

# News Highlights

Owners. Operators. And Insightful Investors.

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**PORTLAND**  
INVESTMENT COUNSEL

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

October 13, 2015

## Energy Sector

TransCanada Pipeline's announced acquisition from Talen Energy of the 778 MW Ironwood natural gas combined cycle generation plant in Pennsylvania doesn't look like it will move spreads much, in our view. Financing will be a mix of "cash on hand and available debt capacity," which could mean some new issue supply, though financial closing isn't expected until Q1/2016. With close proximity to Marcellus gas, operating in a market transitioning from coal-fired generation, we expect the relatively new and highly efficient plant to integrate well into TransCanada's existing U.S. Northeast power operations, and be neutral to credit quality.

Canadian election could derail some pipelines: The Liberal and NDP parties have indicated they would review and/or not permit some of the planned oil pipelines. The Conservatives would continue their policy of supporting all of the proposed pipelines. The proposed pipelines include Trans Mountain expansion (TMX), Keystone XL (KXL), Northern Gateway (NG) and Energy East (EE). The Liberals would support KXL and might support TMX and EE and would not support NG. The NDP would not support KXL or NG and might support TMX and EE. There would be little need for crude-by-rail under the Conservative platform. The Liberal and NDP positions could generate significant crude-by-rail business for Canadian National Railway and CP as the Canadian Association of Petroleum Producers (CAPP) forecasts increasing crude production, which would exceed existing pipeline capacity.

## Financial Sector

Barclays is set to appoint former JP Morgan banker James "Jes" Staley as its new chief executive: It is understood the Barclays board has approved the appointment of Mr Staley and that a formal announcement will be made in the next fortnight. Barclays' previous chief executive, Antony Jenkins, was fired from the bank in July after falling out with board members. Mr Staley currently works for US hedge fund Blue Mountain Capital Management. The board of Barclays has agreed the appointment of Mr Staley and the bank is now waiting for regulatory approval before making an official announcement. Recent UK press comment has expressed concern that London is losing its position as the global banking centre. The appointment of Mr Staley might be seen as trying to resurrect that position. James Staley, 59, is a former chief executive of JP Morgan Chase's investment bank. He spent more than 30 years of his career there before joining hedge fund BlueMountain Capital Management in 2013. A longstanding lieutenant of JP Morgan chief executive Jamie Dimon, Mr Staley was at one point thought to be in line to take over as chief executive of the US bank. It appears that it is not the first time that Mr Staley has been lined up to take the chief executive role at Barclays, following the resignation of Bob Diamond in the wake of the Libor rate-rigging scandal. Three years ago, US business news broadcaster CNBC reported Mr Staley was, in fact, a finalist for the top job at the bank in August 2012, - alongside

his colleague Bill Winters. Both eventually lost out to insider Antony Jenkins. In 2015, Mr Staley was elected to the board of Swiss bank UBS to serve on the bank's risk committee.

BNP Paribas- EU clears BNP Paribas' buy of GE's European fleet leasing unit. The transaction was examined under the simplified merger review procedure.

Credit Suisse - A Swiss article suggested that Credit Suisse plans to cut costs by relocating people away from Switzerland. A recent UBS report suggested that Zurich is one of the top-3 most expensive in the world (especially after the CHF unpegging in Feb) and Credit Suisse is effectively mimicking UBS that has already started to move away from Switzerland into Poland (where there is qualified personnel, young, relatively cheap with good English) with the intention to reduce costs, but also the exposure to the defined benefit scheme (as new people are on defined contribution). We believe that this move is reasonable and will pay off in terms of efficiency levels. Separately, this is also the second article that has CS rumored to be selling its US Wealth Management business (CHF100bn AUM, marginally profitable). However, we still believe you cannot be a global Wealth Manager and compete for UHNWI without US domestic presence. We believe it would be a mistake to dispose of the business. Also, after the Financial Times on Thursday reported that Credit Suisse was planning to tap investors for a "substantial" capital raising, the Swiss bank said it was still evaluating strategic options as well as its capital usage and requirements. Separately, Credit Suisse hires Manuel Lagares from Bankia as vice chairman of the investment banking department in Iberia. To join Credit Suisse in November and will be based in Madrid. Lagares is currently chief legal, tax, compliance officer at Bankia.

Fifth Street Floating Rate Corp. (FSFR) has been included as a defendant in a class action law suit filed by multiple US law firms. The other defendants are Fifth Street Asset Management (FSAM) and Fifth Street Finance Corp. (FSC). The proposed class action suit alleges that "defendants engaged in a fraudulent scheme and course of business designed to artificially inflate FSC's assets and investment income to increase FSAM's revenue during the Class Period."

Standard Chartered is set to become the first big foreign bank to set up a separately capitalised subsidiary in India, according to people familiar with the matter. StanChart's move would mark one of the most significant recent changes in the regulation of global banks in India, and make it the only one of the country's "big three" foreign lenders — a group that includes HSBC and Citigroup — to agree to regulatory requests to set up subsidiary operations. ( Source : Financial Times). Also, Standard Chartered could cut up to 1,000 senior jobs, according to an internal memo sent to staff. The move from chief executive Bill Winters is meant to cut costs. The bank has grown very quickly since the financial crisis and some roles are now not needed, sources told the BBC. Standard Chartered said it had disclosed before "that there would be further personnel changes to come". (Source:BBC News).

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## **Activist Influenced Companies**

Nothing to report this week.

## **Canadian Dividend Payers**

Brookfield Property Partners' (BPY) investor day in New York, provided the opportunity for its management to focus on several key themes:

- BPY's development pipeline is quite extensive and presents the opportunity for significant value creation over an extended period of time. Within BPY's various platforms, in particular the office segment, there are a number of active development and redevelopment projects, which are expected to generate attractive returns on invested capital (~15% average return on a leveraged basis). In total, the projected budget for the current active pipeline is \$8.3 billion. Management indicated that upon completion, these projects will generate annual Net Operating Income of \$450 million by 2023.
- Cash flow should rise considerably as fundamentals are healthy and leases already signed should take effect over the next two years; and
- BPY units are extremely undervalued based on the current NAV, and even more so when considering the likelihood of continued NAV growth. Currently, the units are trading at about a discount of 25% to NAV estimates of \$29.98 per unit (essentially in line with the IFRS NAV). Management asserted that NAV could rise to \$46.00 per unit over the next five years. The primary drivers of value growth, as outlined by BPY, are expected to be same store growth (\$9 per unit), the development/redevelopment pipeline (\$5 per unit), and other opportunistic investments (\$3 per unit).

## **Global Dividend Payers**

Dufry: now holds 93.45% of WDF ( World Duty Free) after public offering. Dufry previously owned 63% of WDF and with the mandatory tender offer they are now at 93.45%; as the shares will be delisted and the ownership is >90% there will be no re-opening of the tender period. The Nuance integration is on track (75% of synergies reached) and should be finished till to the end of 2015; The WDF integration will start now and the new structure could probably be announced with the 3Q15 results. Currently the focus is very much on organic growth, which still is suffering due to weak Brazil.

Richemont: The merger of Yoox and Richemont's Net-APorter is completed, giving Richemont a 50% share in the new company, which is quoted in Milan, the value is EUR 1.9bn, representing about 5% of Richemont's market cap. Voting right is limited to 25% and there is a lock-up period for 25% for 3 years.

## **Economic Conditions**

Chinese data overnight renewing concerns about global growth. Chinese trade data pointing to slower activity with exports falling 3.7% and imports down a whopping 20.4%. These numbers do not bode well for the commodity exporters.

UK: the latest inflation data points to deflation. UK CPI came in at -0.1% falling below already soft expectations of flat.

## **Financial Conditions**

The Reserve Bank of Australia (RBA) decided to keep the cash rate target unchanged at the October meeting. There were minimal changes in the post-accompanying statement. Of note, if any, was a small adjustment to the commentary on the domestic economy. Back in September, the RBA noted that "In Australia, most of the available information suggests that moderate expansion in the economy continues". This time round, the words "most of" have been removed, which perhaps suggests a firmer view on the part of the RBA on growth in the economy.

Bank of Japan (BOJ) decided to keep its monetary policy unchanged on 07 Oct 2015, the same status quo since October 2014 and was well anticipated by the markets. The 7 October policy statement was largely a carbon copy of the statements of the preceding months (with the same policy pledge as well as the same risks to growth and price outlook, the same dissenter with the same proposals that are emphatically rejected 8-1 as usual).

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 1.26% - 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 3.76% (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.

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The VIX (volatility index) is 16.49 (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>



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Source: Thomson Reuters, Bloomberg, KBW, Credit-Suisse, Scotiabank, Vontobel, RaymondJames.

Certain statements included in this document constitute forward-looking statements, including those identified by the expressions "anticipate," "believe," "plan," "estimate," "expect," "intend" and similar expressions to the extent they relate to the Fund. The forward-looking statements are not historical facts, but reflect the Portfolio Management team's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Portfolio Management team has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise. PORTLAND INVESTMENT COUNSEL and the Clock Tower Design are registered trademarks of Portland Holdings Inc.

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PIC15-052-E(10/15)