay down debts. Probably not a bad thing! The UK should be the next area to start raising rates after the Fed while the Bank Of Japan Governor just reaffirmed the 2% inflation policy and backed away from his strong JPY comments.

Greece - Greek PM Mr. Tsipras presented a new reform proposal yesterday evening, ahead of an extraordinary Eurogroup which will take place today at 11:30 am (UK time). EU Commission spokesman Mr. Selmayr said that the new offer was a good basis for progress at today's Euro summit. Council of Europe head Mr. Tusk called for a meeting with Tsipras, Lagarde, Draghi, Dijsselbloem and Juncker before the Eurozone summit at 10 am (UK time), while a EU summit will follow at 6 pm (UK time). European Council President said that the Greek government has to choose between a "good deal" and a default, warning also that there will be no "magic solution" at the leader's level. Following last Friday's meeting between Tsipras & Putin, the Kremlin said there was no discussion of financial aid for Greece. Reportedly, the ECB's governing council will hold a special meeting today at 9:30 am (UK time) to examine whether to raise Greek banks' ELA ceiling. The ECB already raised the level of funding through the ELA mechanism on Friday by €1.8bn. According to press reports, pre-orders for deposit withdrawals for today have already reached €1bn, while withdrawals on Friday reached €1.3bn with last week's outflows totaling some €5bn.

Financial Conditions

UK: One of Britain's top financial regulators played down fears about the impact of the U.K. leaving the European Union, saying that there would be little immediate effect on the country's vast finance sector. Martin Wheatley, chief executive of the Financial Conduct Authority, said holding a referendum on Britain's membership of the EU, one of the main campaign promises made the recently elected Conservative government, is not an existential threat to London as a financial centre. Mr. Wheatley said that even if the U.K. does leave the EU, it is very likely that it would still choose to abide by much of the financial regulation that Brussels produces and that therefore "in the short term, not as much would change as you might think," he said in an interview. (Source: Wall Street Journal)

Greece: Bank of England policymaker Kristin Forbes said on Monday that the most typical channels of contagion from the Greek debt crisis, such as banks' exposure to the country, are manageable. Forbes, speaking at a conference organized by Fortune magazine in London, said the financial system was better prepared to deal with a shock from Greece than the Asian financial crisis of 1997. (Source: Reuters)

Bank Of Japan: Keeps Status Quo on rates which was in line with our market expectations, very much the same since October 2014. The June statement was also largely a near carbon copy of the May statement (with the same policy pledge, same upbeat economic assessment, unchanged price developments, same economic & price outlook as well as the same risks to outlook). The slight difference was perhaps a marginally more upbeat statement on housing investment that "has started to pick up" (compared to the May statement where "Housing investment has bottomed out and shown some signs of picking up.").

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 September 2015. The US 2 year/10 year treasury spread is now 1.68% and the UK's 2 year/10 year treasury spread is 1.47% - 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 4.00% (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 12.91 (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 7 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
- Portland Value 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, Credit Suisse, Mirabaud, Vontobel, Macquarie

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