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Energy Sector

Baytex Energy Corp. – has signed a multiyear natural gas supply agreement with a subsidiary of Kineticor Resources Corp. (KRC) to support KRC's proposed 100-megawatt power project in Peace River, Alta. This is the larger of two gas-to-power initiatives the company has concluded to support its gas conservation strategy in Peace River. Once constructed, the project will allow the company to reduce flaring and achieve its gas conservation targets in the region. To date, Baytex has invested more than $100-million in infrastructure to manage and reduce the emissions from its heavy oil operations in Peace River. Its integrated approach to emissions management includes vapour recovery, pipelines, compressors, gas storage and air monitoring.

U.S. land rig count increased by 18 rigs to 440, which is the largest weekly increase since April 2014, and is now trending up 4% quarter/quarter (q/q) QTD. The rig count has seen a weekly increase in 7 of the last 8 weeks. This week's increase was driven by horizontal oil (+13), vertical oil (+2), and directional oil (+1), while horizontal gas, vertical gas, and directional gas remained flat week/week (w/w). Total horizontal land rig count is 74% down since the peak in November 2014.

U.S. horizontal oil land rigs increased by 13 rigs w/w to 296, the biggest weekly gain since September 2016, and is up 49 rigs (~20%) off the May 2016 trough, led by gains in Permian (+9), Eagle Ford (+2), DJ-Niobrara (+2), Williston (+1), Granite Wash (+1), and Mississippian (+1), partially offset by losses in "Other" (-2) and Woodford (-1).

U.S. offshore rig count was down 3 rigs w/w to 18, and is down 67% since June 2014.

Canadian rig count was up 8 rigs w/w as we come out of breakup season but is still 49% off the level this time last year.

Financial Sector

BNP Paribas SA - BNP's Initial Public Offering of First Hawaiian Inc. is understood to be on track as BNP plans to set terms and sell its shares in the next couple of weeks. The terms of the offering will imply a market value for the bank of $3 billion to $4 billion. First Hawaiian has 62 branches and had assets of $19.1 billion on March 31, according to a filing by holding company First Hawaiian Inc.

Citizens Financial Group Inc. reported Q2 Earnings Per Share (EPS) of $0.46, beating consensus at $0.43. Higher net interest and non-interest income was partially offset by higher expenses than expected (likely driven in part by revenue strength). Loan growth was strong, with period-end loans up 10% annualized. Credit came in very solid, with Non-Conforming Obligations and provisions better than expectations. Return On Tangible Common Equity came in at 7.3% versus expectation for 6.9%. Net Interest Income increased $19 million sequentially to $923 million. Average earning assets increased at an 11% annualized rate versus Q1, and the net interest margin declined 2 bps to 2.84%. In Q3, management expects a slight decline in the net interest margin. Tangible Book per share is $24.73 ...compared to current share price of below $22.

The Goldman Sachs Group Inc. reported Q2 2016 EPS of $3.72. Consensus was $3.04 (down from $3.22 one month ago). Operating revenues fell 13% year-on-year but increased 25% sequentially to $7.93 billion (consensus $7.48 billion). The effective income tax rate was 26% in Q2 2016, down from 28% in Q1 2016, reflecting the resolution of certain tax matters. Had its tax rate been stable, EPS would have been $0.11 lower. Provisions for litigation and regulatory proceedings were $126 million ($0.19), compared to $77 million last quarter. Its Return On Equity was 8.7% in Q2 2016 and 7.5% in 1st Half 2016. Tangible book increased 2.1% in Q2 2016 to $166.90 (0.97x). Its Basel 3 Core Equity Tier 1 ratios (transitional) were 12.2% (advanced, unchanged) and 13.7% (standardized, +30bps). During the quarter, it repurchased 11.1mn shares for $1.74 billion. Average diluted common shares declined 1.8% during Q2 2016. Total assets increased 2% or $19 billion. Its global core liquid assets were $211 billion and averaged $210 billion (+$12 billion). **Investment Banking** - Revenues rose 22% from Q1 2016 to $1.79 billion. Relative to Q1 2016, both debt (+42%; to second highest level ever) and equity (+47%) underwriting rebounded, while advisory also increased (+3%). **Institutional Client Services** – Revenues (ex. Debt Value Adjusted) rose 8% year-on-year and increased 6% sequentially to $3.68 billion. Fixed Income Currency & Commodities rose 33% year-on-year and gained 14% sequentially to $1.9 billion. Investment Management - Revenues in **Investment Management** fell 18% year-on-year to $1.35 billion reflecting significantly lower incentive fees. Assets under supervision increased $23 billion (+1.8%) to $1.31 trillion.

Morgan Stanley reported strong revenue with earnings of $0.75 versus consensus at $0.59. Revenues of $8.9 billion (consensus: $8.3 billion) fell 7% year-on-year (y/y) but increased 14% sequentially. Most revenue items exceeded consensus, with Fixed Income Currency & Commodities beating by the most, while costs were also controlled. Expenses declined 8% y/y and increased 6% from Q1 2016. Compensation expense declined 9% y/y and rose 9% sequentially. Its compensation ratio was 45.1%, down from 47.3% last quarter. Its efficiency ratio was 72%. The effective tax rate was 33.5%, compared to 33.3% in the prior quarter. While its Return On Equity improved from 6.2% in Q1 2016 to 8.3%, it was still 8.3%.

Tangible book was $31.39 (0.9x), up 3%. Its Core Equity Tier 1 ratio (fully phased-in, advanced) was 15.8% (+125bps). During the quarter, it repurchased $625 million of its common stock, in-line with its recent past. Average shares declined 0.8%.

Nordea Bank AB Q2 2016 Profit Before Tax of €1,223 billion including €151 million gain on disposal of Visa stake. Adjusted Q2 2016 Profit Before Tax of €1,072 million +2% (€22 million). Key drivers look to be better than expected Revenue, driven by "Items at fair value" and lower than expected Impairments. EPS for Q2 2016 was 0.25c, +9% ahead, including lower than expected tax rate. There has been a material increase in regulatory capital requirement from 15.6% to an expected 17% with a required 0.5%-1.5% buffer on top. Nordea are currently at 17.2% (including a risk transfer transaction yet to be completed) and state that they "will meet" the management requirement by the year-end. There is no change to their "progressive" dividend policy.

Standard Chartered Plc is launching video banking for more than 5 million customers across Asia, Africa and the Middle East as part of a plan to invest $1.5 billion in digital services and revamp its retail bank. The service enables customers to speak to banking consultants about finding a mortgage or signing up for a new card through their laptop, instead of having to visit a branch. Standard Chartered initially tested video banking in Malaysia and Singapore last month, and will be unveiling it across nine countries by the end of this year. (Source: Financial Times)

Activist Influenced Companies

Nothing new to report.

Canadian Dividend Payers

Brookfield Infrastructure Partners LP – Australia's antitrust watchdog gave the green light to a A$9.1 billion ($6.79 billion) buyout of rail freight giant Asciano Ltd. by a global consortium led by Canada's Brookfield Asset Management Inc. The Australian Competition and Consumer Commission (ACCC) had been concerned the deal would give Asciano's new owners, which include Australian stevedoring company Qube Holdings Ltd., too much control of the freight market. ACCC Chairman Rod Sims said the regulator had concluded there was "not likely to be a substantial lessening of competition in any market" after the deal was restructured to address officials' concerns. The takeover must still be approved by Australia's Foreign Investment Review Board. Brookfield and Qube joined forces in February to make a joint offer for Asciano's port assets only, leaving the railways to China Investment Corporation and others. Asciano shareholders in June voted in favour of the buyout.

Brookfield Property Partners LP – Brookfield Canada Office Properties has signed an agreement to lease out 140,000 square feet of Brookfield Place Calgary East development to Bank of Nova Scotia. Taking this new agreement into account, the development is 81% pre-leased.

Global Dividend Payers

ABB Ltd. beat consensus by 6% on operational Earnings Before Interest, Tax and Amortisation (EBITDA), boosting the margin by 100 bps year-on-year to 12.7% and all divisions now back in the target margin range. Q2 sales were US$8,677 million (down 5.3% y/y), with organic sales decreasing by 2%, Foreign Exchange down by 2% and structure -1% (from exiting some areas in Power Grids). Sales were in line with forecasts although FX was slightly better by growth components. By division on a like-for-like basis (excl. FX and structure), Electrification Products sales were down 4.3% (-1% organically) and Power Grids sales increased 1% organically but FX and some divestments made sales fall 6.8% in US$. Process Automation sales were down by 6% on a like-for-like basis, due to weak activity in the process industries, but adding FX sales fell 8% in USD. Operational EBITA was at US$ 1,106 million, equating to an EBITA margin of 12.7%, which was 6% better than expected. Earnings were positively impacted by the cost take out program as well as further margin improvement in Power Grids. The outlook remains mixed with growth seen in China this year, positive macro signals in the US, but rising uncertainty in Europe. Order intake in Q2 amounted to US$8,316 million, -7.6% y/y. Large orders amounted to US$658 million, -41% y/y and -39% organically. Base orders were flat organically but down 3% in US$.

AT&T Inc. the No. 2 U.S. wireless carrier reported adjusted profit in line with estimates, as it signed up new wireless subscribers but saw a drop in pay-TV customers. Excluding items, the company earned 72 cents per share in the second quarter ended June 30 - in line with the average analyst estimates, said it added 1.4 million new wireless subscribers, including 257,000 postpaid customers, or those who pay monthly bills. However, its total video subscribers were down 49,000 in the quarter. It added 342,000 DIRECTV subscribers, but lost 391,000 U-verse TV customers. AT&T reported total operating revenue rose to $40.52 billion from $33.02 billion, falling slightly short of the average analyst estimate of $40.62 billion. The net income attributable to AT&T rose to $3.41 billion, from $3.08 billion, a year earlier. On a per share basis, it fell to 55 cents from 59 cents.

BHP Billiton Plc's June quarter production report (Q4 2016) was generally above forecast, particularly in petroleum and copper, but also energy coal. In contrast, iron ore was below forecast (although a weak performance had been flagged in the press, eg Australian Financial Review, 14 July), with metallurgical coal broadly in line. Overall this release is we believe likely to have a positive impact on 2016 forecasts. The company also provided guidance for 2017 (June year-end) which appear within or very close to the consensus ranges for petroleum, iron ore, and metallurgical and energy coal. Copper

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guidance for the year is higher than previously estimated, so overall this is a positive release in our view.

Johnson Matheson Holdings Limited reported underlying Q1 Profit Before Tax broadly in line with last year (£94 million). Q1 Revenue was £822 million, +5% organic growth. Full year guidance (16/17 ahead of 15/16) has been reiterated based on previous foreign exchange guidance (+£15 million). However, management highlight that if spot currency rates prevail then the foreign exchange benefit increases from +£15 million previously to +£40 million on an full year basis and Sales excluding Precious Metals were £822 million (+3% y/y). **Emission Control Technologies:** sales of £521 million (+9% y/y) were 2% ahead of forecasts. **Process Technologies:** sales of £134 million (+3% y/y) were –2% behind forecasts (£137 million). Oil and Gas continues to be weak, no new licenses. We believe there will be substantial improvement from restructuring actions. **Precious Metal Products:** sales of £91 million (+6% y/y) were 4% ahead of forecasts (£88 million), up 1% at constant growth due to services growth, however precious metals prices weighing on profitability in Q1. **Fine Chemicals** sales of £59 million (0% y/y) were -15% behind forecasts (£68 million).

Johnson & Johnson delivered a solid Q2 2016 with results that topped consensus expectations. Total revenue of $18.5 billion, was up +3.9% as reported (+7.9% operationally excluding foreign exchange, acquisitions/divestitures, and Olysio) while adjusted EPS of $1.74 beat consensus of $1.68. Overall, we view the quarter as reflecting strong fundamentals across all three businesses with margins reflecting a healthy balance of investment and leverage.

LVMH Moet Hennessy Louis Vuitton S announced yesterday that they will be returning to their roots by introducing "safran imperial" packaging to replace its chocolate boxes that have been a symbol of the brand for more than 10 years. The ochre hue was first used in 1924 for the Citroen Vuitton trunk. **LVMH** announced the sale of Donna Karan International, Donna Karan and DKNY brands, to G-III Apparel Group for the value of $650 million, or approx. €600 million. It's estimated Donna Karan recorded approx. €450 million in 2015 revenue and it is projected to close 2016 with approx. €200-250 million as the brand sees the discontinuation of some lines with the aim to reposition the business. Based on estimates, the deal values Donna Karan at about 2.7x sales. This compares with sector average of 2x. LVMH will receive $575 million in cash and $75 million in shares of G-III. The deal is expected to close in late 2016 or early 2017. We believe the deal is positive for LVMH as the challenged DK brand is removed from the portfolio while the group will reach a net cash position earlier than initially estimated. This will pull forward any cash return initiatives such as stock buyback or special dividends.

Novartis AG reported Q2 2016 core EPS of US$1.23 - above the US$ 1.20 expected by the market. Due to an expected increase of spending for Entresto, Group core operating income guidance for the full year gets revised s lightly from 'broadly in-line with 2015' to 'broadly in-line or decline low single digit on constant currency'. In terms of its pipleline of products, Sandoz received a complete response letter from the FDA (Food & Drugs Administration) for biosimilar pegfilgrastim. In our view it was a decent Q2, showing signs of a sales turnaround in Alcon, continued strength from new launch Cosentyx and the Glaxo oncology assets, helped by a U.S. payer contracting strategy that moderates the impact of generic Gleevec in the U.S. Entresto is seeing greater uptake, but only slowly.

Roche Holding AG reported Q2 2016 sales, ~+2% ahead of consensus on sales and EPS. 1st Half 2016 earnings were also ahead of consensus, due to a one-off benefit (426 million CHF; +0.40 CHF) booked against general and admin. Expenses (G&A); once stripped out, earnings were in-line and guidance was unchanged. Sales of both divisions, pharma and diagnostics, were solid and ahead of consensus. Pharma division growth (+4% with a constant exchange rate (CER)) was driven by the oncology and immunology as usual, with the mix differing by region. Diagnostics performance (+6%) was again led by immunodiagnostics and another strong performance in Asia-Pacific (+16% CER). Operating margin (37.7%) and resulting profitability was helped by lower G&A due to a one-time Past Service Income adjustment (426 million CHF) stemming from accounting of pension liability. Pharma margin at 44.1% was the highest since 1st Half 2014. Diagnostics margin (17.9%) was held back by continued Research & Development spend at the same (high) level as 2nd Half 2015. For 2016, Roche now expects +1% FX impact to sales and operating profit, +2% on core EPS.

South32 Limited delivered a very solid production quarter in Q4 with all key assets delivering production in line or ahead of guidance and estimates. The only outlier was Australian manganese alloy production (-15% q/q and fiscal year -22%), but the business is EBITDA negative so lower production is positive; furnaces will be brought back to full production by July. The company is on track to achieve its targets for 2017 unit costs. There was no guidance for 2017 production. Finally the company has signed an exploration earn-in agreement to explore for copper/nickel in Northern Quebec, Canada.

Economic Conditions

U.S. Housing starts jumped 4.8% in June to the second highest level in eight years (1.189 million annualized), abetted by dryer than usual weather. The strong gains were in both singles and multiple units, and in half of the four major regions. Demand for new homes remains well supported by record-low mortgage rates and healthy affordability in most regions, easing mortgage lending standards, and a growing pool of first-time buyers (the millennials). The months' supply of new homes remains below long-run norms, and rental and housing vacancy rates are historically low.

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Existing U.S. home sales rose 1.1% in June, to 5.57 million units (annualized), when a decline was expected (the consensus call was -0.9% owing to the ebbing backlog of transactions waiting to close). The latter was misleading, resulting in the second, stronger-than-expected housing activity reading this week (recall June starts rose 4.8%). It seems that first-time buyers are slowly re-entering the market, accounting for 33% of purchases.. the most in while. Months' supply dipped back to a relatively low 4.6, an indication of a tightening market that is stoking both new construction and higher prices.

UK - The Bank of England (BOE) said it had seen no clear signs yet of damage to British companies after the vote to leave the European Union, and one of its policymakers said she would wait for more evidence of a slowdown before backing an interest rate cut. Separately, Britain's **unemployment rate** dropped below 5% for the first time in 11 years. Official data show unemployment at 4.9%, the employment rate at a record high of 74.4% and inactivity at record lows. **UK Purchasing Manager's Index** saw a good tumble to a provisional 47.4 in July from the 52.3 result in June. This was the first read after Brexit and points to UK GDP shrinking at a quarterly rate of 0.4%. The Bank of England at its last meeting said it wanted to see the post Brexit data before deciding on the magnitude of monetary easing. Clearly the BOE will have its work cut out for them.

Financial Conditions

European Central Bank - As universally expected, the ECB opted to keep its monetary policy on hold last Thursday. President Draghi went to great lengths during the press conference to avoid committing the ECB to any future policy moves: the key message was that they had little new data to go on, and would await the next round of macroeconomic projections in September before assessing the need for additional easing.

The U.S. 2 year/10 year treasury spread is now .85% and the UK's 2 year/10 year treasury spread is .67% - 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 3.45% (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 4.7 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 12.83 (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.

And Finally ...... A Canadian man who thought he was giving a charitable donation to a homeless man was slapped with a $175 ticket when the panhandler turned out to be an undercover police officer. The man dropped $3 on the sidewalk, and the man replied, "Oh, thanks," according to Rusk. He then put his seat belt back on as he rolled into first gear and drove away. About half a block up the road, a police officer from the Regina Police Service pulled Rusk over and handed him with a $175 ticket for not wearing a seat belt, although he was wearing one at the time. That's when the man was informed that the homeless man was actually an undercover cop. (Source: ABC News)

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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