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Energy Sector

Royal Dutch Shell – Australia's competition watchdog flagged concerns that Royal Dutch Shell's proposed $70 billion takeover of BG Group may lessen gas supply competition in the country's east, and it put off a final decision on the bid until November. The acquisition, which would transform Shell into the world's biggest liquefied natural gas (LNG) trader, still requires the green light from Australian and Chinese regulators but is on track for completion in early 2016, according to the Anglo-Dutch oil and gas company. Concerns that the deal could face regulatory hurdles and delays as well as low oil prices have stoked investor anxiety in recent months, with BG shares trading at a discount of around 10% to Shell shares. The takeover has already been cleared by EU, U.S. and Brazilian anti-trust authorities. It still needs approvals from Australia's Foreign Investment Review Board and China to go ahead.

Financial Sector

JPMorgan and other banks attended a Barclays conference. The takeaways are that JP Morgan continues to be optimistic that the next three years will be better, with more regulation - such as Total Loss Absorbing Capacity - being settled. It noted living wills are also important. Still, it will adapt to new regulation without changing business models too much. It noted the economy continues to move along at a 2-2.5% pace. Still, it believes some volatility in the markets is good. While volumes were slow around those few weeks in the summer, results were pretty good. Trading revenues in 3Q15 are in-line with competitor comments (Citi said down 5% y-o-y, while Bank of America noted down 5-6% y-o-y). It believes issues in China are temporary and it is still on-track to become a developed economy with nearly 25% of global GDP over the long run. It believes there is clearly less liquidity in the markets as evident by movements in bid/ask spreads. Still, the system is far more stable given higher capital levels. It remains concerned about what happens in a really bad environment. New rules and regulations will result in increasing banks' capital while reducing liquidity during a crisis. The real risk for banks regarding interest rates remains in extreme unplanned scenarios such as stagflation. Over time JP Morgan would like to get closer to peers on the G-SIFI buffer. It is already working on reducing the first $100bn of excess deposits. JPM will continue to work for a number of years on reducing the SIFI buffer. JP Morgan believes consumer balance sheets are in better shape and actual credit losses are as good as we will ever see. Overall, it is not concerned about credit as credit remains pristine. Even in energy, it is comfortable with stress test case scenarios where the price of oil remains low for an extended period of time. Finally JP Morgan plans on being very aggressive on merchant processing and expects to gain market share in merchant acquiring over time.

Activist Influenced Companies

Syngenta – Swiss agricultural chemicals group Syngenta is about to launch the sale of its vegetable seeds business as it seeks to raise money for a share buyback, according to sources familiar with the matter. The company, whose main business is making pesticides, is under pressure to offer tangible rewards to shareholders after it turned its back on a $47 billion bid from Monsanto. It said this month it plans to buy back more than $2 billion worth of stock to boost investor returns. It has asked JP Morgan to organise the sale of the vegetable seeds business and it could fetch around $2 billion, the sources said. The unit had sales of $663 million last year, representing about 4% of group sales. While the vegetable seeds unit represents a relatively small proportion of Syngenta's revenue, it is the most profitable of its seeds businesses. It has gross profit margins of well above 60% compared with about 45% for all seeds last year.

Pershing Square – William Ackman, head of hedge fund firm Pershing Square Capital Management, said that stocks were cheap at current levels and that Mondelez International Inc could be an acquisition target. "I think stocks are pretty cheap," Ackman told cable business channel CNBC, but he excluded energy stocks since he was not an investor in the sector. On Mondelez, Ackman said: "Either the current team will get the business to its potential in reasonably rapid fashion, or it will be a target." Ackman has built a stake worth about $5.5 billion in Mondelez, the maker of Cadbury chocolate and Oreo cookies. Ackman, who first announced a $1 billion short bet against Herbalife Ltd and accused the company of being a pyramid scheme in 2012, said: "the last way we win here is just basic business deterioration." Herbalife has repeatedly denied Ackman's claims. Global financial markets have been rattled in recent weeks by fears over China's slowdown, with all three major U.S. stock indexes posting losses of at least 3% last week. Ackman's Pershing Square Holdings portfolio dropped 9.2% in August.

Canadian Dividend Payers

Nothing to report this week.

Global Dividend Payers

ABB – Statoil awarded a contract to ABB in Sweden for fabrication and installation of two high-voltage cables supplying power from shore to the Johan Sverdrup field. The total contract value is NOK700 million, plus options. The contract is covering engineering, procurement, fabrication, installation and testing of two high-voltage power cables and a fibre-optic communication cable to the Johan Sverdrup field centre from shore. The high-voltage cables are 200 kilometres long and designed for a supply capacity of 100 MW/80 kV. This will cover the power need for the first phase of the Johan Sverdrup field development, which is scheduled for start-up late in 2019.

BHP Billiton – Codelco and Antofagasta PLC suspended operations at two major copper mines in Chile, the world's top producer of the metal, after a powerful earthquake struck off the coast on Wednesday, threatening over 600,000 tonnes of annual capacity. Copper prices on the London Metal Exchange CMCU3 rose to two-month highs in early Asian trading as worries about supply disruptions offset lingering concerns over demand from China, the world's No. 1 consumer, amid copper's longest rout in years. Other producers in the region Anglo American PLC and BHP Billiton, said they were unscathed after the magnitude 8.3 earthquake hit off the coast, shaking buildings in the capital city of Santiago and generating a tsunami warning for Chile and Peru. The quake is the latest natural catastrophe to roil mining in the resource-rich South American nation, which accounts for a third of global copper output.

Kingfisher reported adjusted sales of £5,382m in 1H, -4.0% versus last year, broadly in line with consensus' forecast of £5,397m. For the half year, PBT of £384m was up 5.2% YoY, c. 1.1% above consensus expectations. Adjusted EPS came in at 12.3p for 1H, up 9.4% versus last year. UK: The business delivered strong Like for Like ('LFL') sales in 1H (+3.3%) in the UK with flat gross margins and retail margins up 80bps. Retail profit grew 16.8% to £194m, c. 8% above consensus, boosted by tight cost control and ongoing productivity initiatives at B&Q. Q2 retail margins improved 120 bps. France: Sales were up 1.1% YoY to £1,976m in 1H in France, with FX headwinds of c. -11.5%, a space contribution of +1.4%, and -0.3% LFL sales. Retail profit of £167m in H1 was down 16.1% YoY, though down 5.7% in constant currency, and c. 5% below consensus. Both gross margin and retail margins declined 60bps in 1H. Q2 retail margins fell 60 bps to 10%. According to Kingfisher, the French market was broadly flat, and continued to be impacted by a declining housing and construction market. Other International sales in 1H declined by 10.3% to £879m, with 3.7% LFL sales growth and +2.0% contributions from new space more than offset by a 16.0% FX headwind. Retail margins for Other International in the first half improved 10bps YoY to 5.5%, and the £49m retail profit included a £11m new country development investment charge due to the build out of Romania, Germany and Portugal. In Q2 the Other International segment grew 4.1% in constant currency, supported by LFL sale increase of 3.4% and 0.7% space contribution. In Q2, retail margins declined 10bps to 7.7 %, reflecting the investment in new countries.

On sourcing and range rationalization: Kingfisher are beginning with the "Core essentials" (home improvements and basics that represent around one third of buying scale). Beginning with 20 categories that represent £0.6bn of buying scale (20% of core), Kingfisher believe 90% of product can be unified and the remaining 10% will be locally adapted. As an example they currently sell 338 battery SKUs across nine operating companies with up to 13 ranges sold in each, and anticipate moving toward a unified offer of 36 SKUs on four ranges across all formats.

Kingfisher also announced an intention to cut the tail of 193,000 delisted and ex-promotional SKUs in big box stores over the next 3 years, with clearance already underway.

Store closure plans were reconfirmed, with Kingfisher expecting to exit c. 15% of surplus B&Q space (c. 60 stores) by the end of FY16, with 30 closures expected in H2. 26 lease exits have been confirmed through a combination of transfers and expiries. The total exceptional charge of c. £350m is still expected (this includes the store closures in Europe and redundancy costs in the stores), and £151m was booked in H1.

Management have reviewed the potential for Screwfix in the UK and believe that there is potential for around 600 outlets versus 412 today. Progress has been made in Germany with an expected further five outlets to be opened this year, taking the total to nine.

The plans for a unified IT system have been accelerated based on progress and positive feedback to date in the Ireland trial. Kingfisher now expect to complete the roll out by January 2019 (vs. the original plan of January 2021), starting with B&Q and Castorama France next year.

In unifying GNFR (Goods not for resale) a scoping exercise has confirmed the opportunity for financial and efficiency gains from unifying the £1.2bn GNFR spend. Kingfishers believe 90% can be unified and plan three waves in the next three years. Wave one is underway and covers nine categories and £350m of spend.

Kingfisher reported a net cash position of £435m (with lease net debt/EBITDAR falling to 2.1), falling c. 12.3% versus last year (£496m). Free cash flow saw a £75m decrease YoY to £308m driven by increased capex spend. Kingfisher announced that 160m have now been returned through share buyback, which is equivalent to 80% of the total £200m announced for the year. The regular dividend for 1H was 3.18p, up c. 1% versus last year.

Novartis – Drugmaker has been hit by a slowdown in emerging markets, particularly in China, where previously double-digit growth has decelerated to mid-single digits, Chief Executive Joe Jimenez said in an interview with CNBC on Friday. Jimenez' comments echoed concerns expressed on Thursday by U.S. Federal Reserve Chair Janet Yellen, who said the outlook in emerging markets including China have led to volatility. Jimenez, though, said the Swiss company was not pulling back from emerging markets, rather relying on the strength of generics in China to drive business growth. "We have seen a bit of a slowdown in emerging markets particularly China but in our business that means moving from mid-double digit growth rates to now in the mid-single digit growth rates," he added. "If you think about the global healthcare market maybe growing at 2% or 3% this is still incremental growth."

Richemont – Companie Financiere Richemont, the maker of Cartier watches, said sales rose 4% at constant currencies in the five months to August, twice as much as even the most optimistic forecast in a Reuters poll of analysts. While economic growth may be cooling at home, wealthy Chinese tourists are still snapping up expensive watches and jewellery on their travels, helping Swiss luxury goods group Richemont to beat sales forecasts. Sales leapt 28% in Europe and 48% in Japan, driven mainly by spending from Chinese travellers, more than offsetting an 18% decline in the Asia-Pacific as well as weakness in the Americas and Middle East. Luxury goods stocks have been hit hard by signs of a sharply slowing Chinese economy, as well as a crackdown in the country on conspicuous consumption. A recent devaluation in the Chinese yuan has also raised concerns about a possible dip in tourism. Richemont, the world's second-biggest luxury group by sales behind LVMH, makes about 38% of its revenues in Europe, placing the company in a good position to capitalise on improving demand on that continent. U.S. jeweller Tiffany, with only 12% exposure to Europe, last month forecast a surprise earnings decline after a strong dollar and new product costs contributed to a drop in quarterly earnings. Richemont said it had returned to growth in China, including a double-digit percentage rise in sales at its stores, though sales in Hong Kong and Macau remained down on last year.

Economic Conditions

US – In the lead up to the interest rate decision by the US Fed, the release of the US consumer price index (CPI) inflation rate for the month of August provided little impetus for the US central bank to go ahead with its first interest rate raise in roughly a decade. The headline reading was 0.20%, in line with July's rate and matching the consensus expectations, the core reading, which excludes the effects of food and energy prices, was 1.80%, marginally lower than the consensus expectations for the month. The Fed ended up holding, given lack of evidence for any wage inflation pressures, but mostly due to concerns related to economic slowdown overseas and the effects a stronger dollar might have on the US economy in the current global environment. For now, the chips are stacked up high for a December lift-off of US interest rates.

U.S. retail sales in August, was below-expected. But it comes on the heels of a slightly upwardly revised July of 0.7%, which makes the average 0.5% quite respectable in our view. As expected, much of the gain was driven by the auto sector, as auto sales rose 0.7% in the month.

U.S. housing starts fell 3.0% to 1,126,000 in August. This was in line with expectations but this comes after a downwardly revised July (now coming in at 1,161,000, or 4.1% below June…..originally calculated as a 0.2% increase.) That downward revision is not great news but it is a little more understandable as there had been sizeable increases in few months prior, as NY builders rushed in to obtain approvals ahead of a June 15th deadline for the "421a tax exemption program", a program which benefitted developers. After the hefty 13.0% surge in June starts some give back was to be expected. The level is still near the highest in seven years. But starts should start turning higher in coming months. Building permits rose across the land…….except in the Northeast (-4.4%). The 3.5% increase (or +4.4% excluding the NE) to 1,170,000 was much better than expected, and it was the 4th increase in the past five months.

Canada – The latest inflation reading for Canada, for the month of August, was largely in line with the expectations, at 1.30% at the headline level and 2.10% for the core reading, which strips-off the effects of eight most volatile price series, including food and energy. The core number pulled back, as expected from the July's 2.40% reading, while the still above target 2.10% is seen as temporary, being driven, in Bank of Canada's view, by a weaker Canadian dollar.

UK Wage Growth – wages grew at their fastest pace in more than six years and the unemployment rate unexpectedly fell, suggesting inflationary pressures are building in the labor market. Pay excluding bonuses increased an annual 2.9% in the three months through July, the most since early 2009, while total pay growth also quickened to 2.9%. The jobless rate fell to 5.5%, matching the lowest since 2008, from 5.6% in the second quarter. Aug Final CPI +0.1% y/y vs preliminary +0.2%

Greece - The leading coalition party Syriza comfortably secured 1st place in yesterday's Greek early General elections, getting (based on 99.58% reporting) 35.47% of total votes vs 36.34% in January. Syriza will elect 145 MPs out of the 300 in total (vs 149 MPs in January). New Democracy took second place, with 28.09% and 75 MPs vs 27.81% and 76 MPs in January. Syriza is now free of its radical left with all rebels out of the parliament (Popular Unity marginally missing the 3% threshold), however Syriza are to form a coalition with the Independant Greeks. Bottom line, same coalition government, with slimmer parliamentary majority. 155 seats in 300 seat parliament. (previously was 162 seats) which in essence is a market negative as a broader coalition was arguably expected. Polls had even suggested the Independent Greeks wouldn't make the 3% theshold. The coaltion looks weak in our view and could lead to further issues ahead as Greece has tough laws to implement over the near future.

Financial Conditions

Britain's top banks must comply with a new accounting rule on earlier provisioning for bad loans, even if there is delay in the rest of Europe, a senior regulator said last Tuesday. The rule, known as IFRS9, was called for by leaders of the Group of 20 economies (G20) during the financial crisis, in which banks had proved too slow in covering for soured loans. It marks a radical change for banks, requiring them to make some provision - at a level according to the bank's view on the riskiness of a loan set against the economic outlook - even on the first day of the loan, and long before a default, the current trigger for provisioning. (Source Reuters)

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 1.47 and the UK's 2 year/10 year treasury spread is 1.25% - 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 3.91% (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 22.28 (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.

In Closing ....

The impact of inflation.... in Zimbabwe its residents trade quadrillions of local dollars for a fistful of US dollars. The hyper-inflation of 500 billion percent the country suffered seven years ago played a part in elevating the country's currency, which is now exchanging at 35 quadrillion (35,000,000,000,000,000) Zimbabwe dollars to one US dollar. But what can Zimbabwe dollars buy you? Local shopping website www.magrosa.com offers two sausage rolls for $50,750,000,000,000,000 each, or US$1 ½. A pot of Bovril is $107,450,000,000,000,000, or around US$3. Toilet cleaner Duck Active is $102,550,000,000,000,000, equivalent to US$4. And latex gloves are $107,450,000,000,000,000. (Source UK's Daily Mirror newspaper)

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, Bernstein, Credit-Suisse

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

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