

News Highlights

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PORTLAND
INVESTMENT COUNSEL®

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

October 6, 2016

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Energy Sector

Nothing new to report.

Financial Sector

Barclays Plc - Agrees to sell its Retail and Corporate Banking business in Egypt to Attijariwafa Bank S.A. Transaction is estimated to result in a proforma Common Equity Tier 1 (CET1) ratio benefit of c.10bps on completion, in part reflecting an expected reduction in risk weighted assets of approximately £2 Billion. This proforma is calculated as at 30-Jun-16, and does not reflect factors affecting the group's CET1 ratio since 30-Jun-2016. Barclays Bank Egypt has approximately 1,500 employees and 56 branches. Completion is subject to regulatory approvals, and is currently expected to occur by the end of 2016. **Barclays** is calling time on 150 years of history in Egypt by agreeing to sell its operations in the country to a Moroccan rival in this \$500m deal. Attijariwafa Bank, the biggest bank in Morocco by revenue, is buying all of Barclays' operations in Egypt, having seen off competition from Saudi and Emirati competitors. Barclays, which is in the process of selling its much larger South African-listed subsidiary, has been looking to offload its Egyptian and Zimbabwean operations since deciding to drastically cut back its African presence this year.

Citigroup Inc. is investing another \$1 billion in its Mexican bank and renaming it Citibanamex in the strongest signal from management that the business is worth keeping for the long run. New York-based Citigroup said on Tuesday that the investments will be completed by 2020 and will improve digital tools, ATMs and branches. The new funds come in addition to Citi's 2014 commitment to invest \$1.5 billion in the business, formerly known as Banco Nacional De México, or Banamex. (Source: Reuters)

Deutsche Bank Ag (not held in Portland Funds) is throwing its energies into reaching a settlement before next month's presidential election with U.S. authorities demanding a fine of up to \$14 billion for mis-selling mortgage-backed securities. The threat of such a large fine has pushed Deutsche shares to record lows, and a cut-price settlement is urgently needed to reverse the trend and help to restore confidence in the lender. A media report late on Friday that Deutsche and the U.S. Department of Justice were close to agreeing on a settlement of \$5.4 billion lifted the stock 6 percent higher, but that report has not been confirmed. (Source: Reuters) The chief executive of troubled Deutsche Bank has emailed the 100,000 staff to reassure them that the German giant's finances are strong. John Cryan told them the bank had become the object of "hefty speculation" and that "new rumours" were causing the share price to fall. He said the bank's reserves and profits underlined its strength. In his letter, Mr. Cryan

pointed out that Deutsche had €215 billion in reserves and made €1bn in profits for the last six months. At no point in the last 20 years had Deutsche been as strong as it is now, Mr. Cryan insisted. (Source: BBC)

ING Groep NV has announced significant scaling back of its branch network in Belgium and the Netherlands with the loss of about 5,000 jobs as the bank progresses with its "Think Forward" restructuring strategy moving increasingly from physical to online capabilities.

NN Group NV (NN) /Delta Lloyd NV - NN has issued a press release this morning stating it intends to make an all-cash offer for Delta Lloyd of €5.30 per ordinary share, for a total consideration of €2.4 billion. This represents a premium of approximately 53% over the last 3-months average closing price and 29% over the last closing price of €4.12 per share. NN Group intends to finance the all-cash offer using existing cash resources and external debt. NN Group will submit a request to the Dutch Central Bank for a declaration of no objection to pursue the transaction. NN cites the following expected benefits:

- Expected to deliver significant EPS, free cash flow and DPS accretion;
- Maintaining a strong balance sheet and solvency position;
- Creating value through additional scale, cost synergies and capital diversification;
- Strengthening the commercial platform, cementing market leading positions; and
- Further enhancing our customer proposition by complementing our product offering and distribution.

NN Group has provided its proposal to the Executive Board and the Supervisory Board of Delta Lloyd, and has invited them to discuss this proposal with a view to come to a recommended transaction. Delta Lloyd so far declines to comment on the unsolicited bid and hasn't accepted any invite to take on the bid to date. At first glance the deal looks reasonable for NN Group with estimated synergy potential (~7% of market cap) but this initial bid may not be enough for Delta Lloyd's shareholders. After repeated attempts to engage with Delta Lloyd privately fell through, NN Group has decided to go public with their offer. NN Group has now made a proposal to Delta Lloyd's Board and is keen to discuss the proposed deal. We expect the company to issue an update to the market within the next 4 weeks. CEO Lard Friese reiterated the strategic benefits of the deal and the attractiveness for both sets of shareholders. Post-deal the combined company would have a strong balance sheet and remain financially flexible. The pro-forma solvency would reportedly be "very strong" and would also benefit from capital synergies. NN Group confirmed they would finance the transaction through existing capital and internal resources (we expect some debt issuance).

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Nordea Bank AB has been informed about the final outcome of the 2016 capital joint decision and probability of default (PD) inspection by Finansinspektionen (the Swedish Financial Services Authority). Nordea's common equity tier one requirement as of September 30 is 17.3%. Nordea's preliminary outcome had indicated a Core Equity Tier 1 Basel III requirement of about 17%; however, it was unclear whether the preliminary capital requirement fully included the results from the probability of default inspection. We therefore think the outcome is a little higher / stronger than Nordea had expected. Dagens Industri reports CEO Casper von Koskull says regarding potential for reduced dividend payment for 2016 versus year earlier that "the risk is higher given that we now will accumulate more capital to ensure we meet the FSA's new capital requirement." At the same time, the bank's ambition to increase the dividend every year remains in place; CEO says "I am not yet ready to change that at this stage. It's a decision that will be taken by the board in January." Regarding increased capital requirement from Swedish FSA, von Koskull says "there is no major drama -- it won't affect how we run the bank. It's business as usual".

Royal Bank of Scotland Group Plc is renaming its investment bank NatWest Markets as part of its separation from the bank's High Street operations. On the High Street, NatWest will remain in England and Wales, while in Scotland it will be Royal Bank of Scotland. The bank, which is still 73% owned by the taxpayer, must "ring-fence" its retail bank by 2019 under new rules. The new structure "will better reflect who we are as a bank", said chief executive Ross McEwan. (Source: BBC)

Wells Fargo & Company - Illinois has suspended US\$30 billion of broker / dealer annual short-term investment business with Wells Fargo as part of the fallout from the bank's sham accounts scandal. This follows the decision by California to withdraw its similar business from Wells Fargo. In of themselves the financial impact of this lost business is slight but the damage to the bank's reputation has yet to dissipate.

The team winding down Lehman Brothers Holdings Inc. said it would be paying out \$3.8 billion to creditors, more than eight years after the investment bank's collapse triggered the financial crisis. The distribution, the 11th since the investment bank failed in 2008, will bring the total payout in the firm's bankruptcy to more than \$113.6 billion. The bulk of the cash---\$83.6 billion---has gone to pay so-called third-party, or non-Lehman claims. Lehman said in a filing in U.S. Bankruptcy Court in New York that its senior unsecured creditors, Lehman bondholders who were estimated to receive about 21 cents on the dollar when the bank's bankruptcy plan went into effect in early 2012, will have recovered more than 40 cents on the dollar after the next distribution is completed. (Source: Wall Street Journal)

Activist Influenced Companies

Nothing new to report.

Canadian Dividend Payers

Veresen Inc. – The Alliance natural gas pipeline will shut down for seven days from October 12 while new sections of pipe are installed at two locations in western Canada. The work is being done to accommodate a new highway being built in Regina, Saskatchewan, with pipe being replaced in each of the two locations where the highway will cross the mainline. Alliance Pipeline LP, which is sponsored by affiliates of Enbridge Income Fund and Veresen, said it has worked with customers to minimize business impacts and expects no material negative financial impact as a result of the outage. The Alliance Pipeline is one of the most important liquids-rich natural gas conduits between Western Canada's Montney region and the Chicago market hub, delivering about 1.6 billion standard cubic feet of natural gas per day.

Global Dividend Payers

ABB Ltd. announced this week measures which should move ABB to the higher end of the 11-16% operational Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) margin range. These include more cost savings and a refocusing of Power Grids, in line with our expectations. The shareholder continues to benefit in our view from the strong balance sheet and cash flow through an additional \$3bn buyback. ABB expanded its colour on mid-long-term growth drivers, showing it achieves fast growth markets in 14% of the group, grows in 61% and faces market declines in 25% of its business.

Barry Callebaut AG has this week celebrated the grand opening of its first chocolate factory in Indonesia. As announced in June 2015, Barry Callebaut entered into a long-term outsourcing agreement with P.T. GarudaFood Group, one of the largest food and beverage companies in Indonesia, which involves the supply of at least 10,000 tonnes of compound chocolate per year to GarudaFood as well as the set-up of Barry Callebaut's own operations.

Johnson & Johnson is telling patients that it has learned of a security vulnerability in one of its insulin pumps that a hacker could exploit to overdose diabetic patients with insulin, though it describes the risk as low. Medical device experts said they believe it was the first time a manufacturer had issued such a warning to patients about a cyber vulnerability, a hot topic in the industry following revelations last month about possible bugs in pacemakers and defibrillators. J&J executives told Reuters they knew of no examples of attempted hacking attacks on the device, the J&J Animas OneTouch Ping insulin pump. The company is nonetheless warning customers and providing advice on how to fix the problem. "It would require technical expertise, sophisticated equipment and proximity to the pump, as the OneTouch Ping system is not connected to the internet or to any external network." Insulin pumps are medical devices that patients attach to their bodies that injects insulin through catheters. The FDA (Food and Drug Administration) praised J&J for their work in discovering, finding ways to mitigate and disclosing the vulnerability.

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LVMH Moët Hennessy Louis Vuitton SE announced the acquisition of 80% of the German brand *RIMOWA* for €640 million. *RIMOWA* is a global brand specialised in premium and high-end luggage. The brand revolutionized the luggage industry when it launched the first polycarbonate suitcase in 2000. We take the deal as positive and believe the acquisition originates from LVMH's aim to participate in the Travel Retail market with a specialist brand such as *RIMOWA*. High-end luggage market remains fragmented with consolidation opportunities as shown by Samsonite International S.A. buying *Tumi* earlier this year. LVMH already has a presence in Travel Retail thanks to its duty free business under the brand *DFS*. LVMH commented in the press release that it expects *RIMOWA*'s revenue to exceed €400 million in 2016. In 2015, *RIMOWA* grew revenue 28.2%. The acquisition will contribute c1% to LVMH annual sales in 2017. It is estimated the acquisition values *RIMOWA* at c1.9x Enterprise Value (EV)/Sales (2016E). This is slightly below the sector that trades at c2.1x 2016 sales. On a sample of 42 deals in the luxury industry, as recorded by Bloomberg, the average EV/Sales is c1.5x, although this is based on a range of 0.03-9.33x. The strong free cash flow profile of LVMH implies the deal has little impact on the company's net-debt level. €640 million represents only c7% of EBITSA. Once paired with the sale of *DKNY* earlier this year for \$650m, the two deals leave net-debt assumptions almost unchanged (about €60 million).

Syngenta AG has announced the completion of capacity expansion projects at key sites in Brazil and Switzerland. The Company has invested a combined total of \$240 million in two plants in Brazil - a new ELATUS™ fungicide plant in Paulínia, São Paulo, and an expanded corn seed factory in Formosa, Goiás - and in expanding its manufacturing facility for S-Metolachlor in Kaisten, Switzerland. These projects will ensure the achievement of industry-leading efficiency. The ELATUS™ formulation plant in Paulínia is the first in Latin America to make use of PEPITE® technology, which results in water-soluble granules, combining the properties of liquid use with the convenience and easy transportable advantage of a dry, solid product. The use of this formulation, in addition to the characteristics of ELATUS™ active ingredients, also improves transportation of the ingredients to the plant tissue, ensuring rapid and systemic protection of the crop. ELATUS™ sales in Latin America exceeded \$400 million in 2015. It provides outstanding potency against soybean rust and provides long lasting control and increased yield benefits for the grower. In Formosa, the installations at Syngenta's corn seed plant have been quadrupled. The site will raise its production capacity from 400,000 to 1.6 million bags of corn per year. The investment in Kaisten, Switzerland, has enabled significant production capacity expansion for S-Metolachlor, a leading herbicide used in many brands, including ACURON™, DUAL GOLD®, and LUMAX®. S-Metolachlor has proven to be a critical tool in managing weeds that are increasingly difficult to control in a number of crops, notably corn and soybean. Mark Peacock, Syngenta Head of Global Operations, said: "With these investments in production capacity expansion, we confirm our long-term commitment to agricultural development and to bringing winning innovation into the hands of growers."



Economic Conditions

Canada - This week the federal government introduced three key measures aimed at cooling the housing market in Canada. First, a measure to ensure that permanent non-residents are not eligible for the principal residence exemption on any part of a gain from the disposition of a residence after October 2, 2016. Second, effective November 30, 2016, mortgage loans that lenders insure using portfolio insurance and other discretionary low loan-to-value ratio mortgage insurance must meet the eligibility criteria that previously only applied to high-ratio insured mortgages. Third, effective October 17, 2016, all insured homebuyers must qualify for mortgage insurance at an interest rate the greater of the contract mortgage rate or the Bank of Canada's conventional five-year fixed posted rate.

U.S. - Business activity seems to finally take a turn for the better in the U.S., with the Institute for Supply Management's (ISM) Purchasing Managers Index (PMI) surprising on the upside in September, inching above the 50 index points level, which separates the overall economic expansionary tendencies from the ones indicating contraction, at 51.50. Its non-manufacturing counterpart (the NMI) also came in ahead of expectations for September, at 57.10 index points. U.S. consumer confidence meanwhile improved to 91.20 index points, as measured by the University of Michigan, with both the 'current conditions' and the 'expectations' components of this composite index advancing in the month.

U.S. goods & services trade deficit unexpectedly widened in August, from \$39.55 billion in the prior month to \$40.73 billion. Although this wipes out July's improvement, the first since March, the deficit for the quarter thus far has narrowed, suggesting that trade will be slightly positive for growth. For August, exports grew 0.8%, the third straight pickup (encouraging news.....speaks to global demand and to USD strength), but it was accompanied by a 1.2% jump in imports. (The latter's breakdown was mixed: stronger demand for food, capital goods, cars, and energy, offset by a drop in industrial supplies and non-food consumer goods.) Although for the purposes of GDP, higher imports is a negative but it is also a positive indication of domestic demand. In volume terms, both exports (+1.8%) and imports (+0.8%) grew, while the deficit narrowed. The deficit with China widened to \$33.9 billion, the largest imbalance since September.

British Prime Minister Theresa May said the U.K. would trigger the process of disentangling itself from the European Union by the end of March, signalling she would pursue a clear break from the bloc. Setting the stage for Britain to leave the EU by 2019, Mrs. May gave the clearest indication of her priorities for an exit deal to date, saying she wanted to win British companies "the maximum freedom" to operate in Europe's single market, but not if it meant relinquishing the right to curb immigration to the U.K. "Let me be clear: We are not leaving the European Union only to give up control of immigration again," she said. (Source: Wall Street Journal)

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Britain launched a £5 billion (\$6.5 billion) homebuilding stimulus package last Monday, including plans to borrow £2 billion to help address a long-term housing shortage that has become a major economic problem. The announcement comes on the second day of the ruling Conservative Party's annual conference, which the government is using to set out how it wants to leave the European Union and tackle social divisions exposed by the June Brexit vote. (Source: Reuters)

Financial Conditions

The U.S. 2 year/10 year treasury spread is now .88% and the U.K.'s 2 year/10 year treasury spread is .72% - 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.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 3.42% (was 3.31% end of November 2012, the lowest rate since the Federal Reserve began tracking rates in 1971). Existing U.S. housing inventory is at 4.3 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, 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 13.51 (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 Focused Plus Fund](#)
- [Portland Private Income Fund](#)
- [Portland Global Energy Efficiency and Renewable Energy Fund LP](#)
- [Portland Advantage Plus Funds](#)
- [Portland Private Growth Fund](#)
- [Portland Global Aristocrats Plus Fund](#)

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