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. November 30, 2015

Energy Sector

Alberta's carbon tax – Alberta, home to Canada's controversial oil sands, said it will implement an economy-wide tax on carbon emissions in 2017, addressing long-standing criticism it is not doing enough to combat climate change. The provincial government estimated the plan, including a pledge to phase out pollution from coal-fired electricity generation by 2030 and a limit on emissions from the province's oil sands industry, would generate $3 billion in annual revenue. Backed by prominent representatives from industry and the environmental movement, Premier Rachel Notley said the province was trying to do the right thing for the future. Notley brought her plan into a meeting of Canadian premiers with Prime Minister Justin Trudeau, to prepare Canada's national strategy at the Paris climate change summit. Alberta has the world's third largest crude reserves, but its oil sands industry is also Canada's fastest growing source of greenhouse gas emissions. That status has prompted fierce opposition from environmental groups to proposed pipelines that would allow the industry to access new markets, including the recently rejected Keystone XL pipeline, proposed by TransCanada Corporation. Alberta's energy sector has also been hammered with thousands of layoffs in recent months due to slumping global oil prices. Several major oil companies, including Suncor Energy Inc., Cenovus Energy Inc., Canadian Natural Resources Limited and the Canadian division of Royal Dutch Shell Plc endorsed the government proposal to set a cap that would still allow overall oil sands emissions to grow by about 40%. Environmental groups, including The Pembina Institute, ForestEthics and Environmental Defence Canada, also endorsed the plan. Greenpeace Canada described the plan as a "historic first step" to slowing growth of pollution, but said more needed to be done by all jurisdictions to prevent dangerous changes to the climate.

Financial Sector

Barclays Plc has agreed to pay $14 million to settle litigation by holders of its American depositary shares that it conspired with rivals to rig the Libor benchmark interest rate, causing its share price to be inflated. The preliminary accord filed in Manhattan federal court on Tuesday evening resolves claims that Barclays "turned a blind eye" before and after the financial crisis when its traders manipulated Libor to boost profits, and that senior management condoned the deception to enhance Barclays' reputation in the marketplace. (Source:Reuters)

HSBC Holdings Plc is eliminating 2,000 jobs in its commercial bank as part of a plan to cut costs, according to a person briefed on the matter. The reductions began last week and are expected to take two years, the person said, asking not to be identified discussing personnel matters. In June, the bank unveiled a three-year plan to shed businesses to shrink its workforce by some 50,000 and lower annual costs by as much as $5 billion. Sky News reported the commercial bank's cuts earlier Monday. "As flagged in our investor update, we have targeted significant cost reductions by the end of 2017, and we continually review and manage our overall headcount requirements," Heidi Ashley, a company spokeswoman said. (Source Bloomberg).

Standard Chartered PLC (Hong Kong) is to issue three-year Panda notes of 1 billion renminbi ($157 million) on December 7 to become the third offshore commercial lender to tap the China bond market. Shanghai Brilliance Credit Rating & Investors Service Co has assigned AAA ratings to both the issuer and the bonds. CITIC Securities is the lead underwriter and bookrunner on the issuance, with Standard Chartered Bank (China), Bank of China as co-underwriters and co-bookrunners. (Source: Reuters).

UK Banks - Britain's banks will tonight learn whether they have passed tough Bank of England stress tests.

Blockchain technology (or distributed ledger technology) could reduce the role of intermediaries such as banks and settlement houses, the Bank for International Settlements - or "the central bankers' central bank" - said in a report on Monday. Basel-based BIS's Committee on Payments and Market Infrastructure (CPMI), made up of central bankers from across the world, said it could challenge banks' role - but if the technology became widespread it was unclear who would then provide credit and savings facilities. (Source:Reuters)

Activist Influenced Companies

Nothing new to report.

Canadian Dividend Payers

Barrick Gold Corporation announced a mechanical issue at the Pueblo Viejo mine (a joint venture owned 60% by Barrick Gold and 40% by Goldcorp Inc.). Two of three motors at the oxygen plant have malfunctioned, with full repair not expected until mid-January 2016. It is estimated the impact to Barrick is ~50koz. Barrick lowered its Full Year 2015 guidance (more aggressively than implied by the malfunctioning) to 6.0-6.15Moz from 6.1-6.3Moz (6.2-6.6Moz in early 2015). Barrick recently announced the outcome of a sale process for certain non-core US assets for a total of $720 million in cash. Asset sales to date have totaled $3.2 billion, allowing the company to fund their planned $3 billion debt reduction in 2015. It's forecast a year end 2015 net debt position of $7.2 billion and a Net Debt to Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) ratio of 2.05x, with a reduction in the ratio to 1.49x by the end of 2017. Barrick still has the option to divest its 50% interest in the Kalgoorlie Joint Venture (worth ~$500 million), with the natural purchaser being Newmont , which owns the remaining 50% stake. In our view, while the balance sheet situation appears greatly improved, the negative production profile and fundability of the growth pipeline at spot gold remain key issues. The material reduction in operating assets also reduces the company's ability to service its longer-dated debt obligations at lower gold prices and its optionality at higher prices.

BCE Inc. - Canada's largest communications company, announced that it has entered into an agreement with a syndicate of underwriters led by BMO Capital Markets and RBC Capital Markets, together with CIBC World Markets, National Bank Financial and TD Securities, under which the underwriters have agreed to buy on a bought deal basis 13,140,000 common shares (common shares), at a price of $57.10 per common share for gross proceeds of $750,294,000. The net proceeds of the offering will be used for general corporate purposes including reducing financial leverage.

Brookfield Infrastructure Partners Limited Partnership – An Australian regulator knocked back an attempt by Canadian infrastructure giant Brookfield Asset Management Inc to overcome competition concerns holding up its $6.53 billion bid for port and rail firm Asciano Ltd. The decision is a blow to a takeover proposal backed by Asciano and boosts the prospects of a rival bid from smaller Australian logistics firm Qube Holdings Ltd. The regulator said it would make a final ruling on Australia's biggest inbound takeover in four years - and its biggest buyout by a Canadian firm - on Dec. 17. The Australian Competition and Consumer Commission dismissed Brookfield's "long-term behavioural undertakings" to address worries that the deal would give it both the rail tracks and freight trains in some locations, potentially enabling it to cut out other freight operators. The ACCC said it made its decision partly on the basis of industry feedback which had raised doubts that Brookfield's promises would be enforceable or effective. Since Asciano agreed to Brookfield's offer in August, the ACCC has raised what it called "red light" concerns that the Canadian firm would control too much of the freight supply chain. In a statement Brookfield said it is "evaluating the variety of available alternatives for addressing those issues that the ACCC has determined cannot be resolved through undertakings relating to conduct alone".

Northland Power Inc. – We met with the management of Northland Power after its third quarter's results announcement. Some of the key points that stood out during the discussions were: the company's Gemini Dutch offshore wind project has de-risked significantly during the 2015 construction season, which is on budget and ahead of schedule by 71 days, with all of the 150 foundations and transition pieces installed and waiting for the turbines (which will commence installation in February of 2016); the company's NordSee I German offshore wind project is also advancing fast, on the back of the experience accumulated from Gemini; both North Sea offshore projects are now expected to be completed in 2017 within a time window of only about 6 months from each other; subsequent to which the company's EBITA are expected to more than double as energy production ramps up into 2018, at with point the dividend cover should allow an upward revision of the dividend level. On the business development front, Northland Power's team, led by the newly hired Mike Crawley is working on roughly 2,200MW of early development stage projects, with an emphasis on renewable power in Europe, as well as thermal, wind and solar in Latin America, in particular Mexico, Chile and Colombia. The company has put behind its difficulties with the last stages of its Ontario solar projects and more recently the asset has outperformed expectations. Negotiations for extension of the power contracts at Kingston and Iroquois Falls thermal facilities are on-going.

TransAlta Renewables Inc. and TransAlta Corporation announced that they have entered into an investment agreement pursuant to which TransAlta Renewables has agreed to invest in TransAlta's Sarnia Cogeneration Plant, Le Nordais wind farm and Ragged Chute hydro facility for a combined value of approximately $540 million. The portfolio consists of approximately 611 MW of highly contracted power generation assets located in Ontario and Quebec. TransAlta Renewables' investment will consist of the acquisition of securities which will track the net distributable profits of the Portfolio. As part of the Transaction, TransAlta Renewables will issue $175 million in common shares to TransAlta and $215 million in convertible unsecured subordinated debentures. This is a well anticipated transaction. There are three assets dropped down for a total of 611MW: Sarnia Gas 506MW built in 2003, contracted through 2025; Le Nordais (Quebec) Wind 98MW, 1996 vintage, contracted with HydroQuebec through 2033; Rugged Shute Small hydro 6.6MW, 1991 vintage, contracted through 2029. Other drop-down candidates remain the newly acquired (from Suncor) wind facilities (77MW), 21MW of solar in Massachusetts as well as more gas plants in Ontario and hydro in Alberta. The consideration is $540 million, financed as follows: $175 million shares issued to TransAlta Corporation, $150 million publicly offered common issue and a $215 million convertible debenture at 4.5%. In addition, $200 million of common equity of TransAlta Renewables is sold by TransAlta Corporation to AIMCO (Alberta Investment Management Corporation, who ends up owning 8% of TransAlta Renewables. The company's dividend is increased by 5%, to $0.88/share, which leads to a yield of 9% at the offered price of $9.75. The company points out it expects the deal to be 3% accretive to cash flow.

Global Dividend Payers

ABB Ltd. announced that it has raised its stake in German low voltage equipment manufacturer Striebel & John to 100% from 51% without disclosing the details of the deal with the Striebel family. ABB will combine the Striebel & John product range (which will retain its own brand) with its own range to offer complete systems. ABB ranks

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no 1 in Germany in low voltage and aims to consolidate its position further in this important market.

The Barry Callebaut Group – We met with the newly appointed CEO, Antoine De Saint-Afrique, and the company's CFO, Victor Balli, to review the company's most recent results, outlook and industry developments. The company, which is word leader in cocoa processing and chocolate making, is executing a transition from a volume driven expansion, accelerated by the acquisition of Petra Foods at the end of 2012, to profitability focused execution. That said, during the company's most recent quarter, it reported a 4.5% growth in sales volume, significantly outperforming the overall market, which retreated 2.7% in the quarter. The global market has been suffering from high cocoa bean prices and a compression of the combined ratio (which is the revenues from sales of cocoa powder and butter, relative to the cost of cocoa beans). Going forward, the company targets broad-based growth mainly driven by developed markets, as well as focus on margins and cost. Barry Callebaut is using its gourmet and specialty division to spear-head into new outsourcing contracts, as well as to establish foot-holds and effectively 'create a market' for fine chocolate in emerging markets. The company has also been dedicating a lot of attention to improved cash conversion, in particular better management of inventories.

Compass Group PLC - Operating profit after restructuring +4.6% at £1,261 million. Operating margin after restructuring 7.1%. Earnings per share +11.0% at 52.3 pence. Free cash flow -2.0%at £686 million and full year dividend per share 29.4 pence +10.9%. Revenue for the Group increased by 5.8% on an organic basis. Underlying revenue at reported rates increased by 4.6% reflecting the strengthening of sterling against many of the Group's key currencies, which was partly offset by the benefit of the strengthening of the US dollar. New business wins were 8.8%, driven by a strong performance in "MAP 1" (i.e. client sales and marketing focus) in North America and Fast Growing & Emerging and accelerating growth in Europe & Japan. The Group's retention rate improved and is now 94.5% reflecting ongoing focus and investment. The Group aims to increase consumer participation and spend through "MAP 2" (i.e. consumer sales and marketing) initiatives. This combined with a more benign macroeconomic environment in many of our markets resulted in like for like revenue growth of 2.5% reflecting modest price increases and improving volumes in North America and Europe & Japan. In Fast Growing & Emerging the Group has seen like for like weakness in some emerging markets and in its Offshore & Remote business. On July 29, 2015, the Group announced that in addition to its ongoing restructuring activities - which partly helps it deliver yearly efficiencies – it is proactively reducing the cost base in its Offshore & Remote business globally and in some emerging markets. This incremental restructuring cost of around £50 million, will be included in operating profit. In 2015, the Group incurred a £26 million charge, most of which was for labour cost reductions, with £9 million non-cash. The Group expects the remaining £20-25 million of restructuring costs to be incurred in 2016. Excluding the impact of the restructuring, organic operating profit increased by 6.5% and the underlying operating margin improved by 10 basis points as the Group continues to drive efficiencies across the business using its management and performance framework, MAP. The Group has also maintained its focus on MAP 3 (i.e. cost of food) with initiatives such as menu planning and supplier rationalisation, as well as continually optimising MAP 4 (i.e. labour and in unit costs) and MAP 5 (i.e. above unit costs). Returns to shareholders continues be an integral part of our business model. The Group bought back £328 million worth of shares in the year and going forward will continue to maintain strong investment grade credit ratings, returning any surplus cash to shareholders to target net debt/ EBITDA of around 1.5x.

Deere & Company – reported a drop in quarterly earnings that was not as steep as Wall Street expected and gave a less pessimistic outlook than analysts had feared, saying it was well-positioned to weather a worsening slump in demand for its farm equipment. Chief Financial Officer Raj Kalathur told analysts on a conference call that while the company forecasts its third straight year of declines in sales of agricultural equipment, its main business, in fiscal 2016, it also expects to remain "solidly profitable." "We are forecasting a very healthy level of cash flow of over $2.5 billion in 2016," Kalathur said. "Our actions and proactively controlling expenses, costs, and managing assets have enabled us to deliver substantially better results than in any of the past downturns." Deere expects total equipment sales to drop about 11% in its first quarter, which began on Nov. 1, and fall about 7% for the year. Deere also forecast net income attributable to the company at about $1.4 billion for fiscal 2016, down from $1.94 billion in 2015. Analysts on average were expecting about $1.31 billion, according to Thomson Reuters. The company relies on the United States and Canada for the bulk of its sales and revenue. Industry sales of high-powered two-wheeled drive tractors in those countries fell 34% in October, the Association of Equipment Manufacturers said. The US Department of Agriculture expects US net farm income to show a 38% drop to $55.9 billion in 2015. In Europe, the agriculture market is also under pressure due to lower farm income. And in South America, Brazil has gone further into a recession. Nonetheless, we expect the current downturn in agricultural commodities to eventually end, as the fundamentals driving the sector, namely demographic growth and the ascension of large swaths of emerging countries population into the middle class, are still in place. In the fourth quarter ended Oct. 31, net income attributable to Deere fell 45.9% to $351.2 million, or $1.08 per share, from a year earlier.

Economic Conditions

US – durable goods report for October revealed a better than expected 3.0% improvement at the headline level, driven by transportation orders. The consensus expectations had factored in a 1.5% advance. Core orders, which exclude the bulky transportation orders (think Boeing), were up only 0.5% in the month, yet still ahead of the expectations for a 0.4% improvement and effectively offsetting

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September's 0.4% pull-back. Machinery, electronics and metal production orders contributed to the advance, while motor vehicles and appliances actually dragged on growth in the month.

On the US consumer front, the personal income grew by 0.4% in October, as expected, while consumption grew by 0.1%, below the expected 0.3% advance. Part of the same report, the core personal consumption expenditures (PCE) price index, the US Federal Reserve's favourite price gage, maintained its 1.3% year on year rate of change. The US consumer confidence, as measured by the Conference Board, surprisingly retreated in November, to 90.40 index points from 99.10 index points. However, the measure of consumer sentiment, as put out by the University of Michigan, improved mildly in the same month, from 90.0 index points to 91.3 index points, albeit short of the expectations, as both the 'current conditions' and the 'expectations' components of the composite index advanced in November.

US Existing home sales: fell a larger-than-expected 3.4% in October to 5.36 million units annualized. The decline retraced a good chunk of the prior month's gain, but still kept sales above year-ago levels and higher than this year's average. Sales fell in three of four major geographic regions, and for both singles and multiple-unit dwellings. Listings also sank, tempering the increase in the months' supply to 4.8%--still fairly lean. Prices continued to rise, with the median up 5.8% year/year. First-timers upped their game, but their share of total sales (31%) remains well below the normal 40%, as elevated student debts continue to delay the usual life-cycle spending pattern of persons in their prime first-time home buying years. Amid rising rents and falling rental vacancy rates (to 19-year lows), investors maintained a solid 13% share of sales. Despite the setback, we believe home sales should resume higher in the face of rising rents, good job growth, improved consumer confidence and still-low mortgage rates.

U.S. home price momentum picked up in September, with the **S&P Case-Shiller Home Price Index** (for the 20 major cities) accelerating to a 5.5% y/y clip from 5.1% year/year in August. That's the best pace in just over a year, and the third straight month of accelerating year-over-year price growth. The acceleration is fairly widespread as well, with most major cities seeing price growth pick up in recent months. The West Coast continues to lead the league, with San Francisco, Seattle, Portland and L.A. all posting above-average price growth in the past year. Midwest cities such as Chicago and Minneapolis continue to lag, with the former up just 1.2% year/year—that's actually the softest pace among the 20 major centres. With affordability still attractive, home prices should, we believe, be able to keep rising at or near this pace even as the Fed begins to tighten.

U.S. new home sales jumped 10.7% in October to a 2-month high of 495,000 units annualized. That was more than expected (all regions but the West experienced it). There were downward revisions to the prior three months (by 40,000 in total, all in the South and the West). But despite the 1.3% increase in inventories, supply is still fairly lean (well below the long-term average). In other words, what's out there can be snapped up quickly. In fact, **the # of months it takes to sell a house (from completion) was 2.8 in October,** the shortest amount of time since the series began in 1988. What was also interesting was that the % of homes sold in the $200,000-to-$299,999 price range (starter home category?) rose to 34%, the largest share since June. Shares of homes sold in the $150,000-to-$199,999 and $300,000-to-$399,999 range also picked up a bit (to 15% and 21%, respectively). This could, perhaps, be an **indication of first-timers stepping into the fray,** which would be welcome news indeed.

Portugal: Socialist Party (SP) leader Antonio Costa has been appointed Prime Minister, marking the second (Greece) Eurozone country this year to move left post elections. Unlike Greece though, this was a coup as the center-right coalition had won elections with 39% votes. Unfortunately for the rest of the Portuguese parties (all far-leftist) decided to partner up with SP to displace the coalition (I don't recall the last time this happened to a government with nearly 40% votes and having the most Parliament seats). Under the terms of the agreement between Costa and President Sliva, Costa must adhere to 6 conditions; Approve the 2016 budget (which includes privatization sales); Maintain stability of financial system; Abide by fiscal discipline rules set by European authorities; Comply with NATO commitments; Seek assurance that Costa can count on backing of other alliance partners and; Continuance of Permanent Council for Social Concertation (labor/business leaders who consult with government on policy). In our view both Greece and Portugal populace are tired of austerity but fear the alternatives. In turn, this has led to the creation of two leftist governments who are anti-austerity but also extremely weak (reflecting population fears of the alternative via Eurozone exit).

Financial Conditions

The IMF is expected to announce today that the Chinese Yuan will be adopted into its special drawing right (SDR) basket and provide China another step towards making the Yuan an alternative global reserve currency next to the USD. By including the Yuan, China will gain credibility in its financial reforms and capital account liberalization. We will be keeping a close eye on today's announcement to see what percentage the Yuan will made up of the SDR. Below 10% will be disappointing for China as the markets are looking for somewhere between 12-15%.

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 December 2015. The US 2 year/10 year treasury spread is now 1.28% and the UK's 2 year/10 year treasury spread is 1.22% - 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 3.95% (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 4.8 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 15.99 (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 and Renewable Energy Fund LP
- Portland Advantage Plus Funds
- Portland Private Growth Fund

We want to share our insights with you and welcome your feedback. Our website has the latest, as well as archived videos, company profiles, and press articles. Please visit us at www.portlandic.com.

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