News Highlights

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PORTLAND INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments. March 6, 2017

Energy Sector

U.S. land rig count increased by only 1 rig week/week to 734 rigs, though Horizontal Oil increased 11 units to 513 (back to August 2015 levels) led by 5 additional rigs in the Eagle Ford. The rig count is up on average 28% Quarter To Date quarter/quarter. Gains in Horizontal Oil (+11) and Vertical Oil (+1) were offset by declines in Directional Oil (-6), Directional Gas (-2), Horizontal Gas (-2) and Vertical Gas (-1). Total horizontal land rig count is down 54% since the peak in November 2014. The Permian currently makes up 52% of all oil rigs.

U.S. horizontal oil land rigs increased by 11 rigs week/week to 513 as gains in the Eagle Ford (+5), Williston (+3), Eagle Ford (+2), Granite Wash (+2) and "Other" (+1) were slightly offset by declines in Woodford (-1) and DJ-Niobrara (-1) as Mississippian and Utica remained flat week/week.

Canadian rig count decreased by 5 rigs week/week and is up 165% from the level this time last year.

U.S. Gulf of Mexico offshore rig count increased by 1 rig week/week and is down 67% since June 2014.

Veresen Inc. released its fourth quarter and year-end operating and financial results. Veresen generated full-year distributable cash of $356 million, or $1.15 per common share, which is 14% higher than the initial 2016 guidance midpoint and represents a year-over-year increase of 8% on a per-common-share basis when compared with $310 million, or $1.06 per common share, in 2015. The company realized strong performance from Alliance throughout 2016 in the pipeline's first year under its new service model, with distributable cash in 2016 of $200 million, approximately 20% higher than 2015, primarily driven by favourable market fundamentals and continued industry-leading reliability and availability, and significant cost reductions. Veresen invested a total of $1,150 million ($555 million net to Veresen) in growth capital within Veresen Midstream LP during the year, including $1,030 million ($485 million net) for the construction of the Sunrise, Tower and Saturn phase II processing facilities. The company executed on the enhanced financing strategy announced in August, 2016, through a suite of agreements to sell the power generation business for $1.18 billion; proceeds from the sale will fully finance the remaining equity component of the approximately $1.5 billion of projects currently under construction, with no need to access the capital markets, and also provide additional flexibility to finance incremental growth projects as they are sanctioned. Advancing Sunrise, Tower and Saturn phase II, with costs continuing to track below budget and construction remaining on schedule, with over 55% of the total $2.5 billion in capital ($1.2 billion net to Veresen) incurred to date. Veresen continues to expect that Sunrise and Tower will be placed into service near the end of 2017, with Saturn phase II in service by mid-2018. The company added approximately $95 million ($45 million net to Veresen) of incremental capital projects subsequent to the end of the year at Veresen Midstream to support development by Cutbank Ridge Partnership (CRP) and Encana. Given the need for significant infrastructure investment to support the development expected by CRP, Encana and third party Montney producers, the company anticipates Veresen Midstream will secure an additional $200 million to $400 million per year of incremental capital projects on a run-rate basis over the next several years.

Financial Sector

Barclays PLC appoints Sir Ian Cheshire as chairman designate of Barclays UK. Barclays PLC and Barclays Bank PLC announce that Sir Ian Cheshire has been appointed as a non-executive Director of Barclays with effect from Apr. 3, 2017. He is also appointed Chairman designate of Barclays' ring-fenced bank, Barclays UK, which is in the process of being established. Sir Ian Cheshire has been chairman of Debenhams plc since April 2016. In relation to the non ring-fenced bank, in line with regulatory requirements, it is the intention to have an independent governance structure in place for Barclays Bank when the ring-fenced bank is constituted. In the interim, Sir Gerry Grimstone will chair the divisional board of Barclays International and will lead the work to establish the new board of Barclays Bank, which will become the non ring-fenced bank in due course.

Barclays' finance director has sought to allay analysts' fears that a likely £1.25 billion contribution to its main pension scheme later this year could delay a potential rebuilding of the bank's shrunken dividend. Tushar Morzaria told analysts at a breakfast meeting in London last Tuesday that the bank was "comfortable" that it had fully taken account of the likely pension costs in its capital projections for this year. Investors, however, have been concerned that the pension hit could impede Barclays from restoring its dividend back towards the level of two years ago before the bank cut its annual payout to shareholders in half to conserve capital. **Barclays has sold** a Spanish life savings insurance portfolio to VidaCaixa, as the lender continues to make progress in winding down its non-core assets. A total of 25,000 insurance policies and around €625 million of insurance liabilities and assets have been transferred from Barclays to the VidaCaixa, which is owned by CaixaBank, with no further financial terms of the deal disclosed. It is the latest in a series of sales by Barclays to the CaixaBank, with the UK bank's Spanish pension assets and liabilities and life risk insurance portfolio sold to VidaCaixa last year and its Spanish retail operations sold to CaixaBank in 2015. The sale will reduce risk-weighted assets in Barclays' non-core unit by £200 million. (Source: Financial Times).

Bank of Montreal adjusted cash Earnings Per Share (EPS) +30% year/year to $2.28, above consensus at $1.88. Excluding a net gain of $0.20 for Moneris and loss on the sale of a U.S. indirect auto portfolio, EPS was $2.08. The beat was driven by a stronger trading revenue +$0.08, good cost control +$0.03 and lower Provisions for Credit Losses +$0.06. Earnings by Segment: led by Capital Markets +46% year/year, Wealth +16%, Canadian Banking +9% (ex-Moneris) and U.S. Personal & Commercial Banking +3% year/year (+21% USD ex-sale), while higher rates helped drive Insurance earnings to $104 million versus $22 million last year. Core Equity Tier 1 ratio 11.1%, up from 10.1% in the previous quarter, primarily driven by internal capital generation (+31 bps), lower Risk Weighted Assets (+43 bps). The bank is renewing its Non Course Issuer Bid to buy back 15 million or 2% of shares outstanding.

Bank of Nova Scotia adjusted cash EPS increased 10% year/year to $1.58, only slightly above consensus $1.57 and therefore a somewhat lower performance than peers . Revenues and expenses were better than forecast, with Provisions for credit Losses in-line, partly offset by a higher tax rate (up 2% from Q4 2016). Excluding real estate gains in Canadian Banking (+$0.04), EPS was $1.54. The bank increased its quarterly dividend by $0.02 or 2%. Earnings by Segment: Led by Global Banking & Markets +28% year/year, International +14%, Wealth +14% and Canadian Banking +6% (ex-gain) partially offset by a bigger loss in Corporate (-$0.07 impact year/year) due to lower securities gains ($80 million in Q1 2017 versus $130 million in Q1 2016). Core Equity Tier 1 ratio 11.3%, up from 11.0% in Q4 2016 reflecting strong internal capital generation, favourable impact of higher pension liability rates, and higher pension plan asset returns. Return On Equity 14.3%.

Crown Capital Partners Inc. ("Crown"), which provides growth capital to successful mid-market companies, last week announced the closing of a $15.0 million special situations term loan (the "Agreement") with Solo Liquor Holdings Ltd. ("Solo"), the second largest liquor retailer in Alberta and largest private liquor retailer in the province. Headquartered in Calgary, Solo currently operates 41 retail liquor stores in high-traffic locations in Alberta, including 19 stores in Calgary, 13 in Edmonton and the remaining 9 in other communities across Alberta. Founded in 1996, the company is 100% owned by senior management. Solo will use Crown's capital to expand its store network over the next several years. including 19 stores in Calgary, 13 in Edmonton and the remaining 9 in other communities across Alberta. Founded in 1996, the company is 100% owned by senior management. Solo will use Crown's capital to expand its store network over the next several years. "Solo has built an attractive long-term growth profile using a simple strategy: open stores in high-traffic residential areas, offer a wide range of products, operate with extended hours and maintain everyday low prices," said Chris Johnson, Crown's President & CEO. "Solo has a low-cost, scalable and repeatable model, and we believe they can generate significant value in the coming years through a low-risk store expansion plan. We are pleased to partner with them as they embark on this next phase of growth." "We were attracted to Crown because they offered a non-dilutive financing alternative and have a history supporting growth businesses like ours," said Pali Bedi, Solo's CEO. "We look forward to working with them as we build out our network." The Agreement provides for a $15 million term loan to Solo by Crown Capital Fund IV, LP, an investment fund managed by Crown and in which Crown holds a 35% interest. The term loan bears a fixed interest rate of 12% per annum, matures in 36 months, and includes a bonus feature based on the growth in Solo's enterprise value.

JPMorgan Chase & Co. may return more money to shareholders than it earns over the next few years, it forecast on Tuesday, an encouraging sign for investors who have been waiting for richer dividends and share repurchases. The prediction came in documents posted on JPMorgan's website for its annual investor day, where top executives offered their vision for the four major business lines and financial targets for the broader institution. Although JPMorgan is sticking to its long-term target of returning 55% to 75% of net income to shareholders, the bank could pay out as much as 120% in the medium term, according to a presentation. That would mean JPMorgan is generating more than enough profit to invest in its businesses and meet regulatory capital requirements, and can even reduce some of that capital. The new prediction is up from a 65% medium-term scenario that JPMorgan offered last year. (Source: Reuters).

National Bank adjusted cash EPS +15% year/year to $1.35, above consensus $1.26. The beat reflects a better top-line performance (+$0.15), with trading revenue ahead of expectations and up 28% year/year, partly offset by higher than forecast expenses (-$0.06). Results include a $12m pre-tax gain for National's insurance business, adding $0.025 to EPS this quarter. Earnings by Segment: Led by Wealth +26% year/year, Financial Markets +23% and Canadian Banking +18%, U.S. Specialty Finance & Int'l flat while the Corporate loss increased to $51 million from $41 million last year. Core Equity Tier 1 ratio 10.6%, up from 10.1% in Q4 2016. The increase in capital reflected reflecting internal capital generation (+39 bps), other items (+15 bps).

Activist Influenced Companies

Hertz Global Holdings, Inc. reported a fourth quarter 2016 net loss from continuing operations of $438 million, or $5.28 per diluted share, including $254 million of impairment charges, compared with net loss from continuing operations of $37 million, or $0.43 per diluted share, during the fourth quarter of 2015. On an adjusted basis, the Company reported a net loss for the fourth quarter 2016 of $59 million, or $0.71 per diluted share, compared with adjusted net loss of $25 million, or $0.29 per diluted share, for the same period last year. Total revenues for the fourth quarter 2016 were $2.0 billion, a 1% decline versus the fourth quarter 2015. Adjusted corporate earnings before interest, taxes, depreciation and amortization (EBITDA) for the fourth quarter 2016 was $12 million, compared to $94 million in the

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fourth quarter of 2015, a decline of 87%. For the full-year 2016, Hertz Global reported net loss from continuing operations of$ 474 million, or $5.65 per diluted share, including full-year impairment charges of $285 million, versus net income from continuing operations of $115 million, or $1.26 per diluted share, for 2015. Total revenues for 2016 were $8.8 billion, a decrease of 2% from $9.0 billion for 2015. On an adjusted basis, the Company reported net income for the full year of $41 million, or $0.49 per diluted share, compared with adjusted net income of $205 million, or $2.25 per diluted share, for the same period last year. Adjusted corporate EBITDA for 2016 was $553 million, versus $858 million for 2015. "The company's 2016 performance resulted from issues around fleet and service, which we are addressing," said Kathryn V. Marinello, president and chief executive officer. "In the U.S., we are upgrading the quality and mix of the fleet and rolling out our more flexible Hertz Ultimate Choice offering, both of which enable customers to get the cars they want, when they want them. In terms of service, we have great employees with the right attitude. We are taking action to ensure that they have the tools and training to consistently deliver best-in-class service that shows our customers we care. 2017 investments in fleet, service, marketing and technology will be the catalyst to ultimately generating steady top-line growth."

Canadian Dividend Payers

Northland Power Inc. and Highland Group Holdings Ltd., through a wholly owned subsidiary, have signed a definitive agreement whereby Northland will acquire 100% of Deutsche Bucht, a 252 MW offshore wind project currently in advanced development. Deutsche Bucht, or "DeBu," is Northland's third offshore wind project. It is located 95 km northwest of the island of Borkum in the German Exclusive Economic Zone, 77 km from Northland's other German offshore wind project, Nordsee One. The total estimated project cost is approximately €1.2 billion, and once operational, it is expected to generate over 1,000 gigawatt hours of electricity per year. Northland expects to invest approximately $400 million of corporate funds with the balance of the project cost provided by project financing and pre-completion revenues. Financial closing is expected mid-2017. Northland expects this investment will be sourced from cash on hand, corporate liquidity, and preferred shares. As a result of the additional financing, management is revising its 2017 free cash flow per share guidance to be in the range of $1.03 to $1.18 per share from $1.10 to $1.25 per share. The project is expected to be accretive on a free cash flow per share basis upon its completion, and provide project returns commensurate with Northland's investment criteria. DeBu project's completion is expected by the end of 2019. Europe is a key focus for Northland, given its sizable share of the world economy and strong support for renewable energy policy. DeBu will leverage Northland's Gemini and Nordsee One experience and will bring Northland's offshore operating capacity to over 900MW (net to Northland) over the next three years.

Global Dividend Payers

BHP Billiton PLC has advanced its exploration and production interests in the Gulf of Mexico by executing a contract with PEMEX Exploration & Production Mexico to complete work on the significant Trion discovery in Mexico. In December 2016, BHP Billiton successfully bid on the resource that, once fully appraised, is expected to be in the top 10 fields discovered in the Gulf of Mexico in the last decade. The agreement includes a commitment to deliver a Minimum Work Program, which consists of drilling one appraisal well, one exploration well and the acquisition of additional seismic data.

Bunzl PLC, the distribution group that supplies non-food consumable products to businesses, delivered in our view another solid set of results for 2016 with earnings before interest, tax and amortization, (EBITA) +15% to £525m and diluted earnings per share (EPS) +17% to 104.8p. Organic growth improved to 1.5% in Q4 after six quarters of flat organics as resin price declines reversed allowing some reflation in pricing particularly in the US which has suffered from deflation over the past 18 months. With reflation in product pricing driven by both foreign exchange and raw materials sitting alongside new customer wins in a number of geographies. 2017 should see a sustained return in organic growth, more reflective of the underlying volume expansion delivered in our view. In line with the compounding strategy 14 bolt-on acquisitions were completed for £184 million in the year, with an expansion into Singapore also announced with the results. Whilst the level of acquisition is below previous years' £250-300 million, the pipeline is said to remain strong with net debt at the bottom of the targeted range and a number of areas for potential investment outlined. With over 85% of profits generated overseas FX plays a significant role in Bunzl's reported figures. For 2017 there is some caution to be applied to the UK margin with approx. 18% of the Group's UK products imported from overseas and at risk from some transactional impact with hedging rolling off in 2017. In our view much of the impact can be mitigated by management and in the worst case scenario, where the 15% devaluation is felt fully in the margin the risk looks to be contained to below 5% of Group EBITA, reflecting the significant diversification of the business. Over the past decade the Group has reinvested £1.7 billion of the £2.3 billion of free cash flow generated into acquisition at an average EBITA multiple of 7x, more than doubling the Invested Capital of the Group. Over the same period post-tax return on invested capital has been maintained at above 13%, reflecting the progress made on integrating and extracting value from completed deals.

Economic Conditions

U.S. economic growth indeed came in at +1.9% annualized in the fourth quarter, with stronger consumer spending (+3.0% better than the initial estimate of +2.5%), which is important given the size of consumer spending relative to the overall economy. However, below expectations were: business investment (equipment and intellectual property) and housing, imports (strong USD…weighs on the headline, too) and slower government spending.

U.S. – The U.S. personal income advanced by 0.4% in January, ahead of the expected 0.3% improvement and building on December's 0.3% increase. Part of the same report, the core personal consumption expenditures (PCE) price index, the U.S. Federal Reserve's favourite inflation gage, clocked in at 1.7% year on year rate of change, in line with the December reading.

Leading indicators of business activity as measured by the Institute for Supply Management (ISM), both PMI and NMI indices advanced more than expected in February, at 57.7 and 57.6 index points, respectively.

Canada – Canadian economy expanded at 2.6% in the last quarter of 2016, surprising on the upside (consensus expectations had been calling for a 2.0% advance), and building on the 3.8% jump recorded in the third quarter. For the entire 2016 the Canadian economy grew by 1.4%. Growth in the last quarter was driven by consumer spending, housing and government spending, partly offset by net exports and business spending.

House prices in the UK have continued to defy expectations of a slump by rising more than expected in February, according to a monthly index compiled by Nationwide. Prices were up 0.6% in February compared to the previous month, ahead of analyst expectations of a 0.2% rise. That is a stronger growth rate than January's 0.2% increase – which was also better than expected – and marks the third consecutive month of house price gains after a 0.8% rise in December. On a year-on-year measure, house prices were up 4.5% in February compared to the same month in 2016 – also ahead of expectations of a 4.1% rise and ahead of January's annual 4.3% gain. (Source: Financial Times)

Financial Conditions

The U.S. 2 year/10 year treasury spread is now 1.18% and the U.K.'s 2 year/10 year treasury spread is 1.10% - 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 4.10% (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 11.38 (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

Individual Discretionary Managed Account Models - SMA

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