

News Highlights

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

April 3, 2017

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Energy Sector

U.S. land rig count increased by 11 rigs week/week to 798 rigs (3rd consecutive week of double digit gains), and ended the quarter up 27% quarter/quarter. The rig count was driven by gains in Horizontal Oil (+12), Directional Oil (+5), Directional Gas (+3), and Vertical Gas (+1), partially offset by declines in Vertical Oil (-10), while Horizontal Gas remained flat week/week. Total horizontal land rig count is down 50% since the peak in November 2014. The Permian currently makes up 50% of all oil rigs.

U.S. horizontal oil land rigs increased by 12 rigs week/week to 555 as gains in "Other" (+8), Permian (+4), Eagle Ford (+2), DJ-Niobrara (+1), Granite Wash (+1), were partially offset by declines in Woodford (-2), Williston (-1), and Mississippian (-1).

Canadian rig count decreased by 30 rigs week/week, but is up 235% from the level this time last year and finished up 65% quarter/quarter.

U.S. Gulf of Mexico offshore rig count increased by 4 rigs week/week to 22 rigs (driven by Jackups), which is the largest weekly gain since December 2014 when excluding the Hurricane Hermine recovery last September and is down 59% since June 2014.

Cenovus Energy Inc. announced acquisition of ConocoPhillips Co.'s Canadian assets last week, the fifth-biggest Canadian energy deal on record and will more than double Cenovus production to 588,000 barrels of oil equivalent per day and make it the third-biggest Canadian producer. The company will become the sole owner of its flagship Foster Creek and Christina Lake oil sands projects and is also buying the majority of ConocoPhillips' western Canada Deep Basin conventional gas assets. The offer was unsolicited, according to ConocoPhillips Canada spokesman Michelle McCullagh, who said her company had planned to market some Canadian assets as part of a disposition program but that this is a larger deal. The transaction, to be financed through selling shares and divestitures, is greater than Cenovus' C\$12.8 billion (\$9.6 billion) market capitalization, and ratings agency DBRS placed the company under review with negative implications. ConocoPhillips is the latest international oil major to pull back from northern Alberta's oil sands, which is among the most costly plays in the world to develop. Canadian players like Cenovus, Suncor Energy and Canadian Natural Resources Limited are grabbing assets as multinationals retreat, betting improvements in thermal extraction technology will help them boost efficiency to compete against U.S. shale plays. The deal will help Conoco focus its portfolio on the U.S., Asia and the Middle East and clean up its balance sheet. The Houston-based company follows Royal Dutch Shell PLC and Marathon Oil Corporation in offloading parts of its Canadian portfolio.

The breakeven price for drilling in the Canadian oil sands can be anywhere between \$50 and \$95 a barrel, according to estimates from IHS Markit.

Financial Sector

Barclays PLC is in exclusive talks to sell its stake in Barclays Bank of Zimbabwe to Malawi's First Merchant Bank, First Merchant Bank said in a statement on its website on Tuesday. A spokeswoman for Barclays confirmed the bank is in early discussions with a prospective buyer for its 68% stake in the Zimbabwe bank. Neither party disclosed a value for the prospective deal. Barclays Bank of Zimbabwe has a market capitalization of \$60 million, according to data. (Source: Reuters)

Wells Fargo & Company has reached an agreement in principle to settle a class action lawsuit over its sham account scandal for \$110 million, the lender said last Tuesday. The bank said that the settlement would include all individuals who claim that "Wells Fargo opened an account in their name without consent, enrolled them in a product or service without consent, or submitted an application for a product or service in their name without consent" from January 2009. Wells added that it "expects this settlement to resolve claims in 11 other pending class actions that unauthorized accounts were opened in customers' names or that customers were enrolled in products or services without their consent". "This agreement is another step in our journey to make things right with customers and rebuild trust," said Tim Sloan, chief executive. (Source: Financial Times)

Activist Influenced Companies

Nomad Foods Limited reported fourth quarter and full year 2016 results last week which revealed a sequential improvement in revenue growth, the result of the company's refocus on key categories, such as frozen fish and peas, supported by a concentrated promotional campaign around what the company calls 'must win battles'. Revenue for the three months ended December 31, 2016 was €485.2 million, which compares to €475.9 million in the fourth quarter of 2015. Earnings before interest, taxes, depreciation and amortization (EBITDA), which includes exceptional items and share based payment charges, was €39.5 million for the three months ended December 31, 2016 compared to an EBITDA of €42.2 million for the three months ended December 31, 2015. Revenue for the twelve months ended December 31, 2016 was €1,927.7 million, resulting in a €36.4 million profit after tax. For the twelve months

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ended December 31, 2016, earnings per share was €0.20 compared to a loss per share of €2.32 in the nine months ended December 31, 2015. EBITDA was €189.2 million for the twelve months ended December 31, 2016 compared to an EBITDA loss of €292.3 million for the nine months ended December 31, 2015, primarily from the exceptional non-cash charges related to the Founder Preferred Shares Annual Dividend Amount of €349.0 million.

Canadian Dividend Payers

Barrick Gold Corporation announced a newly formed 50/50 joint venture with Goldcorp in Chile for the joint development of both the Cerro Casale and Caspiche projects. The key benefits from the combination include infrastructure sharing (water pipeline, power, roads), improved ore sequencing (grade profile improves), capital sharing (less onerous), technology sharing (Goldcorp CEP process to help at Caspiche) and importantly a revised water strategy with a potential seawater pipeline to be funded by the joint venture (JV) and other regional parties, effectively unlocking the Maricunga. The two projects are approximately 10km apart. Overall, Barrick had been looking for ways to unlock value at Cerro Casale and now appears to have found a way forward. Barrick receives no immediate cash as part of the reduction in its interest in Cerro Casale from 75% to 50% and loss of full control; however, Goldcorp has agreed to fund Barrick's first US\$175 million (\$260 million net of \$85 million for Barrick's share of the cost to acquire Exeter's Caspiche) of expenditures on the project. Goldcorp will also pay Barrick \$40 million in cash upon a positive construction decision and \$20 million cash upon Cerro Casale achieving commercial production. Goldcorp has also granted Barrick a 1.25% royalty interest on 25% of all metal produced at Cerro Casale and Quebrada Seca (also acquired from Kinross). The transaction is expected to close in Q2 2017. The new JV management team will be subject to oversight by a board made up of equal representation from both partners. The project is not expected to become an immediate priority for the JV, and we expect that up to five years of further study will be required to optimize the economics of the consolidated assets before a construction decision. Based on previous studies and benchmarking, we envision a combined potential average annual production (100% basis) of 835koz and 420mlbs of copper with a cash cost profile of <\$100/oz net of by-products. Assuming a \$7 billion total initial capital cost (includes starter heap leach) and 2026 start date, we estimate a ~15% internal rate of return (IRR) to Barrick at \$1,300 gold and \$3.00 copper. Cerro Casale is host to 32.7Moz gold and 9Bib copper (100% basis) with Caspiche host to 24.8Moz gold and 6.4Bib copper (100% basis). Key projects in Barrick's pipeline remain the Cortez underground expansion, Goldrush, Lagunas Norte sulphides and Turquoise Ridge. The company is also looking to take a potentially smaller, phased approach to development of Alturas and Pascua, lowering initial capital costs and risk while preserving expansion optionality.

Northland Power Inc. confirmed that the first wind turbine installed on the 332 MW offshore wind farm has successfully started to generate power and is feeding green electricity into the grid. Installation of the project's 54 turbines began earlier this month and seven turbines have been installed to date. Turbine installation will continue in parallel with the progressive commissioning of the wind turbines. Northland expects the installation and commissioning of all 54 Nordsee One turbines to be completed by the end of 2017. Once operational, the 332 MW wind farm is expected to produce an annual output of more than 1,300 gigawatt-hours of electrical energy, enough to supply the equivalent of approximately 400,000 German households. Nordsee One is owned by Northland (85%) and Innogy SE (15%).

Global Dividend Payers

Dufry AG - According to Wall Street Journal, HNA Group Co. Ltd. approached Dufry shareholders Temasek and GIC in a move to buy a stake in Dufry. It is not clear whether HNA has approached management. Temasek owns 8.6% and GIC 7.8%. Qatar Holdings LLC have another 6.9%. HNA has been very active in the past years in consolidating the leisure sector, including takeovers of Swissport or gategroup. In 2015, HNA also made a bid for Kuoni. The move would be extremely interesting for Dufry, in our opinion, as it would facilitate the company to enter the Chinese market (less than 1% of sales, only duty paid in Chengdu and Shanghai) and respectively the Asian market (10% of sales).

Roche Holding AG -The US Food & Drug Administration approved Ocrevus (ocrelizumab) as the first and only medicine for both relapsing (RMS) and primary progressive (PPMS) forms of multiple sclerosis (MS). These approvals were granted without limitations. Moreover, there are no black box warnings and no requirements for any additional screening or monitoring - only routine monitoring is required. Roche priced Ocrevus at US\$65,000 per year, which is approximately at parity to the average of current MS medicines, taking assumed rebates of competitors into consideration. This pricing strategy should ensure patient access to Ocrevus. With last week's approval, Roche will launch a potential blockbuster outside Oncology, in our view, albeit European approval is still pending. We assume peak sales of circa CHF 5 billion. **Roche is also potentially to be first-in-class in treatment of geographic atrophy.** AMD - the leading cause of blindness in people 50+: AMD is a progressive eye disease with two advanced forms: geographic atrophy (GA) and wet AMD (wAMD). GA is a slow moving form that leads to the gradual loss of visual acuity. There are no approved treatments. GA can transition to wAMD with faster vision loss. Although Lucentis and Eylea offer significant patient benefit, the medical need remains high. Roche's Lampalizumab is a potential first-in-class GA drug, it is an antigen-binding fragment against complement factor D and is being developed together with a biomarker. Phase II MAHALO showed

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reduction rates of 44% in biomarker positive patients. Ongoing phase III trials with data is expected in Q3 2017.



Economic Conditions

Canada January GDP Jumps by 0.6% on Widespread Growth - On Friday, Reuters highlighted that the Canadian economy expanded by 0.6% in January from December, more than expected, on widespread growth in goods- and service-producing industries. According to Statistics Canada, the increase, the seventh in the past eight months, was greater than the 0.3% advance forecast by analysts in a Reuters poll. The month-on-month expansion was the biggest since the 0.6% in June. Manufacturing in January grew 1.9% on strength in virtually every sector, while mining, quarrying, and oil and gas extraction also increased by 1.9%. Further, wholesale trade advanced by 2.4%, the largest monthly gain since July 2013, on higher imports and exports of motor vehicles and parts, while retail sales grew by 1.5%.

U.S. Personal spending in real terms actually fell in February, down 0.1%. But that was about it for the disappointment in our view (but still, obviously, a key figure). Despite spending more on household durables, recreational goods & vehicles, and recreational services, they were offset by cutbacks in other durable goods, clothing & footwear, and transportation services. The prior four months of total spending were revised up nicely (no shock given yesterday's final reading for GDP showed that Q4 real PCE (personal consumption expenditure) was revised higher to +3.5% from +3.0%). The last time we had two straight monthly declines in real PCE was in 2009. Indeed, with personal incomes growing solidly (+0.4%, right in line with the average over the past year), "jobs plentiful", wage increases (wages & salaries jumped 0.5%), confidence at the highest level since 2000.....those are all very spending-supportive. And, consumers wisely tucked away a little extra for a rainy day. The savings rate ticked up to 5.6%, the highest since October.



Financial Conditions

The U.S. 2 year/10 year treasury spread is now 1.13% and the U.K.'s 2 year/10 year treasury spread is .97% - 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 4.14% (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 3.6 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 still supporting the housing market with

housing inventory well off its peak of 9.4 months and we believe now at the low end of a more normal range of 4-7 months.

The VIX (volatility index) is 12.63 (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 manages the following 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](#)

Individual Discretionary Managed Account Models - [SMA](#)

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