News Highlights

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PORTLAND INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments Aug 14th 2015

Energy Sector

Crescent Point – recorded a second quarter net loss of $240 million or $0.53 a share, compared to a net profit of $99 million or $0.24 per share for the previous corresponding quarter. Adjusted net earnings from operations were $40.3 million, or $0.09 per share, compared to the second quarter of 2014's $175 million or $0.43 per share. Crescent Point generated funds flow from operations (FFO) of $524.3 million ($1.14 per share - diluted) in second quarter 2015. FFO declined 18% from the second quarter of 2014 due to a 39% fall in the Company's average selling price per boe (barrel of oil equivalent) over the same period. Crescent Point recorded Q2 netbacks of $41.74 per boe relative to average selling prices of $56.25 per boe, supported partly by the company's hedging program, which contributed $8.18 per boe of realized gains on derivatives during the quarter. Excluding realized gains on derivatives, netbacks were $33.56 per boe. Crescent Point achieved and average production of 151,636 boe/d during the quarter, which was weighted 91% to light and medium crude oil and liquids. This represents an increase of 10%, or more than 14,000 boe/d, over the same quarter of 2014. Production volumes were higher than expected due in part to a better than expected spring break-up in southern Saskatchewan. The Board approved a monthly dividend of $0.10 per share (down from $0.23 per share), effective with the August dividend that is payable in cash on September 15, 2015, a 56% reduction. In addition, effective with the August dividend, the company is suspending its existing Share Dividend Plan and Dividend Reinvestment Plan. The company also approved a $100 million cut in its 2015 capital expenditures guidance, reflecting both a reduction in drilling related capital and the benefit of the company's cost saving initiatives. The 2015 capital expenditures budget is now $1.45 billion and average 2015 production guidance remains unchanged at 163,500 boe/d. The decision to trim its dividend highlights the company's goal of internally funding its business model and not increasing debt or issuing equity to fund future growth. It also protects shareholders during a potential commodity cycle that may be lower for longer and improves the company's ability to allocate capital to its top-tier asset base.

Pacific Rubiales Energy Corp – Canada's Pacific Rubialesp said it is changing its corporate name to Pacific Exploration and Production Corp, as the company is set to lose its main Rubiales fields in Colombia next year. Colombia's state-run oil company Ecopetrol said in March it would not extend its contract with Pacific Rubiales to operate the country's highest-producing oilfield. Rubiales is the single most valuable asset of the Canadian company whose total output is around 150,000 barrels per day, primarily from projects in Colombia. Under the contract, set to expire in the first half of 2016, Ecopetrol has rights to 60% of the production at the Campo Rubiales oilfield, while Pacific has the remaining 40%. Pacific Rubiales, which also operates in Peru, Guatemala and Brazil, said the new name is effective immediately and that its shares will continue to trade under the same ticker.

Financial Sector

Deutsche Bank - Deutsche Bank's Richard Walker will retire as the company's general counsel at the end of the year at his own request. Walker will be succeeded by Simon Dodds and Christof von Dryander, who have been deputy general counsels since 2013, Deutsche Bank stated last Friday. Walker led Deutsche Bank's legal department in a period when the company and other banks paid billions of dollars in fines for misconduct and settlements with clients who said they were unfairly treated.

Fifth Street Floating Senior Rate Corp.- Core earnings of $0.25/share (excluding debt securitization charge) missed estimates of $0.27/share while NAV was down ~2% q/q to $12.23/share: Overall, FSFR posted a fairly soft quarter on the income front with both interest and fee income below expectations. Furthermore, FSFR has reset its quarterly dividend to ~$0.23/share from $0.30/share previously, which does not come as a complete surprise given that FSFR has under-earned the $0.30/share dividend the last few quarters. Management indicated the dividend cut represents its revised expectations for the "steady-state earnings" of the FSFR given that the company is close to fully ramped with debt-to-equity at ~0.85x, within the targeted leverage range. Management cited that a combination of lower overall spread expectations from a year ago along with little incremental growth expectations is driving the cut. As FSFR reached its targeted 0.85x debt to equity level, the company completed a $309MM debt securitization transaction and issued both long-term senior secured notes and unsecured subordinated notes. While the securitization resulted in a ~$2.1MM charge, management indicated the favorable capital market environment allowed them to do a securitization that lowered funding cost and extended the tenure of its borrowings to better match its assets. The blended funding cost for the senior notes is 2.44% with a 10-year tenure. As of the end of 3FQ15, FSFR's Glick JV had roughly $148MM of assets, all of which were sold from FSFR into the fund, that generated a 9.1% return on investment for the partial quarter. Management reiterated the JV should generate a low teens ROE as the fund reaches its full investment capacity.

Nordea announced this week that its board of directors has appointed Casper von Koskull as new President and Group CEO. The 54-year-old von Koskull has been with Nordea since 2010 as the head of the Wholesale Banking unit and also a member of the Group Executive Management. Prior to joining Nordea in 2010 von Koskull had worked with banking internationally in e.g. Frankfurt, New York and London. His most recent position before Nordea was as Managing Director and Partner at Goldman Sachs. Nordea stated that it is maintaining all of its current financial targets and strategy. Nordea's Wholesale Banking unit has been performing favourably in recent years, which is why we believe that von Koskull was one of the most expected successors to outgoing CEO Christian Clausen who has been CEO since 2007 and will stay in an advisory role until the end of 2016, when he will retire. The change will take effect on November 1, 2015. Nordea also announced that current CFO Torsten Hagen Jørgensen will become Group COO and deputy Group CEO. Hagen Jørgensen joined Nordea in 2005 and has been head of Group Corporate Centre and Group CFO since 2013. In our view, today's appointments by Nordea signal a continuation of the current strategy, which is also underscored by the fact that current CEO Clausen has accepted a nomination to the Sampo board of directors, the main shareholder in Nordea with 21% of the shares. Von Koskull's and Hagen Jørgensen's long experience with Nordea and high involvement in setting the current strategy and financial targets also point to continuation rather than anything else, we believe.

Prudential reported strong results over H1 2015 with IFRS operating profit at £1,881m around 8% ahead of consensus with the beat mainly driven by UK (17% ahead), US (7% ahead) and Asset management (5% ahead) while Asia is broadly in line. On asset management, we note that M&G missed by 3% while Eastspring was 14% ahead. New business profit was 15% ahead of consensus with all divisions beating expectations (Asia 11%, US 15%, UK 33% ahead). Beat on new business profits was driven both by volumes (APE sales 9% ahead) and new business margins (2.2% better). On a regional basis Indonesia sales were flat and Jackson National Life was down 8% YoY. Cash remittances are up 10% YoY at £1,068m (no consensus available with the main increases coming out of Asia (+19% YoY) and US (+14% YoY). Asia growth was driven by Hong Kong and China sales. In Hong Kong majority sales come from Health & Protection products with around 90% being regular premium. H1 2015 was strong for Asia; however, we expect the turmoil in Chinese stock markets over the last few months to impact Asia sales in H2. On solvency 2 the comments seem positive. Prudential has made an application for internal model approval and expects to hear the outcome in early December. At FY14, the economic capital cover stood at 218%.

Activist Influenced Companies

Hertz Global Holdings Inc. – Car rental company reported a 5% decline in quarterly revenue, hurt by a strong dollar and lower car rental volume in the United States. Hertz, which received more than two-thirds of its car rental revenue from airport services in 2014, has been affected by the strong dollar that made travel to the United States pricier for tourists. The company also closed about 200 stores at off-airport locations in the second quarter, as part of its efforts to focus on more profitable locations and to save $300 million by March. Revenue fell to $2.69 billion from $2.83 billion in the quarter ended June 30. Net income fell to $23 million, or 5 cents per share, from $72 million, or 15 cents per share, a year earlier. On an adjusted basis, Hertz earned 19 cents per share, meeting the average analyst estimate. Hertz reiterated its 2015 consolidated corporate EBITDA of $1.45 billion-$1.55 billion. The is the first time Hertz is reporting its quarterly results after restating financial results for three years through 2013, in July. Hertz had to strike off $144 million in net income for three years in the restatements.

Canadian Dividend Payers

Northland Power – Reported an in-line set of results for its second quarter and good progress on its $6 billion worth of construction projects. The 600MW Gemini offshore wind project located in the North Sea reached a milestone with the successful installation of the first steel foundation, or monopile, on July 1, 2015, as allowed under environmental permits. Installation activity continues to progress with 54 monopiles (over one third) installed as of this date, and associated transition pieces being installed on 52 of the monopiles. The two jacket foundations for the offshore high voltage platforms have been completed and have been placed in-water and secured to the seabed. The two high voltage offshore platforms are substantially complete, are on a barge, and are waiting to be taken to sea to be installed on top of the jacket foundations. In addition, 100% of the 209 kms of the underwater electrical cable connecting the wind farm to the Dutch grid has been manufactured and approximately 92% has been laid on or in the seabed. These are significant acheivements for the project as it continues to progress according to plan. Construction of the 332 MW Nordsee One offshore wind project advanced as expected and remains on schedule, with activities related to the start of manufacturing of foundation and platform components. At the 100 MW Grand Bend onshore wind farm, project financing was closed on March 31, 2015, and construction and manufacturing activities have commenced. Lastly, two, of the final four, 10 MW Phase III ground-mounted solar projects commenced operations after the quarter, with the last two ground-mounted solar projects expected to be completed during the third quarter of 2015. In June 2015, Northland completed the sale of 37.5% equity interest in Northland's four Phase III ground-mounted solar projects ("Cochrane Solar") to two First Nations. The total consideration for the equity interest is approximately $45.7 million. Sales and gross profit were 2% lower and 10% higher, respectively, than the same period in 2014. The decrease in sales was primarily due to higher electricity revenues achieved by two thermal facilities in 2014, partially offset by favourable contributions from the wind and solar facilities. More importantly, the increase in gross profit was primarily due to increased electricity production from the wind and solar facilities and strong gross margins at Northland's thermal facilities; Quarterly adjusted EBITDA increased 12% from 2014 primarily due to overall favourable results from Northland's operating facilities; Net income of $140.3 million for the quarter increased from a loss of $91.8 million in the second quarter of 2014, primarily due to a $168.9 million marked-to-market non-cash adjustment on Northland's financial derivative contracts largely from the interest rate swaps associated with the Gemini and Nordsee projects; Cash provided by operating activities decreased by $77.8 million primarily due to the timing of payables, receivables and deposits partially offset by favourable operating results; Free cash flow of $34.6 million was 10% higher than the second quarter of 2014 primarily due to favourable results from Northland's operating facilities; and the quarterly cash dividend payout ratio was 102% of free cash flow in the second quarter of 2015 compared to 93% in the second quarter of 2014 (132% excluding the effect of the Dividend Reinvestment Plan (DRIP) versus 126% in 2014) primarily due to dividends declared on the additional shares issued to fund the Gemini, Nordsee, and Grand Bend projects.

Global Dividend Payers

AT&T said it expects revenue, earnings and free cash flow to grow through 2018 following its DirecTV purchase and investments in Mexico, though it also sees higher capital expenditure. As the U.S. wireless market reaches saturation, AT&T hopes to tap into DirecTV's video assets and has been expanding its wireless operations in Mexico to grow revenue. AT&T, which closed its $48.5 billion acquisition of DirecTV in July, also plans to deliver video content through ad-supported TV streaming and mobile video products to unlock new revenue. The No. 2 U.S wireless carrier said in a statement it expects revenue to grow in the double-digit range for the rest of 2015. The company, which previously forecast capital expenditure of about $18 billion, said it sees that rising to about $21 billion. AT&T forecast 2015 adjusted profit of $2.62 per share to $2.68 per share. The newly expanded AT&T leapfrogs the biggest U.S. cable company Comcast Corp. The company serves more than 26 million U.S. customers and more than 19 million in Latin America, making it the world's biggest pay-TV company. The company maintained its forecast of $2.5 billion or more in cost savings or synergies from the DirecTV deal on an annual basis through 2018.

Nestle the world's biggest packaged food company, posted better than expected first-half sales growth and stuck to its 2015 forecast, despite a recall of Maggi noodles in India, helped by higher prices in some key product areas. The maker of Nescafe coffee and KitKat chocolate said on Thursday organic sales, which exclude acquisitions, divestments and currency moves, rose 4.5% in the six months to June. Chief Executive Paul Bulcke said performance was in line with expectations thanks to growth across product categories and geographies. Strength in coffee and ice cream was helped by particularly hot weather in Europe. Confectionery was boosted by price increases taken to offset rising cocoa prices, while some coffee prices also rose. Reported sales fell 0.3% to 42.84 billion francs in the first half versus analysts' expectation for a dip of 0.1%. Net profit fell 2.5% to 4.52 billion francs, lagging the poll average for a 2.3% rise.

Pearson announced the sale of its 50% stake in The Economist Group for £469 million, to be paid in cash, with EXOR SpA agreeing £227.5 million for 27.8% of Ordinary shares and all the B shares and The Economist Group agreeing £182 million for the remaining Ordinary shares. The transaction required approval from Trustees and 75% of group shareholders of The Economist Group; and is expected to close in 4Q15. We believe Pearson received a good price, given consensus valued the stake around £400 million. Based on FY15 (ending March 2015), the deal transacted on a P/E multiple of 20.4x (net income £46 million) P/EBIT multiple of 14.0x (adj. operating profit £67 million) and a P/Sales multiple of 2.9x (revenue £328 million). For 2014, the equity stake was accounted for as an associate at Pearson and contributed £21 million in adjusted earnings and approximately 3p to adjusted EPS. Along with net proceeds from the sale of the Financial Times of approximately £630 million, Pearson will have around £1.1 billion of cash by the end of the year. Pearson is undergoing a major transition both in its business model and in the industry structure surrounding the company, which obviously introduces a level of uncertainty over outcomes which has no parallel in the recent history of the company. However, we are confident the transition to digital education represents a significant opportunity for Pearson. CEO John Fallon seems committed to executing on this opportunity. 2014 was another year of transition, while the benefits are likely to start accruing from 2015 onwards.

Economic Conditions

US – US retail sales advanced 0.6% in July, ahead of the expected 0.5% gain, driven by a 1.4% jump in sales of auto vehicles and parts, both most other retail categories also showed strength. Retail sales excluding autos were also up, by 0.4%, in line with expectations, with sales of furniture, building and garden equipment, as well as sporting goods more than offsetting weakness in electronics and general merchandise. The latest reading of US consumer sentiment, as measured by the University of Michigan, at 92.90 index points was lower than expected, at 93.50 points and a pull-back from June's 93.30 points reading. Whilst views on the 'current conditions' component of this composite index actually improved, the 'expectations' component worsened more than expected.

US industrial output, meanwhile, jumped by 0.6%, higher than the expected 0.3% advance and a material acceleration from June's 0.1% reading. Manufacturing, up by 0.8% in the month, was the biggest contributor, driven by the motor vehicle production, but consumer goods manufacturing was also strong in the month. The US industrial capacity utilization improved to 78%, in line with the consensus expectations.

Canada – Canadian housing starts retrenched in July, to a 193,000 units annualized, somewhat lower than expected, affected by weakness in the prairie provinces. The new housing price index advanced by 0.3% in June, ahead of the expected 0.1% reading and building on May's 0.2% gain, not a comforting sign for those worried about the overpriced Canadian real estate markets.

BRAZIL -The ratings agency Moody's has cut Brazil's sovereign rating to Baa3 from Baa2 and rated outlook as stable. The market was expecting this announcement and we think the key is that outlook is 'stable' and Brazil is still one notch above investment grade.

Greece - The Greek government and the country's official creditors "reached an agreement in principle at a technical basis." earlier this week. The representatives of the EU finance ministries (EFC) discussed the agreement on Tuesday and reportedly they were positively inclined towards the deal. In these talks the IMF representative repeated that the Fund is ready to contribute to the financing of Greece but after October, as reforms are implemented and steps have been taken towards easing the country's debt burden. Reportedly the German government remains reluctant. The aim of the Greek government is to vote the agreement so a Eurogroup meeting to be held and approve the deal today.

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 1.46% 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 3.94% (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 13.49 (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
- 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

Source: Thomson Reuters, Bloomberg, KBW,BMO, Credit Suisse, Macquarie, Barclays, TD, NBFinancial
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.

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