Market Commentary

PORTLAND INVESTMENT COUNSEL®

July 13, 2015

Energy Sector

Crescent Point – announced that it had filed a preliminary short form base shelf prospectus with the securities regulatory authorities in each of the provinces of Canada, and a corresponding registration statement with the United States Securities and Exchange Commission. Filing of the prospectus is expected to increase Crescent Point's flexibility in future financings and is normal practice for a company of Crescent Point's size. It is also expected to assist the Company in expanding the size and scope of its shareholder base. The prospectus will allow Crescent Point to offer and issue common shares, subscription receipts, warrants, options and debt securities by way of one or more prospectus supplements at any time during the 25-month period that the prospectus remains in place. The securities may be issued from time to time, at the discretion of Crescent Point, with an aggregate offering amount not to exceed $2.5 billion (Canadian). Crescent Point intends to use the net proceeds from the sale of any of the securities for general corporate purposes, repayment of indebtedness and/or the direct or indirect financing of future growth opportunities, including acquisitions and capital expenditures. Crescent Point was listed in the US in early 2014 and was planning on filing a base shelf prospectus in late 2014; however, due to market conditions the shelf was postponed until 2015.

Royal Dutch Shell – The Dutch government said on Friday it would ban shale gas drilling for five years and not renew existing exploration licences due to uncertainties about the environmental impact. The decision comes as the Netherlands steps up its search for alternative energy sources in the wake of shrinking domestic natural gas supplies and strains in its relationship with major energy supplier Russia. "There will be no shale gas drilling during this government period," a statement said. At the end of 2015 the government will decide on the role of shale gas in the country's long-term energy mix. "It is still unclear how much shale gas there is and if its extraction would be financially feasible," it said. "Research shows that there is uncertainty about the effect shale gas extraction would have."

Royal Dutch Shell has acquired Morgan Stanley's European gas and power trading book as the U.S. bank continues its exit from the sector. Shell is set to significantly increase its footprint in the gas market in the coming years if it completes its proposed $70 billion acquisition of smaller British rival BG Group and as part of a growing strategic alliance with Russia's Gazprom, the world's top gas producer. Shell Energy Europe, its supply and trading arm in the region, has signed a binding sales and purchase agreement for Morgan Stanley's portfolio, the Anglo-Dutch company said on Friday, without providing further details. The deal includes only Morgan's trading book and no staff, according to several sources. Morgan Stanley, once one of the most powerful Wall Street banks in commodities trading, has drastically reduced its exposure in the sector due to regulations limiting banks' proprietary trading in markets such as oil or metals. The bank has sold its oil trading business to Castleton after its deal with Russia's Rosneft collapsed due to Western sanctions on Russia. Morgan's liquefied natural gas (LNG) team left for Glencore.

Pacific Rubiales announced the termination of the proposed takeover offer from Alfa, S.A.B. de C.V. and Harbour Energy that will leave the company to continue pushing forward in a challenging environment -- with the deal falling through and with PRE's high debt levels / limited growth visibility, its anticipated the stock will suffer in the near term and potentially into 2016 as it will need to redefine itself via further assets sales / debt repayment – we anticipate the focus will now shift to maintaining the company's production profile in the context of its hefty debt load -- management previously reported that the team expects debt to weigh should the transaction fail and the team would pursue asset divestitures to pay down debt.

Financial Sector

Ares Capital extended the maturity date of its Sumitomo funding facility to 2022, with the reinvestment period now slated to end in 2017, and reduced the pricing from LIBOR plus 200 bps to LIBOR plus (117.5 bps or 200 bps, determined by usage. Ares also invested $40 million in LSQ Funding, a technology based provider of invoice/receivables financing.

Barclays Plc said it has spent more than $150 million to develop a resolution plan for its U.S. operations that would allow it to be wound down if it hits trouble, and warned of further extra compliance costs ahead. In a submission to the U.S. Federal Reserve outlining plans for its so-called "living will" released on Monday, Barclays said it expects to incur further costs from the need to set up an intermediate holding company for its U.S. business by July 2016. (Source: Reuters).

Barclays - Sky reports that Barclays is in talks with potential buyers of its retail operations in Italy and Portugal (although, it looks to be very early stage). These businesses sit in Non-Core so this is in line with an 'accelerated' strategy execution. The businesses have 90 and 85 branches, respectively.

Barclays announced departure of CEO Antony Jenkins with the appointment of John McFarlane as Executive Chairman; a search for a new CEO is underway. It is clear that Mr Jenkins was pushed by Board, not voluntary. His challenges in implementation and subsequent poor performance of Barclays as an investment (albeit only underperformed the sector by -4% since he arrived) were all to do with the legacy of a recalcitrant Investment Bank and lack of any serious support from a Board or senior team that had spent the previous 10 years in awe /blinded by charisma of Bob Diamond – Barclays previous CEO and previous boss of Barclays Capital. Clearly new chairman McFarlane has taken more aggressive action to fix. To be fair, Jenkins was dealt a tough hand when taking over (IB declared UDI and CFO that had checked out). Mr. McFarlane's assessment of Barclays: "a standout brand with first-class retail, commercial and investment banking businesses. Nevertheless, we are leaving value on the table and a new approach is required. As a Group, if we aspire to bring shareholder returns forward, we need to be much more focused on what is attractive, what we are good at, and where we are good at it." We do not think that the new CEO will be internal, but at this point, cannot think of an obvious successor. Taking McFarlane's comment at face value, the obvious areas of acceleration would be (1) run-down of the Non-Core unit, (2) improving returns in the Investment Bank, and (3) accelerated cost cuts. As we think the underlying earnings power of the group is being masked by the losses generated in the Non-Core business, we welcome an acceleration.

Berkshire Hathaway – PLICO Inc., one of the Southwest's premier healthcare liability insurers, the Oklahoma State Medical Association (OSMA), and Berkshire Hathaway's MedPro Group (MedPro) announced the signing of definitive agreements for the sale of PLICO to MedPro. "Joining Berkshire Hathaway's MedPro Group emboldens PLICO's expansion efforts by providing additional opportunities not available to us before," said Carl Hook, M.D., President and CEO of PLICO. Based in Oklahoma City, PLICO serves approximately 2200 healthcare providers in Oklahoma; it has annualized gross written premiums of about $30 million and had statutory surplus of over $60 million at year-end 2014. Warren Buffett, Chairman of Berkshire Hathaway, said: "Over the last decade, we have acquired Medical Protective, Princeton and now PLICO, and we are absolutely delighted with each of these acquisitions. Today, our MedPro Group is not only the nation's leading healthcare liability company, providing peace of mind to the nation's healthcare providers, we are also now a favored solution for owners of healthcare liability insurers who seek the world's most stable home for their company and policyholders in a very unstable and changing healthcare landscape."

Warren Buffett on Monday donated about $2.84 billion of Berkshire Hathaway Inc stock to the Bill and Melinda Gates Foundation and four family charities, as part of the billionaire's plan to give away nearly all of his wealth. The 10th annual donation, Buffett's largest, comprised 20.64 million Class "B" shares of Berkshire, and increased Buffett's total contributions to the charities to more than $21.5 billion. The Gates Foundation, which focuses on improving education and health and reducing poverty, received about 15.76 million shares, or 76% of the total donated. Buffett, 84, still owns 18.8% of Berkshire's stock. Forbes magazine on Monday estimated that would give him a net worth exceeding $64 billion, ranking fourth worldwide. Most of Buffett's holdings are in Class "A" stock, which gives him 32.9% of Berkshire's voting power. Buffett typically makes his donations in July, reducing the number of shares by 5% from the prior year. The charities typically sell donated shares to finance their activities, reflecting Buffett's desire that the money be spent. Buffett also makes smaller donations to other charities.

HSBC - the Globe and Mail reported that HSBC Holdings PLC is shrinking its global footprint, cutting its assets and slashing thousands of jobs. But its commitment to being an international bank remains strong – and it is staying particularly focused on Canada. Simon Cooper, head of HSBC's global commercial banking, said that being internationally diversified still offers a strong competitive advantage to the bank because it appeals to clients who are focused on expanding into global markets. "I get to go around the world talking to people who run businesses," he said. "What are they looking for? They are looking to expand, they are looking to trade and, ultimately, they are looking to manage their working capital." These clients want to deal with as few financial institutions as possible, which is why HSBC offers itself as a one-stop shop: Mr. Cooper said it operates in 80% of the world's trade corridors. "There are a couple of markets that we don't want to be in longer-term," Mr. Cooper said, alluding to the for sale signs placed on the bank's units in Brazil and Turkey. "But we do want to be in Canada. Canada is a hugely important market for us." Canada has a very important role in global trade and is well-placed to benefit from growth in China, where the pace of economic expansion is slowing but the economy remains a significant engine for global growth. "It comes back to the client," Mr. Cooper said. "Where is world growth going to come from? It is going to come from Canadian companies looking to expand."

The UK Budget introduced some important changes for UK banks: (1) a phased reduction in the UK banks levy from the current 0.21% to 0.10% from January 2021, (2) a change in the scope of the levy to UK liabilities only from January 2021, (3) a 2-step reduction in the UK corporate tax rate to 19% in 2017 and 18% in 2020 (4) a new tax surcharge on bank sector profits of 8% from January 2016. In aggregate, the Treasury estimates that the changes mean an additional £2bn revenues over the forecast period, with the long-term tax for the UK banks set at 26% (18% underlying tax + 8% surcharge) plus the additional 0.1% bank levy on UK liabilities. In broad terms, these changes rebalance the tax burden towards UK domestic banks and will fix the rates from here. On (heavily caveated) preliminary numbers, it is estimated a negative earnings per share impact of 4-8% for the domestic banks (like Lloyds Bank) in 2017E and -5% to +3% over the longer term. HSBC and Standard Chartered are we believe, possible beneficiaries over the longer term with +3% - +9% impacts on earnings Per share, respectively.

Canadian Dividend Payers

Brookfield Property Partners LP – our updated 'company profile' on this company is now on our Portland website – under the 'Resources' tab.

Brookfield Infrastructure Partners – Canada's Brookfield Asset Management has approached Australia's Asciano Ltd with a $6.8 billion takeover bid. If successful, the deal would be the seventh-largest inbound takeover of an Australian company, and would follow the A$6.5 billion ($5 billion) purchase of Asciano's former parent company, Toll Holdings, by Japan Post this year, underscoring huge international appetite for Australia's infrastructure. Asciano said it was now in exclusive talks with Brookfield, Canada's largest alternative asset management company, over its indicative cash and scrip bid of A$9.05 per share that values the company at A$8.8 billion, but cautioned that the discussions were at an early stage. The offer price represents a 36% premium to the stock's Tuesday close. Although haulage volumes in Australia have been hit by the end of a two-decade mining boom, Asciano's A$3 billion equipment overhaul has positioned it well for potential growth. Brookfield's proposal was made through its listed fund Brookfield Infrastructure Partners. In a statement, Brookfield Infrastructure said talks with Asciano were ongoing and that it did not intend to provide further updates until appropriate. Brookfield has a 5,500 kilometre (3,420 miles) rail network in the state of Western Australia. This year, it was part of a consortium that bought oil and gas firm Apache Corp's exploration and production businesses in Australia.

Global Dividend Payers

ABB has decided to sell its US high voltage cable plant in Huntersville, North Carolina. The $90m facility, opened three years ago, employs a workforce of 135. In light of the slower-than-expected demand for underground cables, the plant did not deliver the expected results. ABB will cooperate with Southwire on future projects. This leaves ABB's cable activities focused in Europe, where the main focus lies on subsea cables. ABB will book a loss on the transaction within the Power Systems division in Q3.

CK Hutchison Holdings Limited and Cheung Kong Property Holdings Limited : following the improved transparency with Li Ka-Shing's business empire we have updated our 'company profile' on these two companies which is now posted on our Portland website – under the 'Resources' tab.

Novartis - the FDA approved Novartis LCZ696 for Chronic Heart Failure with reduced ejection fraction (HF-REF). Approval came 6 weeks ahead of the PDUFA date. The drug will launch shortly with the brand name Entresto. The rapid approval and positive label underpin our view that the mid-term underlying margin leverage and earnings per share potential growth at Novartis is likely underappreciated as LCZ696 and Cosentyx help drive top line growth.

Procter & Gamble announced that it accepted Coty's offer of $12.5 bn to merge 43 of its beauty brands with Coty. The transaction, which is expected to be completed as a Reverse Morris Trust, consists of P&G's Salon Professional (Wella), Retail Hair Color (Clairol), Cosmetics (CoverGirl, Max Factor) and Prestige Fragrance businesses. Following the closing of the deal, which is expected to be completed by the second half of calendar 2016, P&G will have a portfolio of 65 brands in 10 categories. Businesses included in the RMT amounted to $5.9 bn in revenue and $800 mm in EBITDA in FY14. P&G will report these businesses as discontinued operations in FY16 and plans to issue an 8K with appropriate restated historical financials. P&G also announced that it is targeting to pay dividends and retire shares worth up to $70 bn over the four year period FY16-FY19, which includes shares eliminated as part of the RMT transaction and the previously announced Duracell transaction as well as up to $25 bn of discretionary share repurchase. The company expects to maintain its current credit rating. P&G expects modest Core EPS dilution of ~$0.02-$0.03/sh in FY16 (i.e. prior to closing) related to transition activities. Post closing on an annualized basis, P&G expects to be able to fully offset the lost earnings from the RMT brands by virtue of shares retired as part of the transaction and overhead reductions.

Economic Conditions

US – The US balance of trade worsened in May, to $41.9 billion deficit, though less than the expectations for a $42.6 billion deficit reading. Exports fell by 0.8%, despite a marginal weakening in the US greenback over the period, while imports were 0.1% lower in the month, with a 3.0% increase in the import of vehicles and parts being out-weighed by lower imports of food, materials, industrial supplies and capital goods.

The US consumer credit grew by only $16.09 billion in May, falling short of the expectations for a $18.50 billion advance and decelerating from April's $21.40 billion reading.

Canada – Canadian economy lost 6,400 jobs in June, marginally better than the expected 10,000 positions pull-back, with full-time positions actually increasing by 64,800 in the month, while part-time jobs were 71,200 fewer in the month. The headline unemployment rate held steady, at 6.8%, a touch better than the expected increase to 6.9%. The private sector lost 26,300 positions, with gains driven by an increase in public sector jobs. Jobs were lost in manufacturing and hospitality in the period, while the construction, healthcare and retail sectors gained payrolls in the month.

Canada's foreign trade balance continued its disappointing streak with a $3.34 billion deficit for May, as exports dropped by 0.6%, dragged lower by exports of metals and metal products, offset by a jump in aerospace and auto exports, but also an advance in energy exports. Imports, meanwhile, inched higher by 0.2%, led by imports of chemical products and energy.

On the Canadian housing front, the new housing price index advanced by 0.2% in May, ahead of the expected 0.1% and exceeding April's 0.1% improvement, while housing starts also exceeded expectations, jumping to 202,800 units annualized. Conversely, building permits took a dive in May, down 14.5%, considerably weaker than expected.

The Globe & Mail reported last week that current Canadian business sentiment paints a picture of two economies, according to a Bank of Canada report on Monday, with cheap oil depressing the outlook in petroleum-related industries, but with some promising signs elsewhere. The central bank's quarterly business outlook survey showed indicators of upcoming business activity remaining low but edging up modestly, supported by a generally positive U.S. outlook. "However, sales expectations deteriorated sharply in energy-producing regions, where the oil price shock continues to weigh importantly on business sentiment," the bank said of its survey, taken from May 15 to June 10. The business outlook survey said balances of opinion on investment and hiring intentions were still weak, and the number of companies reporting labour shortages restricting their ability to meet demand remained low. It also noted that many companies reported that the lower Canadian dollar was a welcome development with positive effects on sales. The weaker currency was having a mixed impact on investment decisions, causing restraint among those facing higher costs for imported machinery, but boosting plans among some exporters that are enjoying higher margins on their U.S.-dollar-denominated sales. The business outlook survey pointed to an easing of credit conditions over the past three months, but a separate survey of senior loan officers showed business-lending conditions broadly unchanged.

Greece and Eurozone leaders reach unanimous agreement on a new €86bn deal. With around €25bn in existing Greek funding needs through September, but less than €4bn from October to June 2016, this should, we believe, remove Greek risks for the next year. After 17 hours of negotiations that ran through the night of the longest Euro Summit ever, leaders this morning announced a unanimous deal for Greece. There are a number of details still to be released, but this Greek deal was never about the details for markets. It was, we believe, about the simple fact of getting any deal that removed Greece from being a headline risk. Pending any last minute collapse, that has been done. So it's back to business as usual for markets, even if the negotiating process that Syriza chose to follow has proven we believe horribly destructive for the Greek economy. After all, an economy that was going to require €8bn in further funding as of January just reached a deal for over €80bn. But even if Greece goes off-track again, their immediate funding needs are met and they have no further significant funding hurdles until July 2016. We'll likely have elections before then, but the big picture would be that every Greek party with any chance to be in any new coalition government will have voted for this week's deal. In terms of top level details on the deal at this stage:

- An €86bn European Stability Mechanism (ESM) program, including €25bn to recapitalize the banks, lasting 2-3 years. While the IMF will be "involved," it is not yet known as to whether they will be contributing funding. Regardless, while the IMF debt is never rescheduled, this program will allow maturing obligations with the IMF to be paid off with new funding, effectively extending the maturities.

Greece reportedly gave in on all structural reforms, including having assets to be privatized moved into a private fund (circa Euro 50 billion), though this fund will be Greece-based rather than externally.

- Discussions on re-profiling debt, but not debt foregiveness, would begin after the first successful review of the program, which would mean after October at the earliest.

In terms of next steps:

- The Greek Parliament will have to approve the deal in full,, including up to six prior actions on tax (including VAT) and labour (including pension) market reform, by Wednesday (these reforms were rejected by voters in last weekend's referendum).... but opposition parties are indicating they will vote to accept the deal.
- The Eurogroup would agree to start formal negotiations on a Memorandum of Understanding for ESM program on Thursday.
- Other national parliaments that need to pass legislation for agreeing a deal would then do that by the end of the week or early next week, with weekend reports suggesting the Bundestag could bring it to a vote as early as this Thursday.
- Formal negotiations would take a few weeks to be completed, but there will reportedly be bridge financing provided to help Greece meet its obligations falling due this month.
- Some have been concerned about whether this deal will pass through Parliaments but in our view that seems like a foregone conclusion at this point. German Chancellor Merkel will recommend that this deal is passed in the Bundestag and while there will be dissent, this will pass in our view. There may be a risk to the Finnish government as the True Finns have suggested they would pull out of the coalition, but even failure to pass the deal there would not prevent it from going forward. And in Greece, we will once again see the opposition support the deal so it will pass. With 17 members of the government having voted against or abstained from the weekend vote, however, it is very likely there will need to be a reshuffling of the government. That may be a concern with only a 12-seat majority, especially as To Potami has reportedly said they would not join a coalition now with Syriza. But that stance could change, or PASOK may be a possible partner, but this is all keeping with a view for several months that any deal would ultimately require political change in Greece. So the big picture is funding constraints have been met. Greece has around €25-30bn in funding needs through September, but less than €4bn from there to June 2016, even with a high risk this deal goes off track, there will once again be a longer fuse to the next crisis. Capital controls will be in place for many months, but may actually help with debt collection by forcing more transactions to monitored, electronic payments.
- UK - Consumer spending grew 4.9% y/y in June, nearly the fastest levels seen since October 2011, according to the latest data from Barclaycard. This marks continued strong improvement in consumer spending seen in May (4.2% y/y), April (+4.5% y/y) and March (+4.0% y/y).

Financial Conditions

Reserve Bank of Australia - kept rates unchanged at 2% with no further explicit easing bias present.

UK interest rates have been held at 0.5% again by the Bank of England's Monetary Policy Committee. Rates have now remained on hold for more than six years and the Bank is not expected to raise them until late this year / early next year. Inflation, as measured by the Consumer Prices Index, was all but flat at 0.1% in May. That was up from -0.1% in April but well below the Bank's 2% target. However, in the Bank of England's inflation report in May, Governor Mark Carney warned that inflation was expected to pick up notably towards the end of the year.(Source:BBC News).

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 1.77% and the UK's 2 year/10 year treasury spread is 1.52% - 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 15.26 (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, Credit Suisse, Barclays, Macquarie, Raymond James, Scotiabank, TD

Source: Thomson Reuters, Bloomberg, KBW, Credit Suisse, Barclays, Macquarie, Raymond James, Scotiabank, TD

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.

Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel.:1-888-710-4242 • www.portlandic.com • info@portlandic.com

PIC15-035-E(07/15)