Energy Sector

Royal Dutch Shell – Shell's Nigerian unit declared force majeure on Bonny Light crude oil exports after shutting down two key pipelines in the country due to a leak and theft. The Trans Niger Pipeline and the Nembe Creek Trunkline are two of the biggest onshore pipelines in Nigeria, and carry Bonny Light crude oil to vessels for export worldwide. Planned exports of 162,000 barrels per day (bpd) of Bonny Light in September accounted for just over 8% of Nigeria's total planned exports of nearly 2 million bpd. Shell, whose subsidiary operates the pipeline with Nigeria's state oil company NNPC, did not give a timeline for restarting either line, and did not elaborate on the scale of the leak. The issue could create a problem for Shell on the physical oil market, as traders said it was still holding the bulk of the export cargoes, but it could also alleviate the general oversupply of crude oil in the Atlantic Basin. Nearly 10 million barrels of September-loading Nigerian crude oil cargoes are still looking for buyers, and face steep competition from other crude oil grades.

Total – French oil major has agreed to sell some of its gas pipeline assets in the UK's North Sea to North Sea Midstream Partners, an affiliate of U.S.-based private equity firm ArcLight Capital, for £585 million. The sale includes the Frigg UK (FUKA) and SIRGE gas pipelines and the St. Fergus gas terminal. Europe's second-largest oil company, Total unveiled a plan earlier this year to cut investments and jobs, and accelerate its asset sale programme after oil prices more than halved in the past year. “Infrastructure assets like these are not part of our core business,” Michael Borrell, head of continental Europe and Central Asia at Total's exploration and production unit, said in a conference call with reporters. But the sale should not be misinterpreted as a vote of no-confidence in the North Sea, he said. Total expects to become the largest oil and gas producer in the UK by the end of the year, it said in the statement. The start-up of its third hub in British waters, the Laggan-Tormore project in the Shetlands, is expected later this year.

Financial Sector

Bank of Nova Scotia which reported a quarterly profit that beat market expectations for its fiscal third quarter, said bad loans in the energy sector climbed as the oil price selloff took a toll. Gross impaired loans to the oil and gas sector more than doubled in the third quarter to C$96 million from the same period last year. They were C$92 million in the second quarter. The lender's oil and gas portfolio forms almost 10% of business and commercial loans, more than any of the other major Canadian banks. All of the five biggest Canadian lenders have reported increases in energy-sector bad loans in the third quarter, marking a clear trend that confirms investor worries about the impact the oil price weakness was having on the lenders. The bank is encouraging energy companies to curtail investments in exploration, cut dividends, raise equity or debt, and sell assets in order to strengthen their balance sheets. Net income in the quarter ended July 31 was C$1.85 billion, or C$1.45 per share, compared with C$2.35 billion, or C$1.85 per share, a year ago. Core earnings were C$1.47 per share. Analysts on average had expected earnings of C$1.45 per share, according to Thomson Reuters I/B/E/S. Earnings for the international banking business climbed 11%, helped by loan growth across Latin America and higher fee income. Scotiabank also increased its quarterly dividend by 3% to $0.70/share.

Barclays and several stock exchanges including BATS won dismissal of shareholder suits claiming they gave preferential treatment to high-frequency traders. A US judge in New York issued the ruling last week.

Deutsche Bank/UBS/RBS - Three global banks are in danger of losing their ability to manage pension funds in the U.S., as the Department of Labor wrestles with how to hold financial institutions accountable for criminal misconduct, Bloomberg reports. The Labor Department, in mid-July letters reviewed by Bloomberg, told Deutsche Bank, UBS and Royal Bank of Scotland that it had tentatively rejected their requests to keep managing U.S. pension money. The banks, which admitted guilt earlier this year over manipulating foreign exchange or benchmark interest rates, were required to seek the department's permission to maintain their Qualified Professional Asset Manager status.

Activist Influenced Companies

Pershing Square Holdings – Billionaire investor William Ackman, one of last year's best performing hedge fund managers, is now losing money after the recent market plunge wiped out a double-digit gain.

The shift of fortunes shows how much tumbling markets, sparked by sharp declines in Chinese stock prices, have hurt the world's most prominent investors. “At the date of this report, the year to date investment performance has been erased, and the Company is at a loss position for the year,” Ackman's Pershing Square Capital Management said in its interim financial statement. Only three weeks ago the New York-based manager had told clients, including state pension funds in Massachusetts and New Jersey, that the fund was up 10.1% for the year through the end of July. Ackman is one of the first major money managers to tell his investors how the market turmoil has hit his firm, but he did not say how much money the fund has lost this year. Despite the sharp market moves, Pershing Square, which holds only a small number of investments at a time, has “made no meaningful recent changes to (our) current portfolio holdings,” Ackman said in the financial statement. Lower commodity prices or economic weakness in China are unlikely to have a “material impact on the intrinsic value of the portfolio,” Ackman added. Instead, he expects demand for cookies, industrial gases, specialty pharmaceutical products, and animal health products made by companies in his portfolio such as Mondelez International Inc, Air Products and Chemicals Inc, Valeant Pharmaceuticals International Inc and Zoetis Inc to remain “robust over the long-term.” In the first six months of the year, Allergan, Valeant, Nomad Foods and Mondelez were the fund's biggest winners. Meanwhile Herbalife Ltd, which he has made a $1 billion short bet against, cost the fund 3.7% in returns. Due to recent strong returns, the fund's size had swelled to roughly $20 billion, but that is set to shrink in light of the latest drop. Last year Pershing Square gained 40.4% in value while the Standard & Poor's 500 index rose 13.7%.

Canadian Dividend Payers

Brookfield Infrastructure Partners – Canada's Brookfield Asset Management made its first significant investment in Indian infrastructure, buying six road and three power projects on Friday from India's Gammon Infrastructure Projects Limited. A consortium composed of Brookfield and the Core Infrastructure India Fund Pte Ltd are buying the projects, six of which are operational. Indian infrastructure firms have spent the last two years trying to sell assets to pay down debts after an economic downturn squeezed cash flows and damaged their balance sheets, although interest from foreign investors has remained muted. The deal includes an immediate cash payment of 5.63 billion rupees ($85 million) and future undisclosed sums based on certain performance targets being met. Recent government reforms, including a rule allowing developers to exit road projects two years after completion, have encouraged foreign investors to begin looking at investing in Indian infrastructure again.

Global Dividend Payers

Amcor – The boss of packaging giant Amcor remains "bullish" about China, despite increasing fears the country's economy is slowing much faster than expected. Concern about the health of the world's second biggest economy has rattled global financial markets, souring views of other emerging economies. But Amcor chief executive Ron Delia said while the company had a "difficult year" in China - with lower volumes in the second half of 2015 - he was upbeat about the long-term prospects. "Clearly growth around the world is below trend and I think nowhere is that more evident than in China," Mr Delia said. "But emerging markets in general for us are a long-term game". "There is obviously going to be volatility, and slower than trend growth at the moment, but we believe in these markets, particularly in China." Mr Delia declined to weigh in to criticism that the Chinese government was doing too little to manage the country's economic slowdown as well as deliver on its pledge to stabilise share markets. "We focus on what we can do and taking care of our customers in China," he said. "[Government] policy will take care of itself. We will be agile and adapt to policy shifts around the world, including China." "We have got a really good mix of big multinational customers … and big regional customers in China who values the same things as the multinationals - product safety, good quality and reliable supply and innovation to help them spur their own growth." Mr Delia's upbeat assessment came after Amcor's net profit firmed 0.4% to $US680.3 million for the 12 months ending June 30, beating analysts estimates who were expecting $US670.4 million, according to Bloomberg. Excluding currency swings from a strengthening US dollar, net profit jumped 7.2%. Revenue, however, dipped 3.5% cent to $US9.61 billion. Mr Delia expected higher earnings in the next 12 months. He said the company had a strong balance sheet and it had completed 60% of its $US500 million buyback. In the 2014-2015 financial year, Mr Delia said the company's flexible packaging and rigid plastics divisions delivered record returns of 25.5% and 20% respectively. Continued growth in North and South America fuelled the gains in the rigid plastics division, with higher volumes in all the main product segments. Mr Delia also said the company would continue to be based in Australia, despite it representing less than 5% of its business and it moving half the staff at its head office to Switzerland. He cited Amcor's dominance in flexible packaging in Australia and New Zealand and its ASX listing as reasons for the company continuing to operate from Melbourne. Amcor will pay a final dividend of US21¢ a share on September 30.

Syngenta management faced pressure to offer tangible rewards to shareholders after the Swiss pesticides company turned its back on a deal with unwanted American suitor Monsanto. With no alternative bidder seen on the horizon, analysts speculated that the company could buy back shares as a short-term measure to help win back investor confidence. Shares in Syngenta rose 5% to 325 Swiss francs, having plunged 18% in the previous session when U.S. seeds giant Monsanto Co. abandoned its pursuit of a deal. Monsanto had been prepared to pay a headline price of 470 Swiss francs per share, valuing the company at $47 billion. Since the price would have been partly paid in Monsanto shares, which have dropped, the package would have been worth 433 francs per share by Tuesday's closing price, according to Syngenta. Syngenta said in a statement it was committed to accelerating shareholder value creation. A spokesman said the company would not provide specific comments on measures to be taken. No alternative bidder was seen emerging, even though sources told Reuters this month that BASF was readying debt funding to potentially thwart any Monsanto move with a counter bid. Syngenta's management, which has rebuffed Monsanto's repeated approaches, has said it can create value under its own steam and that product development and cost-cutting efforts will bear more fruit than in the past. The company last month reaffirmed its target for a 24%-26% margin on earnings before interest, taxes, depreciation and amortisation (EBITDA) over sales for 2018.

Economic Conditions

US – The preliminary reading of the second quarter US GDP report revealed a much better than expected 3.7% advance in the quarter, up from the 2.3% estimate in the advance report. All the economic sectors contributed to the improvement, led by consumer, contributing 2.1%, government expenditures with 0.5% and business investment by 0.4%. In a separate report, the consumer sector also got a boost in July from a robust 0.4% advance in the US personal income, which was in line with the expectations and building on June's 0.4% growth.

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The consumer confidence improved in August, according to the US Conference Board, up to 101.50 index points from July's 91.0 points reading, though the University of Michigan reported a mild pull-back in its measure of consumer sentiment for the same month. Part of the US personal income report, the core personal consumption expenditures price index, Fed's favourite inflation gauge, failed to add fuel on the Fed's September raise fire, as it clocked in at 1.2% for the year in July, one notch lower than June's 1.3% read, and significantly short of the Fed's 2.0% stated inflation target.

A market moving report was the release of the July's durable goods order, which showed a 2.0% advance at a headline level, significantly ahead of the expected 0.4% pull-back. The core reading, which excludes the notoriously volatile transportation orders, came in at 0.6%, also ahead of the expectations.

On the US housing front, the pending home sales were up by 0.5% in July, lower than expected and only partially offsetting June's 1.7% drop, while new home sales of 510,000 units annualized were in-line with the expectations and a 5% improve over June's sales figures. The US home prices, meanwhile, are up 5.0% year-on-year, as expected.

UK is to enjoy "decent quarterly GDP growth" the CBI has predicted as it upgrades its forecasts for this year and next. The business lobby group now expects growth of 2.6% this year and 2.8% next year, up from its June forecast of 2.4% and 2.5% respectively. Increased household spending and "robust" investment growth will drive the improved growth, the CBI believes. The CBI now expects interest rates to rise in the first quarter of next year. BBC News

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 1.44% and the UK's 2 year/10 year treasury spread is 1.28% - 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 3.84% (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 25.00 (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

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