News Highlights

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PORTLAND INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments

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Energy Sector

Baytex Energy – announced an in-line set of results for its second quarter, as a reduction in production driven by curtailments in exploration and development expenditures was offset by higher WTI (West Texas Intermediate) crude prices during the quarter and lower costs. Production of 84,812 boed (barrels of oil equivalent per day) was in the range of the company guidance of 84,000 to 88,000 boed for the year. Production decreased 4% in Eagle Ford to 39,548 boed, while Canadian production was 9% lower to 45,264 boed due to significantly lower spending in the country. Funds flow from operations of $0.77/share were ahead of the consensus of $0.73/share, supported by improvements in WTI and tighter WCS (Western Canadian Select) spreads. Corporate level operating net-backs were $20.66/boe before hedging and $25.85 including hedging, up 49% from the first quarter before hedges. Eagle Ford net-backs were $25.45/boe, up 17%, while Canadian net-backs were $16.48, up 124%. Capital expenditure guidance of $500 to $575 million for the year was unchanged, including plans to go ahead with the planned $117.5 million of capital expenditures for Canada for H2. The company maintains a hedging program, including hedging of about 24% of Q3 production, at US$80/boe, 19% for Q4 at US$78/boe and 13% for 2016 at US$64/boe.

Chevron Corp – Weak oil prices severely cut quarterly profit at Chevron and Exxon Mobil Corp, compelling both companies to rethink operations and plan for what many expect to be a sustained period of cheap crude. Earnings at U.S. oil majors Exxon, which were the worst in a decade, and Chevron missed analysts' expectations, adding to concerns that perhaps executives had not acted quickly enough to mitigate the impact of an over-50-percent drop in oil prices since last summer. Chevron still plans to spend $35 billion this year, but said it would spend less in 2016 and 2017 as several mega projects come online. Exxon and Chevron's European peers such as Royal Dutch Shell Plc and Total SA have taken more aggressive action. BP Plc cut its budget for the second time this year, while Shell said it would lay off 6,500 workers. Exxon's profit fell by more than half, with the biggest drop in its exploration and production business, where earnings slumped by nearly $6 billion. Chevron's profit dropped 90%, exacerbated by a $2.22 billion loss in its exploration and production division. Pat Yarrington, Chevron's chief financial officer, said the company had slashed about $3 billion in spending so far this year and wasn't done.

Royal Dutch Shell announced it is cutting 6,500 jobs this year and step up spending cuts as it seeks to reassure investors it can withstand an extended period of lower oil prices, even through its planned $70 billion acquisition of BG Group. The Anglo-Dutch company also announced plans to raise $50 billion from asset sales between 2014 and 2018 after its second-quarter profit dropped by 37%. Shell said it anticipated 6,500 staff and direct contractor reductions globally in 2015 from a total of nearly 100,000 employees, as it grapples with a halving in oil prices to around $55 per barrel in a year. Like rivals BP, Statoil and Total it announced reductions in capital investments for a second time this year, shaving another $3 billion off its 2015 budget to bring it to $30 billion. Around 20% to 30% of the $30 billion of asset sales expected between 2016 and 2018 will come from the downstream and midstream businesses, Shell said, leaving the expanded Shell-BG group to focus on fewer but larger and more competitive assets. Shell will only make two major investment decisions this year, with many projects scaled back, delayed or cancelled. The company said it was selling a 33% stake in the Showa Shell refinery in Japan to Idemitsu for about $1.4 billion. Shell's second-quarter "cost of supplies" earnings excluding identified items -- the company's definition of net income -- came in at $3.84 billion, down from $6.13 billion a year earlier and $3.25 billion in the previous quarter. That beat expectations of $3.18 billion, according to an analyst consensus provided by the company. A sharp decline of around 75% in revenue from oil production was once again offset by refining and trading, where earnings more than doubled from a year earlier. Shell maintained its quarterly dividend at 47 cents per share and committed to rewarding shareholders with at least the same payout in 2016.

Total – French oil company posted a higher than expected second-quarter profit, helped by increased refining margins in Europe and accelerated cost cuts to adjust to a low oil price environment. Europe's second biggest oil company reported adjusted net profit of $3.085 billion, beating analyst expectations of $2.61 billion and only a 2% decline from a year ago, since when crude oil prices have collapsed by 44%. Total said it was expecting to exceed its cost reduction target of $1.2 billion this year, a goal it has already raised from $800 million. It confirmed its aim to cut capital spending to $23-24 billion this year from $26.4 billion in 2014. Total has sought to use the cash to strengthen its balance sheet and said its gearing was down to 26% at the end of June from 31% at the end of last year. Oil companies are cutting spending on exploration and have cancelled projects in high-cost areas such as Canadian oil sands after the oil price collapse, to protect shareholder returns. Total, like its rivals, said it was keeping its dividend unchanged, at €0.61 per share. Profits at Total's downstream refining and chemicals sector tripled, while oil and gas output rose from a year ago thanks to new start-ups and the renewal of an Abu Dhabi concession. At 2.299 million barrels of oil equivalent, output was slightly lower, however, than the first quarter due to the shutdown of a liquefied natural gas plant in war-torn Yemen. The jump in refining and chemicals profits to $1.3 billion from $401 million, shows how integrated oil companies can weather lower oil price by offsetting income falls from exploration and production with higher margins on gasoline and diesel sales. Total also said market conditions remained favourable at the start of the third quarter.

Financial Sector

Ares Capital Corporation – For the second quarter of 2015, Ares Capital reported GAAP net income of $146.5 million or $0.47 per share (basic and diluted), core earnings per share of $0.37 (basic and diluted), net investment income of $108.5 million, or $0.35 per share (basic and diluted), and net realized and unrealized gains of $38.0 million or $0.12 per share (basic and diluted). As of June 30, 2015, total assets were $9.1 billion, stockholders' equity was $5.3 billion and net asset value per share was $16.80. In the second quarter of 2015, Ares Capital made $820.3 million in new commitments, including commitments to ten new portfolio companies, eight existing portfolio companies and three additional portfolio companies through the Senior Secured Loan Fund LLC. In the second quarter of 2015, Ares Capital exited approximately $783.1 million of investment commitments. As of June 30, 2015, the weighted average yield of debt and other income producing securities in the portfolio at fair value was 10.6%, while the weighted average yield on total investments in the portfolio at fair value was 9.6%. Ares Capital Corporation has declared a third quarter dividend of $0.38 per share.

Barclays - Ex 'Costs To Achieve', underlying PBT was £2045m, +6%/£121m vs consensus. The differences were £181m higher income, £58m higher costs, £44m lower impairments and £46m lower other net income. After CTA of £196m and a number of 'one-off' items which net to -£72m, statutory PBT was £1777m. Income was £6552m (+3% vs consensus) driven by the Core Bank, which was better both at the Investment Bank and non-Investment Bank level. Capital progress is very strong with Core Equity Tier 1 +0.5% QoQ to 11.1% and the leverage ratio +0.4% to 4.1%. Tangible NAV, at 279p, suffered from reserve movements and was -9p QoQ. New guidance : (1) Non-Core assets of £20bn in 2017 (from £45bn in 2016), (2) cost/income in the mid-50's (no timescale) with revenue growing at least in line with the market, and (3) the 40-50% payout ratio has been scrapped, with a flat dividend (6.5p) in 2015 and 'sustainable and progressive' after that. The Core cost target remains at <£14.5bn, which is c£0.2bn lower than current consensus. All in all, we think these numbers are strong in all the right places, and enough to sustain recent outperformance.

The Core business was stronger than anticipated in 2Q15 (+6% vs consensus), in both the IB and non-IB and there are signs are that the latter is sustainable, in our view. The Investment Bank still has a lot to prove to justify the capital allocated to it (c8% RoTE adjusted for seasonality/levy) but is moving in the right direction on costs (-8% QoQ). While cost targets (£16.3bn group in 2015/<£14.5bn Core in 2016) were not lowered, achievement should at least underpin estimates into 2016. With Non-Core Risk Weighted Assets set to be reduced to £20bn and the 40-50% payout ratio abandoned, we now expect Core Equity Tier 1 at 12.8% by end 2017. Over time, dividend prospects are good we think, but will have to wait until capital is built.

BNP Paribas - 11% beat with positive trends in French Retail. Clean pre-tax €3.4bn vs 3.1bn consensus. Qualitatively the beat looks a little less impressive, being driven primarily by big q-o-q moves in just 3 (somewhat opaque) divisions, namely Belgian retail (28% ahead), Europe Mediterranean (86% ahead) and Corp Banking (44%). That said, the trends in French Retail are also encouraging. Although pre-tax only 2% ahead we note revenues are 5% ahead with nii growth +3% QoQ. Revenues are at their highest level since 2Q14 and posted first q-o-q increase in 6 quarters. Tangible Net Asset Value +2% q-o-q bucking trend of almost every other Euro bank this quarter, which have generally seen declines (on fx and revaluation losses. Capital ratios also ahead with 30bp capital generation (20bp from results, 10bp from €12bn Risk Weighted Asset reduction (FX and C/P) and Core Tier 1 at 10.6% vs 10.4% expected and positive 2% q-o-q decline in Risk Weighted Assets.

Commerzbank reported operating profit of EUR385m, 49% and 5% above 2Q14 and company compiled consensus. The beat mainly stems from better performance in Private business clients (PBC), where operating profit exceeded expectations by 45%, on higher mortgages and other recurring fees. Mittelstand, CEE and Corporate & Markets all fell short of market expectations by 10%, 20% and 5%. Nevertheless, the profitability of the Core bank improved 45% on an annual basis, also assisted by lower corporate centre costs. The Non-core assets (NCA) produced negative operating profit of EUR256m (EUR60m higher than consensus), albeit this included higher P&L impact from the recently announced CRE and shipping disposals. Overall, CBK's cost/income ratio came at 72.5%, in line with expectations but c. 5% better than 2Q15. The most positive part of the update was the Core Equity Tier1 capital ratio improvement to 10.5%, boosted by 1Q15 capital increase and EUR8bn Risk Weighted Asset reduction. The non-core CRE and shipping EAD reduced from EUR30bn to EUR27bn, on track to meet the EUR20bn target by the end of 2016. Separately, Frankfurter Allgemeine Sonntagszeitung reported CEO Martin Blessing would be offered a new contract from October 2016, when his current one expires.

HSBC - 2Q 2015 underlying Profit Before Tax was +5% vs consensus at U$6.1bn. The U$0.3bn difference to consensus breaks down as U$0.3bn higher income, U$0.1bn higher costs, +U$0.1bn associates. There was then a net +U$0.5bn of additional 'one-offs' to leave reported PBT at U$6.6bn. Underlying income was +2% vs consensus at U$15.4bn and underlying costs were +1% vs consensus at U$9.1bn. The sale of the Brazilian assets has been agreed at a far better price than had been anticipated and will lead to a pro-forma 0.5% benefit to Core Equity Tier1 (subject to closing in 2Q16). CET1 was +0.4% QoQ at 11.6% relative to consensus of 11.4%. Tangible Net Asset Value per share was U$7.79/499p per share.

First National Finance Corporation - Operating results came in better than expected with slightly higher than forecast origination volumes. Stronger-than-anticipated earnings were largely driven by higher-than-estimated placement fees and lower-than-anticipated opex. Total origination volumes of $5.1B came in a touch above estimates of $4.9B and were up 9% YOY, benefiting from a 5% increase in residential volumes and a 26% increase in commercial volumes.

Operationally, a stand-out in the quarter was the multi-unit residential and commercial volumes, which were the second-highest on record.

State Street reported operating basis EPS of $1.37, in-line with consensus. Operating results excluded $0.37 in legal provisions. It's estimate that lower than expected taxes added a penny to operating basis EPS, without which it is arguably a slight miss. Overall, the firm's results featuring high expense growth (7.5% y/y ex-FX translation), margin compression (~125bps lower y/y ex-FX translation) and lower Net Interest Margin were underwhelming in our view relative to strong reports by peers. Relative to 1Q15, results evidenced a 3% increase in fee income (sec finance), 1.6% decline in net interest income (Net Interest Margin -5bps), a 3% fall in expenses (on seasonal factors), a higher tax rate (+110bps) and a reduced share count (-0.5%). While it posted 134bp of negative leverage a y-o-y basis, it was +523bp sequentially. Assets Under Custody/Administration gained 0.6% from 1Q15 to $28.7trn, while Assets Under Management declined 2.8% to $2.4trn. New asset servicing commitments in 1Q15 totaled $143bn (-$71bn from 1Q) and net outflows were $65bn (-$27bn).

Royal Bank of Scotland – Clean operating profit of £1813m was +48%/£584m vs consensus. The differences were £254m higher income, £83m lower costs and £247m better impairment. However, there are a number of distorting items (+£46m in income and +£164m in impairment). After £1050m restructuring costs, £459m litigation costs and -£64m of other items, reported Profit Before Tax was £240m. The cost trajectory is encouraging (-3% QoQ) with £700m annualised savings achieved in 1H15 and the group confirms its £800m target for 2015. The 'go-forward' bank reported an adjusted Return on Tangible Equity of 16% (1Q15 14%), but will come down as impairments will normalise higher at some point (currently zero). Capital was strong (Core Equity Tier 1 ratio was 12.3% vs 11.9% consensus) with faster RWA reduction and a message that it intends 'substantive reduction' by end-2016, but end-point targets have been confirmed. While RBS confirms that it wants to return capital via dividends/buybacks, pending improved profitability, improved stress test results and litigation resolution, it does not expect to do so before 1Q17 at the earliest. Tangible NAV was 380p (consensus 382p) although we believe progress from here will be highly dependent on the timing of restructuring charges. Also the UK Govt has now commenced reducing its ownership with a stake (5.4%) sale of 600mn shares priced at 330p last night for £2.1bn in a matter of hours. Now subject to a 90 day lock up. Government's holding has reduced from 78.3% to 72.9%.

Activist Influenced Companies

Diageo the world's largest spirits company, signalled a turnaround this year, following two years of flat sales due to issues including wholesaler destocking and discounting in vodka. The London-based maker of Johnnie Walker whisky, Smirnoff vodka and Guinness beer on Thursday said organic net sales growth for the full year ended 30 June was flat, as it was the previous year. Analysts on average were expecting growth of 0.2%, according to a consensus provided by the company. Earnings per share before one-time items fell to 88.8 pence, from 95.5 pence a year earlier. That was below analysts' average estimate of 90.3 pence. "We see 2016 as a transition year," Chief Financial Officer Deirdre Mahlan told reporters, saying Diageo expects sales to grow this year, but not yet at the mid-single-digit level it forecast for the three years starting from fiscal 2017. Over those three years, its operating margin should expand by 100 basis points, Diageo said, as productivity gains are expected to free up a further £500 million.

Mondelez International Inc the maker of Cadbury chocolate and Oreo cookies, reported a better-than-expected quarterly profit, helped by lower costs and raised its share buyback plan by $6 billion. The company also raised its full-year revenue growth forecast. Mondelez said it expects organic net revenue to grow at least 3% for the year, up 1% from its prior forecast, boosted by price increases and higher spending on advertising. Higher cocoa and dairy prices forced the company to raise the price of its chocolates and coffee in some markets, leading to a backlash from some retailers and customers. Sales in Europe, Mondelez's biggest market, fell 16.7% to $2.82 billion in the second quarter ended June 30 from a year earlier. Mondelez also said it would stop including results from its coffee operations from its next quarterly report. The business was spun off into a joint venture with Dutch group D.E Master Blenders to create the world's biggest standalone coffee company this month. Mondelez said its buyback plan, under which it would now buy $13.7 billion of shares, would expire on Dec. 31, 2018. Excluding items, the company earned 47 cents per share in the second quarter. Mondelez has taken several measures to cut costs, including shutting factories and "zero-based budgeting," which requires managers to justify every expense in each new budgeting period. Net income attributable to the company fell 35% to $406 million, or 25 cents per share, in the quarter. Net revenue fell for the seventh straight quarter to $7.66 billion, down 9.2% from a year earlier, but beat the average estimate of $7.49 billion. Organic net revenue, however, rose 4.3%, helped by the price increases.

Zoetis – reported second quarter 2015 results, including adjusted earnings per share of $0.43, ahead of the analyst's expectations, while reported earnings were, in fact, a $0.07/share loss, impacted by $263 million of pre-tax charges. The company guided for full-year adjusted earnings per share of $1.63 to $1.68, while revenues were guided in the range of $4.7 billion to $4.775 billion. Revenues for the quarter at $1.2 billion were also mildly ahead of the street's expectations.

Canadian Dividend Payers

Brookfield Property Partners reported Funds from Operations per diluted unit of $0.28, unchanged from $0.28 in the year-ago period, and just below estimates of $0.30. The slight miss was entirely in the office division and was likely due to foreign exchange as the U.S. dollar has strengthened, and BPY reports in U.S. dollars. Management indicated that BPY should grow FFO per unit by 15-20% annually over the next two years. The reported IFRS NAV per unit increased from $28.79 at Q1/15 to $30.19 at Q2/15. Funds From Ops from the office platform increased from $143 million in Q2/14 to $170 million in Q2/15, mainly due to the completion of the privatization of BPO and increased ownership in Canary Wharf, offset in part by dispositions over the past year and the negative impact of foreign exchange, as many of the properties are located outside of the U.S. FFO from the retail platform increased from $113 million in Q2/14 to $119 million in Q2/15, driven by interest expense savings and an increase in same-store NOI year-over-year (primarily due to healthy internal growth from GGP of 3.6%). FFO from the smaller divisions combined rose from $23 million in Q2/14 to $42 million in Q2/15. The growth was primarily from a number of acquisitions which closed in the second half of 2014, particularly Capital Automotive Real Estate Services Inc. (CARS). We believe leasing in lower Manhattan, raising rental rates to market on rollover, the completion of development projects, and additional acquisitions should all contribute in 2016 and 2017 leading to exceptionally strong cash flow growth. Longer-term, BPY has a number of development projects, many at Canary Wharf, which we believe should allow for consistent NAV growth.

Transalta Renewables – TransAlta Corporation announced the acquisition of 71MW (megawatts) of long-term contracted renewable generation assets from an affiliate of Rockland Capital LLC for a purchase price of US$75.8 million, together with the assumption of certain tax equity obligations and US$41.8 million of non-recourse project debt. The assets acquired include 21 MW of solar projects located in Massachusetts and a 50 MW wind facility in Minnesota. The assets are contracted under long-term power purchase agreements ranging from 20 - 30 years with several high quality counterparties. The acquisition is subject to customary regulatory approvals and is expected to close by the end of September 2015. ‘The acquisition marks our first solar project and aligns with our strategy of growing our renewables platform, diversifying our portfolio, and increasing the pipeline of assets for potential future drop-downs into TransAlta Renewables’ said Dawn Farrell, President and Chief Executive Officer of TransAlta. The solar facilities, consisting of four ground mounted projects and four roof-top projects, are all long-term contracted with solid cash flows from multiple counterparties. The wind facility, which uses 32 GE 1.5 MW XLE turbines, has been operational since March 2014 and is contracted under three long-term power purchase agreements until 2034 with high quality counterparties. Investment highlights are an attractive cash-on-cash yield of approximately 9.6%, and TEV/EBITDA of 8.8x.

Global Dividend Payers

Dufry announced a EUR 500mn senior notes issue last week and has fixed it with CHF 700mn with a 4.5% coupon (payable semin-annually) and it has a 8 years term. Dufry’s offer for WDF (EUR 10.25 per share=EUR 2.6bn/plus debts EUR 3.6bn) will follow in Aug.; equity issue was CHF 2.2bn and rest is done with new debts. With the successful capital increase (CHF 2.2bn) and this new senior notes (CHF 0.7bn) the major part for the WDF acquisition is financed; remaining will be done with a further bond issue and new bank term loans. Dufry reported on its Q2 with revenue slightly light of expectations. EBITDA before other operating result: CHF 144.7m, +9.4% yoy, -3% below consensus: With a positive contribution from Nuance (the company typically contributes nothing to profits in Q1), the margin increased sequentially from 9.0% to 12.0%. Year-over-year, however, this represented a decline of 220bp as Nuance boast a lower margin than Dufry’s businesses. With another hefty charge related to the WDF-transaction and considerably higher net financial expenses, Dufry turned in a loss-quarter. However, operating Free Cash Flow turned to positive (CHF 80.6m after -CHF 15.5m in Q1 and CHF 33.8m in Q2 2014). Dufry sees trends to continue supportive from an industry perspective. Solid passenger growth of 6.5% in the year-on-year comparison and the expectation of further growth in the range of 4-5% for the next 10-20 years well confirm the company’s strategic positioning, Besides that the integration of Nuance is we believe well on track and is expected to complete by 2015, and the WDF acquisition is proceeding as expected.

GEA Group AG the German food-processing technology maker, orders dropped by 9% on an organic basis in the second quarter as it won just two major projects compared with four a year earlier. But GEA lifted its core profit by a better-than-expected 9% thanks to an efficiency programme, taking its adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) margin to a record 12.1%. GEA said it should reach its full-year targets for the operating business “despite less dynamic growth” and the dividend for 2015 should at least match last year’s €0.70, independent of expenses incurred under the efficiency programme. Orders came in at €1.15 billion, slightly below the €1.18 billion expected by analysts polled by Reuters. Sales fell by 1% on an organic basis to €1.15 billion, also missing expectations. GEA, which is benefiting from an increased appetite for dairy products in many parts of the world, won orders for dairy projects in the Middle East and Asia worth more than €55 million. In the same period a year earlier, it had booked four major orders with a total volume of €123 million, including a beverages project in Africa. One-off charges of €134 million in the quarter, including €115 million in restructuring charges, pushed GEA to a net loss of €22 million from a profit of €81 million a year earlier.

Procter & Gamble – reported falling sales for its second quarter, hurt mainly by the stronger dollar. Even after stripping out the impact of the dollar and acquisitions, sales rose just 1%, raising concerns

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about the slow pace at which P&G is turning around its business. P&G, struggling in an increasingly competitive consumer products industry, has been trying to turn itself around since 2014 by focusing on fewer, faster-growing brands. It has also made management changes, including appointing company veteran David Taylor CEO this week. P&G has dropped about 50 brands since 2014, of which 43 were sold to perfume maker Coty Inc for $12.5 billion this month. P&G intends to retain a core portfolio of 65 brands, including Tide detergent, Pampers diapers and Gillette shaving products. Net income attributable to P&G fell 80% to $521 million, or 18 cents per share, in the fourth quarter ended June 30, mainly due to a $2.03 billion one-time charge related to its Venezuelan operations. Revenue fell 9.2% to $17.79 billion.

Economic Conditions

US – The advanced reading of the US GDP for the second quarter of the year came in at 2.3%, lower than the expected 2.6% advance, as a strong 2% contribution from the consumer sector was not matched by any other economic area. Housing contributed roughly 0.2%, net exports 0.1% and government 0.1%, while business investment and inventories actually subtracted from growth in the quarter. Upward revisions to previous quarters softened the impact of the weaker than expected reading for the latest period, maintaining, we believe, the Fed on track for a first interest rate hike later this year.

The US personal income grew by 0.4% in June, in line with May's pace of income growth and marginally ahead of the expectations. Part of the same report, the core personal consumption expenditures (PCE) price index, the Fed's favourite inflation gage, clocked in at 1.3% annual rate, in-line with May's reading, neither helping nor deterring from Fed's case for a near term rate hike.

US consumer confidence: fell more than expected this month, down 8.9 pts (first drop since April) to 90.8, the lowest level since last September. Concerns about what's happening right now weighed ('present situation' fell 2.9 pts to a 3-month low of 107.4) but worries about the future weighed more ('expectations' took a 12.9 pt dive, the most since August 2011, or when the U.S. lost its AAA rating. Fears about Greece and China's stock market plunge and the looming interest rate hike by the Federal Reserve that would take rates 25 bps higher from near zero all likely played into this more downbeat sentiment. Also, more survey respondents, on net, found jobs harder to come by in July. That hasn't happened in three months and it suggests that we may see the jobless rate tick higher from its current 7-year low of 5.3%.

US housing market: House prices slipped for the second month in a row. House prices in the top 20 metropolitan areas across the U.S., as measured by S&P Case Shiller, fell 0.2% in May, and the gains from a year ago eased for the first time this year, to +4.9% from +5.0% in April.

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 September 2015. The US 2 year/10 year treasury spread is now 1.50% and the UK's 2 year/10 year treasury spread is 1.30% - 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 3.98% (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 5.0 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 12.56 (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 Investment Counsel Inc. 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 private/alternative products:

- Portland Focused Plus Fund LP
- Portland Private Income Fund

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- Portland Global Energy Efficiency & Renewable Energy Fund LP
- Portland Advantage Plus Funds
- Portland Private Growth Fund

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, Macquarie, Barclays, TD, Scotiabank

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