News Highlights

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PORTLAND INVESTMENT COUNSEL®

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

October 19, 2015

Energy Sector

Royal Dutch Shell – Jordan has awarded half of its four-year, up to 78-cargo liquefied natural gas (LNG) buy tender to Royal Dutch Shell which will cover deliveries in 2016 and 2017. The award builds on Shell's already dominant position in supplying LNG to Jordan, a rare growth market for the fuel. This year the country signed a five-year deal with the Anglo-Dutch energy giant for 150 million cubic feet/day of LNG delivered to its floating import terminal near the Red Sea port of Aqaba, covering a quarter of Jordan's power needs.

Total – Chief Executive Patrick Pouyanne said that financing for the $27 billion Yamal LNG project it is developing in Russia with Novatek was on track. The liquefied natural gas (LNG) project in the Yamal peninsula in Siberia is set to produce a total of 16.5 million tonnes of LNG per year.

Financial Sector

Bank of America reported 3Q15 EPS of $0.37—strip out FAS 91 loss ($0.03) and $0.04 in net benefits and that puts the core earnings at $0.36—notably better the consensus ($0.34)—better yet in that the upside was revenue driven. Highlights: Core loan and deposit growth with relative stability in the core Net Interest Margin, lower loss rates, a 2% decline in risk weighted assets. Return On Tangible Common Equity was a more respectable 10.1% (still a good bit of room for improvement in our view). Lowlights: Trading was weak, with the tilt toward credit (60% of Fixed Income Currency & Commodities revenues YTD; that being the weak spot in the markets this quarter) working against results but no more than forecast; plus a reserve build against energy credits. The asset sensitivity of Bank of America's balance sheet has increased alongside this quarter's realized cost (FAS 91) of the lower 10-year; and so higher rates—long and short--would help. In the meantime, management remains focused in our view on investing for growth and driving profit margin improvement. Asset quality: Credit metrics generally improved, as evidenced by a 14 bp decrease in the Non Performing Assets ratio from 1.30% in 2Q15 to 1.16%. The Non Conforming Obligations ratio fell 7 bp to 0.42% in 3Q15. Capital: The Tangible Common Equity ratio grew 19 bp to 7.76%. Tangible Book Value was up $0.48 (+3.2%) to $15.49. It repurchased ~$800 million in common shares. This was no easy quarter given the macro headwinds from both the capital markets and low interest rates; Bank of America managed better than expected. Revenue growth, expense initiatives and an acceptable Capital Adequacy (CCAR) resubmission are critical in our view to sustained share price outperformance.

Bank of Nova Scotia said it would buy JPMorgan & Chase Co's Canadian credit card portfolio associated with Sears Canada Inc. JPMorgan said in November last year that it served the retailer with a notice of non-renewal to prevent the agreement, which expires Nov. 15, 2015, from auto-renewing. Scotiabank said on Thursday that it will buy JPMorgan's MasterCard and private label credit card portfolio, which has about C$1.7 billion ($1.32 billion) in receivables and 2 million active customer accounts. The deal, which will add to Scotiabank's earnings in the first year, will impact the company's common equity tier-one capital ratio by less than 10 basis points, the company said. The deal is the latest for Scotiabank, which signed agreements last year to buy a majority stake in retailer Cencosud SA's retail credit card business in Chile and Citigroup Inc's retail and commercial banking operations in Peru.

Barclays – Financial Times on Friday evening reported on Barclays accelerating the IB shrinkage by exiting operations in continental Europe, Asia & Latam supported by incoming CEO Jes Staley. Despite concerns that Mr Staley's appointment may see Barclays shift strategically and rebuild its IB, it is said that Mr Staley has backed plans to refocus trading on its core US & UK markets.

Citi reported 3Q15 EPS of $1.35. Ex. DVA, EPS was $1.31, consensus was $1.28. Fee income and net interest income approximated our expectations, while its loan loss provision and expenses were a little better than anticipated. Key trends of positive operating leverage in Citicorp, continued growth in Citicorp loans and deposits (constant dollar basis), keeping Citi Holdings profitable while shrinking assets, and utilizing its Deferred Tax Allowance all continued. Results included a $352mn ($0.08) gain on loan hedges, compared to a $66mn loss in the prior quarter. It also benefited from the impact of reversing $140mn ($0.03) of the previously disclosed valuation adjustment recognized in 2Q15. It also booked a gain of $180mn ($0.04) related to the sale of its merchant acquiring business in Mexico. It also had $376mn on legal costs and $81mn of reposition expenses ($0.10 in all), both up modestly from the prior quarter. FX reduced revenues by $1.1bn, expenses by $0.8bn and provision by $0.2bn. The net impact was a $0.2bn reduction to pre-tax earnings ($0.04). It released $16mn of loan loss reserves. Tangible book increased 1.5% to $60.07 (trading at 0.86x). Its adjusted Return On Tangible Common Equity in 3Q15 was 8.9%, down from 10.1% in 2Q15, while its Return On Assets was 0.91% (1.01% in 2Q15). Year to date (ex. DVA), its ROA is 0.99% and its ROTCE is 10.0%, while Citicorp's efficiency ratio is 55%. Its Basel 3 Common Equity T1 ratio (fully-implemented basis) was 11.6%. Its liquidity ratio was 6.8%. Basel 3 Risk Weighted Assets declined 2% or $21bn. During the quarter, Citi repurchased 36mn shares, up from 28mn shares in 2Q15. It utilized $0.6bn of Deferred Tax Allowance, up from $0.3bn in 2Q15 ($2.1bn YTD). Citicorp reported revenues declined 2% y-o-y and decreased 3% sequentially. Excluding CVA/DVA and FX translations, Citicorp revenues increased 1% y-o-y and slipped 1% sequentially. Sequentially, Global Consumer Banking declined 1%, while its Institutional Clients Group fell 3%. Citi Holdings (i.e. the non-core businesses) reported net income of $31mn down from $163mn in 2Q15. As of the end of 3Q15, $37bn of Citi Holdings assets were under contract for sale, $31bn of which are expected to close prior to year end. Investment banking revenues declined 25% y-o-y and fell 27% sequentially to $937mn. Net interest income declined 0.4%. Core operating expenses declined

3% sequentially. Its operating efficiency ratio was 57%. Its effective tax rate was 30%. Consumer non-accrual loans declined 8% to \$4.8bn, corporate non-accrual loans jumped 35% to \$1.6bn, primarily reflecting downgrades in its North America energy portfolio. Citicorp's consumer loans 90+ days delinquent decreased 2% from to \$2.1bn and the 90+ days delinquency ratio was stable at 0.75%. It released \$16mn of loan loss reserves, down from a \$543mn release in 2Q15. Its reserve/loan ratio declined 4bps to 2.21%.

Goldman Sachs reported 3Q Earnings Per Share of \$ 2.90. Reported results included elevated litigation expenses and Debt Value Add gains. Excluding these items it's estimated EPS at \$3.00 better than expectations. The beat was largely driven by higher I&L and a lower compensation ratio (34% vs 37% est). Core fundamentals were muted, with FICC (fixed income, currency and commodities) again underperforming peers. Core expense control and more active capital management were a positive offset. In our view, the lack of a visible revenue growth catalyst makes it tough to get excited about broker stocks but Goldman's undemanding valuation (1.0x BV for ~12% core Return On Tangible Equity YTD) and a resetting of expectations post this quarter, provides a favorable setup into the seasonally stronger first quarter.

HSBC - Hundreds of employees of HSBC Holdings Plc's investment banking arm in London had their pay cut by 10% and were told to take two weeks of unpaid leave, the Times of London reported. The move applies to contract workers in the global banking and markets division and there will be no exceptions, the newspaper reported, without saying where it got the information. Chief Executive Officer Stuart Gulliver is trimming costs to shore up profitability. (Source: Bloomberg)

JPMorgan reported 3Q 2015 Earnings Per Share of \$1.68. Ex. tax benefits and legal expense EPS was \$1.37, in line with consensus. Excluding loan loss reserve release and other items, EPS was around \$1.30. Net interest income grew 2% despite balance sheet reductions with strong loan growth and Net Interest Margin expansion, fee income declined though trading revenues matched its mid-September outlook, expenses were well controlled in our opinion and declined, and its loan loss provision fell (consumer reserve release, energy reserve build). While operating results reduced expectations for 3Q15, revenues declined across all four of its major business units and the company noted that expectations for market revenues in 4Q15 were still too high, likely pushing forward estimates lower in our view. Still, it continued to make progress on its through-the-cycle objectives with a: 12% core Return On Tangible Common Equity (15% target), 11.4% Basel III Tier 1 Capital ratio (12%), 60% adj. overhead ratio (55%), and 49% net dividend payout ratio (55-57%). Following several balance sheet actions including a reduction in non-operating deposits (-\$150bn YTD), notional derivates, level 3 assets and trading/AFS assets, it now estimates its SIFI (systemically important financial institution) buffer at 4.00%, down from 4.50% at the start of the year (though it's still targeting 12% CET1). Also in our view expenses are tracking better, while loan growth was solid and asset quality remains benign (though the bank did add to its oil & gas reserve). At about 9 ½ - 10x consensus expected 2016 earnings per share, we believe the shares of JPMorgan remain attractive for an industry-leading franchise.Book per Share increased from \$58.49 to \$59.67 and Tangible Book per Share increased from \$46.13 \$47.36.

Morgan Stanley reported 3Q15 Earnings Per Share of \$0.48. Debt Vale Add was a \$435mn benefit, up from \$182mn in the prior quarter. Excluding DVA, EPS was \$0.34. Excluding DVA and a \$250mn (\$0.08) increase to its litigation reserve (CDS antitrust litigation matter), EPS was \$0.42, whereas consensus was a lot higher at \$0.63, so a clear miss. Ex. DVA revenues declined 16% y-o-y and fell 23% sequentially to \$7.3bn (consensus: \$8.5bn). Tangible book increased 1.5% to \$29.99 (1.1x). Its Return On Equity ex DVA was 3.9%. Its Basel 3 Common Equity Tier 1 ratio (Advanced Approach) was 13.9% (transitional) and 12.4% (fully phased-in), both down 10bps from the prior quarter. Its Liquidity ratio was 5.5% (+20bps). During the quarter it repurchased \$625mn (17mn shares) of stock, same as last quarter (now at 40% of \$3.1bn CCAR 2015 approval). Assets and Risk Weighted Assets each increased 1%, while deposits rose 6%. Institutional Securities revenues (ex. DVA) declined 19% y-o-y and fell 30% sequentially to \$3.5bn. Strength in equity trading and M&A was more than offset by underperformance in FICC (fixed income, currency and commodities). Relative to 3Q14, FICC dropped 42%, reflecting difficult market conditions for its credit and securitized products businesses. Wealth Management revenues declined 4% y-o-y and fell 6% sequentially to \$3.6bn. Relative to the prior quarter, net interest income increased 2%, asset management fees were stable, and transaction revenue declined. Still, expenses declined 6% and its pre-tax margin was stable at 23%. Fee based asset flows for the quarter were \$7.7bn, down from \$13.9bn in the prior quarter, while clients assets fell 5% to \$1.9trn. Investment Management revenues dropped from \$751mn in 2Q15 to \$274mn in 3Q15. Results were adversely impacted by losses in Merchant Banking, from the reversal of previously accrued carried interest associated in its Asia private equity business. Assets under management or supervision were \$404bn, up slightly from 2Q15, while net client inflows were \$6.4bn. Operating expenses declined 9% y-o-y and decreased 14% sequentially. Compensation fell 18% y-o-y and declined 22% from the prior quarter. Its comp ratio was 44% compared to 45% in 2Q15 and 47% a year ago. The effective tax rate from continuing operations for the current quarter was 28.7%. It was 32.8% in 2Q15. The decline reflected a change in the geographic mix of earnings (more like 30% was expected).

Wells Fargo - General Electric agreed to sell a major chunk of its US commercial lending business to Wells Fargo, a milestone in the company's rapid exit from financial services that could allow it to shed a tough regulatory regime. The deal, announced last Tuesday, is the largest divestiture yet in GE's rapid dismantlement of its GE Capital lending unit that once contributed roughly half the parent company's annual profits and just last year had assets that would make it the country's seventh-largest bank. Financial terms of the deal weren't disclosed. (Source WSJ). Wells Fargo reported 3Q15 EPS of \$1.05, consensus was \$1.04. Net interest income and expenses were relatively in-line, while core fee income was light (reported fee income better due to gains). 'One-timers' continue to add to results. Loan loss reserve release, debt/equity securities gains, net MSR (Mortgage Servicing Rights) impact, charity contributions added $0.15 to 3Q15 EPS, similar to 2Q15. Net MSR results were $253mn, up from $107mn in the prior quarter. Its loan loss provision matched its net charge-offs (released $350mn in 2Q15). Debt securities gains were $147mn, down from $181mn, and included $54mn in higher OTTI primarily reflecting marks on energy sector investments. Gains from equity investments were $920mn, up from $517mn last quarter, reflecting strong results from a number of venture capital, private equity and other investments. Results included a $126mn contribution to the WFC Foundation. Results also included a gain on sale of its Warranty Solutions business (not quantified). Operating revenues rose 3% y-o-y and increased slightly linked quarter to $21.9bn (consensus was $21.8bn). It posted an Return On Assets of 1.32% and an Return On Equity of 12.62%. In the quarter, it repurchased 51.7mn shares, up from 36.3mn shares in 2Q15. Average diluted shares declined 0.5%. Basel 3 Core Equity Tier 1 ratio (fully phased-in) was 10.7%, up 10bps. Net unrealized available-for-sale securities gains were $4.9bn, down from $5.7bn, as the benefit of lower rates was offset by reductions arising from realized gains (both debt & equity) and widening credit spreads. Net interest income increased 2%, driven by growth in securities and loans, including the full quarter benefit of the GE Capital loan purchase and related financing transaction that settled late in 2Q15. Period-end loans increased 1.7% from 2Q15. Its net interest margin declined 1bp to 2.96%. Reported fee income rose 4%, while core fee income (ex gains/losses, MSR) declined 2%. Mortgage banking fee income declined 7%. Residential mortgage originations fell 11% to $55bn. Mortgage applications declined 10% to $73bn, while its unclosed pipelines decreased 11% to $34bn. Expanses declined 1%, primarily due to lower deferred comp expense. Its efficiency ratio was 56.7%, improved from 58.5% last quarter (targeting higher-end of 55-59% for the full year). Its effective income tax rate was 32.5%, approximating 32.6% in the prior quarter. Its Non Performing Assets ratio declined 15bps to 1.47%. Loans 90 days or more past due and still accruing (ex. government insured/guaranteed) totaled $872mn, up from $756mn. Its Non Conforming Obligations increased 1bp to 0.31%, reflecting seasonally higher auto losses. Its loan loss provision was $703mn, up $403mn reflecting the absence of a reserve release (released $350mn in 2Q15, compared to no release in 3Q15).

Activist Influenced Companies

Nothing to report this week.

Canadian Dividend Payers

Brookfield Infrastructure Partners – An Australian regulator raised antitrust concerns over a planned $6.5 billion takeover by Canada's Brookfield Asset Management of freight firm Asciano Ltd, potentially jeopardising the country's biggest inbound deal in four years. The proposed deal, which would be the largest-ever purchase of an Australian firm by a Canadian company, would give Brookfield Asciano's rail network and train operations in two of the country's eight states, said the Australian Competition and Consumer Commission (ACCC). "The ACCC is concerned that the vertical integration will lead to a substantial lessening of competition in related markets for the supply of above rail haulage services in (Western Australia) and Queensland," the commission's chairman Rod Sims said. In cases where a company wants to acquire several parts of an industry, the ACCC is typically hesitant to approve the deal, concerned that other players would be shut out, Foster said. In a statement, Asciano said Brookfield "is working closely with the ACCC to address its concerns", and that it expects the takeover to proceed in January, rather than December as planned.

Global Dividend Payers

ABB – won orders worth more than $300 million to supply equipment for two new transmission links in China that will deliver remote coal-fired electricity and wind power to cities. The equipment, including high-voltage converters that turn alternating current to direct current that can be shipped more efficiently over long distances, is to be installed on two 800 kilovolt links, each with capacity to transmit enough electricity to meet the needs of 26 million consumers. New high-voltage lines like this are part of the Chinese government's aim of substituting transmission of electricity for the transportation of coal by building new power plants in the country's remote west and shuttering existing power plants near eastern cities now blamed for urban air pollution. ABB said its gear will ensure that power generated by new coal-fired power plants and renewable installations can be transmitted over longer distances and with fewer losses to the country's high-demand, high-population eastern regions. In one of the projects, ABB will supply equipment for the new 1,100-km line to ship primarily coal-fired power from Shanxi to Nanjing. In the other, ABB is supplying the 2,300-km ultra-high voltage transmission line between Jiuquan in the wind-rich Gansu province to Hunan, transporting a mix of wind and coal power. Booked in the third quarter, the orders were won by businesses inside the newly formed Power Grids division. ABB said in September that Power Grids will undergo a strategic review that could result in its disposal.

Diageo is selling its US based Chateau and Estate Wines and the UK based Percy Fox businesses. It is estimated these business represent about £300mln in sales (around 75% of group wines sales). Total consideration of $552mln (about £360mln). Net proceeds of approximately £320 million. The disposal makes strategic sense in our view. Diageo wants to focus on its core portfolio. "Wine is no longer core to Diageo" But the price is not impressive: 1.2x sales and 7.9x EV/EBITDA. Transaction ~ 1.3% EPS dilutive. Exceptional loss on disposal of ~£150 million after tax.

Johnson & Johnson reported third-quarter sales which were affected by the stronger dollar and disappointing demand for its Remicade arthritis drug and its Xarelto blood clot preventer. The company also said it planned to buy back up to $10 billion worth of its common stock. The repurchases, to be financed with debt and to have no time limit, would remove about 3.8% of the company's outstanding shares. The company had already bought back $5 billion of shares in a program it announced in July last year. Global company revenue fell 7.4% to $17.1 billion in the quarter. Revenue would have risen 0.8% in constant currency terms, given that J&J generates half of its revenue from outside of the US. J&J's net profit fell to $3.36 billion, or $1.20 per share, from $4.75 billion, or $1.66 per share, a year earlier. Excluding special items, the company said it earned $1.49 per share, exceeding the consensus expectations of $1.45 per share. J&J said it now expects full-year earnings, excluding special items, of $6.15 to $6.20 per share. It had previously forecast $6.10 to $6.20 per share.

Nestle the world's biggest maker of packaged foods, has warned that yearly sales growth would fall short of its long-term target this year due to weak sales in Asia, raising concerns over its position in major emerging markets. Sales in Nestle's Asia, Oceania and Africa (AOA) region fell 3% and the company, whose brands range from Nescafe and KitKat to Perrier, cut its sales growth forcast for 2015 to around 4.5%, below its broader objective of 5% to 6% growth in coming years. Many consumer goods companies have been hurt by sluggish global economies and the cooling of once-hot markets like China and Brazil. But Nestle faces specific problems in Asia's largest markets, China and India. In India a recall of its Maggi noodles is hampering sales, while in China, Nestle's second-biggest market after the United States, the group conceded its product plans had yet to bear fruit. "There are things that we need to do better (in China), even if you set aside the macroeconomic situation," said Wan Ling Martello, recently named head of the AOA having previously been chief financial officer. "We are a little behind in terms of innovation." In India, Nestle is suffering in the aftermath of a recall of its Maggi noodles, a package of which was found to contain an excessive amount of lead. CEO Paul Bulcke said this had had a dramatic impact. "We had no Maggi noodles on the shelves for five, six months now," he said. The recall contributed 30 of the basis points in the Swiss food group's headline 2.1% sales drop in the nine months through September. At 64.9 billion Swiss francs, nine-month sales missed analysts' average 65.9 billion forecast. Nestle's Indian unit said a court-mandated test on the noodles found them to be safe with the levels of lead present well below permissible limits. Nestle's underlying sales growth, adjusted for currency swings, acquisitions and divestitures, slowed to 4.2% in the first nine months, sliding further behind its earlier 5% target for 2015.

Syngenta AG – Third-quarter sales at Swiss agricultural chemicals group fell by more than expected as the weak currency in Brazil, its second-largest market, eroded the value of overseas business. The company is under pressure to boost shareholder returns after fending off a $47 billion takeover approach from U.S. seeds rival Monsanto in August. Sales fell 12% to $2.62 billion. "Sharp depreciation of the (Brazilian) real in the quarter created major market disruptions. Because of its suddenness we were not immediately able to increase prices to compensate," finance chief John Ramsay told analysts in a conference call. The company planned to push up prices in Latin America, he added. Syngenta said its earnings before interest, tax, depreciation and amortisation (EBITDA) would fall by a figure of around 5% this year because of currency effects. Brazil's real hit an all-time low in September amid a political crisis coupled with an economy in recession, which has also proved a headache for rivals. Latin America typically accounts for about 45% of Syngenta's total sales in the second half. Brazil, which is a big producer of soybeans, sugarcane and maize, was Syngenta's second-most important market in 2014, generating 19% of sales. In Brazil, low commodity prices weighed on pesticides and seeds markets, as did the sharp currency depreciation and tight credit conditions for farmers, the Swiss company said. The company maintained its 2015 target of an improvement in its EBITDA margin from 19.3% last year, helped by cost cutting efforts. It will also get a boost from a $200 million upfront payment from selling some rights to genetically modified corn traits to Germany's KWS and France's. As part of an expansion of its licensing collaboration with the two companies and their joint ventures AgReliant and Genective, Syngenta also stands to receive future royalty and milestone payments over 20 years. Syngenta last month unveiled plans to buy back more than $2 billion of stock to boost shareholder returns after rejecting Monsanto's takeover approach, and is putting its vegetable seeds business on the block to fund the measure.

Economic Conditions

U.S. retail sales activity was downbeat, moreso due to the downward revisions from the prior two months. Headline sales rose a modest 0.1% in September, below the consensus call for a 0.2% rise. As expected, decade-high auto sales gave overall sales a mighty boost but without cars, sales fell 0.3%, which was weaker than expected. Lower gasoline prices weighed, not surprisingly. Spending on discretionary items was a mixed picture. Consumers continued to eat out (up 0.7% for the 2nd month in a row), but electronics failed to get a boost, even with the launch of the new iPhone 6s and 6sPlus. But sporting goods, clothing and furniture still rose, which does say something. July's 0.6% jump is now coming in at +0.5%, and August's 0.4% rise was halved to +0.2%. Retail sales make up about one-quarter of total PCE, this slower momentum suggests we could struggle to see 3% growth in Q3 consumer spending.

U.S. CPI fell for the second month, down 0.2% in September and is flat from a year ago. Gasoline took a 9% dive last month, as did transportation (energy related) and clothing (USD related). Core prices rose 0.2% and although that in itself isn't a huge move, it was larger than expected (consensus: +0.1%) and is the largest monthly increase since April. Core prices are up 1.9% from a year ago, the fastest increase since July 2014.

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U.S. industrial production was down 0.2% in September, the second monthly setback but the move was better than expected (and August was revised up to -0.1% instead of -0.4%). Much of that, however, was due to a 1.3% increase in utilities; excluding that component which makes up 10% over the total, industrial production would've been down 0.3%. The energy sector slipped 0.3%, with all of the decline coming from a steep 4% drop in drilling, while production of consumer and commercial energy products improved for the second straight month.

UK unemployment rate fell to a seven-year low of 5.4% in the three months to August. It was the lowest jobless rate since the second quarter of 2008, the Office for National Statistics said. The number of people out of work was 1.77 million. The number in work rose by 140,000, bringing the employment rate to 73.6% - the highest rate since records began in 1971. Some 22.77 million people were working full-time in the three months to August, up 291,000 compared with the same period last year. (Source: 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 1.42 and the UK's 2 year/10 year treasury spread is 1.27% - 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 3.82% (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 15.05 (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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Sources: Thomson Reuters, Bloomberg, Credit-Suisse, BMO, Barclays, BNP Paribas

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