Market Commentary

PORTLAND INVESTMENT COUNSEL®

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Energy Sector

Bernstein has this week published research on its views on solar technology, in summary Bernstein research believes:

- Solar has reached a price point since 2013 where it has become cost-competitive on an MMBTU basis with oil and LNG in Asia. The levelized cost of energy for solar has fallen roughly 85% since 2007;

Considering the combined impact that falling solar costs and falling energy storage costs are going to have on the energy and utility markets globally; by 2018, Bernstein believes that on an unsubsidized basis, solar plus energy storage will start to be cheaper than residential power in some large markets;

- Despite the rapid growth of distributed solar in Europe and the United States, neither region has witnessed widespread customer defection from the grid.
- Distributed solar generation does not offer a viable alternative to the electric power grid, and will not for the foreseeable future. The owners of the electricity grid will thus remain the monopoly suppliers of a critical public service.
- Distributed solar's continued growth in developed countries thus faces significant risks, while utility-scale installations in Emerging Markets will be an area of profitable growth.

These views resonate with ours vis-a-vis our introduction in 2013 of the Portland Global Energy Efficiency and Renewable Energy LP.

Financial Sector

Bank of Nova Scotia: The Globe & Mail reported last Tuesday that after 20 long months, the shell shock stemming from Brian Porter's radical house cleaning is starting to subside. The question now is whether the pain was worth it. Since he took over as Bank of Nova Scotia's chief executive officer in November, 2013, Mr. Porter has put the lender's executive ranks through intense upheaval. In that time, the financial institution has changed its chief risk officer, chief operating officer, capital markets co-head, wealth management head, marketing head, Latin American head and Mexican head. When the new chief started, the bank had 23 executive vice-presidents; today, it has 16. And last November, the CEO announced 1,500 job cuts globally, two-thirds of which would be felt in Canada. With 2014 in the rearview mirror, it finally seemed as though things were calming down. Then came arguably the biggest blow. As of this week, Anatol von Hahn, the former head of Canadian banking – the lender's largest unit – is no longer with the organization. As someone who speaks multiple languages, Mr. von Hahn was once viewed as a future CEO contender because he is so international. Just like Scotiabank. Last week Mr. Porter held a town hall to address the shift. Mr. Porter comes from a capital-markets background and the Globe & Mail reports there is a perception now that all employees are expendable unless they are on page with his playbook, nonetheless we believe much of Mr. Porter's strategy makes sense.

BNP Paribas said that its Arval unit has signed a letter of intention to buy GE Capital Fleet Services in Europe. GE Capital's European vehicle assets worth EU2.4B as of 1Q, BNP says in a statement

Citigroup is planning to move its UK-based retail banking operations to Dublin from London, the bank said. The switch is designed to cut costs and give clients one main route into Citi's EU retail operations. However, the UK unit's management will remain in London and none of the 400 jobs will be moved to Dublin as part of the shakeup. (Source: The Telegraph)

Royal Bank of Scotland expects a substantial increase in its capital thanks to the sale of businesses over the coming years and intends to return some of it to shareholders, Chief Executive Ross McEwan said. "As we reduce risk, and make expected divestments over the coming years, we anticipate a substantial increase in our capital as a result. Subject to approval, we intend to return any surplus capital to our shareholders," McEwan told the bank's annual meeting last Tuesday (Source Reuters). Also, Royal Bank of Scotland's outgoing chairman has admitted that the bank had not expected to take £10bn-worth of charges for multiple "business failings", and cause the government to sell its stake at a loss to the taxpayer. Speaking at his seventh and final annual general meeting on Tuesday, Sir Philip Hampton said the scale of the conduct issues faced by RBS had "markedly" reduced its profits and value for shareholders. He told investors: "I can plainly say that we did not anticipate the nearly £10bn of regulatory fines, litigation charges and customer redress we have incurred, so far, for conduct and business failings." Financial Times

Standard Chartered – Financial Times reports new CEO Bill Winters is to shift capital and power to new regional hubs as part of a new structural overhaul. Winters has been explaining his view of simplifying and streamlining the bank. The new StanChart CEO is expected to hand more power to a handful of regional subsidiaries in key markets, such as Hong Kong, Singapore, India, the United Arab Emirates and Africa.

Activist Influenced Companies

ABB Limited - Cevian has taken a stake of 5.1%. Finanz und Wirtschaft writes this week that it is not unconceivable that the Swedes increase their stake further. The paper asks, what Cevian could have in mind and comes to the conclusion that a split up, i.e. a separation of the Power business, is not unrealistic. Analysts, however, stress the fact that a separation is impossible without destroying the cross-selling potential. The company itself stresses it can offer automation technology and power technology – all from within its one group.

Zoetis - Dow Jones reported late Thursday that Valeant had made a preliminary takeover approach for Zoetis but thereafter the reaction was muted and the earlier price gains retreated on Friday.

Canadian Dividend Payers

Rogers Communications officially announced they have acquired Mobilicity and completed the Shaw (SJR) spectrum transfer -- RCI will swap licenses with Wind to achieve contiguity and retain ~55% (net) of the acquired spectrum -- the transactions have been approved by Industry Canada (IC) and the Ontario Court – overall, a good move for Rogers in our opinion as it receives tax losses and additional usable contiguous spectrum at a reasonable valuation that allows it to offer more speed and capacity for its subscribers – and overall, a good compromise for the industry as well -- Wind gets free spectrum and a path to LTE which enhances its chance to be a sustainable 4th operator.

Global Dividend Payers

Bunzl - Organic growth was 1.6% in Q1 and c1.1% in the first half, implying Q2 saw growth of c0.5%. The reduction is due to a slowdown in North America, a consequence of some lost work and price deflation on plastic products resulting from a lower oil price. The drag will continue into Q3 but they are essentially temporary and volume growth otherwise has not reduced. Trends outside of North America continue in a similar vein to the level seen in Q1. Run rate of acquisition spending would imply highest in over 15 years: Spending in the year to date has been c£215m, more than in the whole of 2014 and the pipeline is said to be very healthy. At this rate 2015 could be even more active than 2004 when Le Goff was acquired for £220m. Average spend in 2015 is 8x EBITA, above the mid 7x of the past few years but management believes the quality of companies bought this year is high and sees no increase in pricing generally.

Carnival reported adjusted EPS of $0.25 vs consensus of $0.15. Carnival's operational execution continues to outweigh headwinds from currency. We are encouraged by net yield growth of 4% YoY (versus guidance of 2%-3%) as Carnival is executing on its firm commitments around pricing. Two years into the job, we think Arnold Donald has proven he can make considerable changes to the organization and that the turnaround is firing on all cylinders. In our view, the Carnival and Costa brands have improved considerably, while announcements such as Fathom and LNG powered ships highlight that the company is thinking outside of the box. Over the next few years, we think Carnival will continue to create shareholder value through initiatives such as improving its dynamic pricing system and promoting regional price coordination between its brands. We are always mindful of event risk; however, barring unanticipated news the industry remains very attractive, with reasonable valuations.

Nestlé announced the appointment of a new CFO, François-Xavier Roger, effective from 1st July 2015. This follows the announcement in April that the previous CFO, Wan Ling Martello, has been appointed Head of Zone AOA, effective from 1st May 2015. Prior to this role, Roger was CFO of Takeda Pharmaceutical, based in Tokyo. Other previous positions include: CFO of Millicom (2008-2013); Head of Treasury and Tax for Danone (2006-2008); and CFO for Danone Asia (2000-2006). He has also worked at Sanofi and Roussel-Uclaf in the Pharmaceutical industry.

Syngenta - Chairman Demaré's interview on the Monsanto proposal re-confirms the board's belief it would be irresponsible to engage on the proposal as it significantly undervalues Syngenta, underestimates the execution risks (e.g. Monsanto's view on antitrust is too simplistic) and the break fee is far too low given the risks and the fact that a combined company would be operational in 2017 only. Also confirms that only external counsels have met with Monsanto. Lastly, a UK domicile would be less competitive as Syngenta today enjoys many benefits with its Basel domicile, particularly tax. Mr. Demaré believes the proposal came at a time when Syngenta's share price was "unfairly affected" by external factors (EM FX, low commodity prices). The non-cash part would also expose shareholders to the performance of Monsanto. The Syngenta Board is enthusiastic about its pipeline, confident in improving seeds margins and the cost program is gaining traction. Syngenta is a global company (EM >50%) and the board believes a merger would only improve critical mass in corn and soy and in the Americas. Without an improved offer the board and management will not engage in any high-level talks with Monsanto. The overall situation remains unchanged, the next move is up to Monsanto.

Tesco has reported a 1Q UK Like-for-like sales decline of -1.3%, modestly ahead of the -1.7% decline in 4Q. Volume growth of 1.4% is a little higher than the 1.2% seen in the prior quarter. International sales were also a little better than expected. According to consensus (VUMA), the market expects Tesco to deliver a UK LFL sales decline of -0.9% in 2015/16. Although the comps for the remainder of the year are overall similar to 1Q, if volume momentum continues to build – and lower deflation lends a hand – then the company may be able to beat current expectations. The statement includes a number of gently encouraging points, although adds nothing on the topic of divestments, but we had not expected this. UK performance was stronger and the -1.3% LFL reported by Tesco is better than the most recent LFL sales reported by Sainsbury (-2.1%), Morrison (-2.9%) and ASDA (-3.9%). In fact, it has been at least seven years since Tesco has been able to claim quarterly LFL leadership of the 'big four'. This is an encouraging soundbite, even if the number remains negative. International picture generally encouraging: Asian LFL sales were -3.0%, Central European LFL sales were +2.2% and Irish LFL was -4.4%. As expected, there was a very negative FX impact in Europe, almost offset by a currency benefit in Asia. There was no impact from the MERS situation in Korea, although note that this quarter ended almost four weeks ago (30 May). Irish LFL sales showed improvement, though remain clearly negative.

Economic Conditions

U.S. economy fared a little better (or less worse) in the first quarter than previously thought, though it still contracted slightly at a 0.2% annualized rate (revised from -0.7%). Final sales were revised higher (-0.6% from -1.1%), while most expenditure areas were raised, though they still showed weakness. Non-residential construction still fell 18.8% due to the collapse in oil drilling, exports sank 5.9% because of the mighty dollar and port disruptions along the West Coast, and state and local government's still cut spending for the first time in a year. On a more positive note, consumer spending was bumped up modestly to 2.1%, though this is less than half the prior quarter's pace, and residential construction was marked up to a solid 6.4% rate. On the bright side, real GDP is still up a robust 2.9% in the past year. And, Q1 could have fared even worse considering a number of one-off hits, including bad weather and shipping disruptions. We believe growth should remain near 3% in the second half of the year as the dampening effects of a strong dollar and oil industry slump fade somewhat, while the push from stronger consumer spending and housing markets gathers steam.

U.S. personal spending jumped 0.9% in May, on the high end of the range of expectations and the largest increase since August 2009. In real-terms, the gain (of 0.6%) was also impressive, along with the upward revisions that dated back to the start of the year. So the story of the U.S. consumer taking a breather in Q1 after spending at the fastest pace in Q4 in nearly a decade holds. We now have 2 out of 3 months of Q2 and it looks like the consumer is re-energized as spending rebounded at about a 3% annualized pace in Q2.

U.S. durable goods orders were weak in May, with the 1.8% drop worse than what consensus was calling for. However, the headline can be swayed by the transportation/airline industry. And there was a large drop in Boeing's orders for the month, which had a decidedly negative impact on the headline figure. Excluding transportation, durable goods orders were in-line with expectations, up 0.5% in May after dropping 0.3% in the prior month. By category, there were weaker results for computers, transportation, electrical/appliances, mixed in with stronger results for electronics, machinery, metals, communications.

U.S. new home sales rose for the 2nd consecutive month. Sales grew 2.2% in the month to 546,000 units annualized, the highest since February 2008. There were sizeable upward revisions to the three months prior…….totalling 34,000. Inventories were unchanged in the month, and the y/y trend has slowed to +6.2%, the smallest increase in over a couple of years. Along with the jump in sales, this took the months' supply of new homes available for sale to 4.5 months, the lowest since mid-2013. And, it speaks to some of the results from a few homebuilders lately, who have reported higher orders. Although the current level of sales is still far from the 700,000 level that we consider healthy, there is still room to move higher.

UK Government Debt: A rise in income tax and VAT receipts helped to cut UK government borrowing in May, official figures have shown. UK government borrowing fell to £10.13bn in May, the Office for National Statistics (ONS) said, down from £12.35bn a year earlier. It was the lowest borrowing figure in May for eight years. Public sector net debt excluding public sector banks now stands at £1.5tn, the ONS said, which is 80.8% of gross domestic product (GDP). Income tax receipts recorded their highest level for May in four years, rising £0.5bn, or 5.3%, from a year earlier to £10.8bn. VAT receipts rose by £0.6bn, or 5.6%, to £10.7bn. The ONS also said that it now estimated total public sector borrowing in the financial year to March 2015 was £89.2bn, or 4.9% of GDP. While this figure was slightly higher than the previous estimate, it was still £9.3bn lower than the previous year's total. (Source : BBC News).

Greece - Greek Prime Minister Tsipras surprised EU leaders by unilaterally breaking off negotiations late on June 26th & called for a referendum (whether to accept or not the terms of the country's creditors' proposal). Greek lawmakers on Sunday voted for Greek PM's decision, with 178 votes in favour and 120 against. The Eurogroup rejected Greece's application for a short term extension, noting the referendum was due Sunday July 5th, after the expiration of the programme on June 30th. The Eurogroup withdrew its draft proposal that Greece is putting to Referendum. The Eurogroup made a statement that the euro area authorities stand ready to do whatever is necessary to ensure financial stability of the euro area. A Greek decree circulated late on 28 June 2015, which announced capital controls are to be imposed in the Greek market effective 29 June 2015. In addition, a bank holiday starting from Sunday 28 June 2015 to Tuesday 7 July 2015, has also been announced and maximum ATM withdrawals of €60 per day (from Tuesday). The ECB did not increase the ELA (Emergency Liquidity Assistance) program but maintained all options open. Greek brokers report they are awaiting details this morning from the Greek regulator as as to status of pending unsettled trades on Athens Stock and Derivatives Exchanges. The EU Commission published on Sunday what it said were the last proposals creditors made to Athens before Greece broke off talks. The aforementioned proposal has basically four improvements:

1) It reduces the VAT for hotels to 13% from 23% originally proposed by the institutions,

2) It gradually phases out the solidarity grant (EKAS) for all pensioners by end-December 2019 rather than 2018,

3) Early retirement: Replaced by June 30 as the date of the measure with the phrase "at the earliest",

4) Parafiscal charges: abolition of only non-contributory charges.

According to the Greek newspaper kathimerini, this latest proposal will be valid until the night of June 30, i.e. until the expiration of the current bailout programme.

Financial Conditions

China has ordered the fourth official interest rate cut in just seven months, as policymakers become increasingly concerned about the nation's volatile equity markets and the prospect the country could miss its official growth target this year. In a statement at the weekend, the People's Bank of China said the official cash rate would be reduced by 0.25% to 4.85%, the lowest rate in more than five years. The one-year deposit rate was cut by the same amount to 2%.

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 1.73% 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 4.04% (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 13.42 (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, Barclays, Scotiabank,Bernstein

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