

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 10, 2017

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Energy Sector

U.S. land rig count increased by 15 rigs week/week to 813 rigs (4th consecutive week of double digit gains), and first time breaking 800 since September 2015. The rig count was driven by gains in Horizontal Oil (+6), Horizontal Gas (+4), Vertical Oil (+3), and Directional Oil (+2), while Vertical Gas and Directional Gas remained flat week/week. Total horizontal land rig count is down 49% since the peak in November 2014. The Permian currently makes up 51% of all oil rigs.

U.S. horizontal oil land rigs increased by 6 rigs week/week to 561 as gains in Permian (+11), Mississippian (+2), and Woodford (+1), were partially offset by declines in Granite Wash (-4) and "Other" (-4), while Williston, Eagle Ford, and DJ-Niobrara remained flat week/week.

Canadian rig count decreased by 23 rigs week/week, but is up 228% from the level this time last year.

U.S. Gulf of Mexico offshore rig count remained flat week/week at 22 rigs and is down 59% since June 2014.

International rigs averaged 943 in March and up 2% quarter/quarter (+3% land, -3% offshore), with land rigs up 5 and offshore rigs down 3 month/month, led by gains in Latin America (+3 land, +3 offshore), Middle East (+4 land, flat offshore), Africa (+2 land, +1 offshore) and Asia Pac (+2 land, flat offshore), offset by declines in Europe (-6 land, -7 offshore). International rigs are still down 75 year/year.

Crescent Point Energy Corp. – "Alberta and Saskatchewan are fighting over the shrinking number of energy head offices, but Crescent Point CEO Scott Saxberg thinks they should be more concerned about Canadian spending, and even head offices, migrating to the United States," according to an overnight report in the Financial Post newspaper. The newspaper cited Saxberg as saying in an interview in his Calgary head office "there is no border for companies such as Crescent Point with operations in both countries, and the next big trend is likely to involve strong domestic players growing their U.S. business to take advantage of better terms."

Financial Sector

BNP Paribas SA is to buy online retail banking service Financiere des Paiements Electroniques (FPE), as BNP Paribas steps up its investments in the digital banking sector. FPE provides the payments accounts for Comptel Nickel, an online French retail banking service co-founded by former Societe Generale communications executive

Hugues Le Bret. The financial terms of the deal were not disclosed by the companies. Also, BNP Paribas announced the sale of the Dakota Access pipeline for \$120 million. BNP Paribas announces that it has sold its \$120 million shares in the \$2.5 billion Dakota Access Pipeline loan. BNP Paribas management stated the decision to divest the loan was made following an extended and comprehensive review of the project including consultation with all the relevant stakeholders.

Royal Bank of Scotland Group PLC (RBS) - EU Commission investigates alternative to divestment commitment for RBS. EU Commission has opened an in-depth investigation to assess whether the alternative package proposed by the U.K. authorities is an appropriate replacement for the commitment for the RBS to divest Williams & Glyn, required as part of its restructuring plan. On Feb. 20, RBS provided updates on remaining State Aid obligation; to reincorporate Williams & Glyn's into RBS franchises.

Activist Influenced Companies

BHP Billiton PLC – Activist hedge fund Elliott Advisors urged the company to scrap its dual-corporate system, split off its U.S. oil arm and revise its capital return policy. Elliott outlined the proposal in a letter to directors at BHP, adding the miner to a string of firms it has sought to shake up including Samsung Electronics Co., Dutch paints and chemicals group Akzo Nobel NV and brewer SABMiller Holdings Inc. "The goal (of the letter) is to provide details of the BHP shareholder value unlock plan to all of BHP's shareholders so that BHP can engage openly with all parties on the plan," Elliott said in a statement, disclosing an economic interest of about 4.1% of London-listed BHP Billiton PLC.

Canadian Dividend Payers

Barrick Gold Corporation - in our view continues to deliver on its promises to repair the balance sheet and pursue investments with strategic partners. In 2015, Barrick announced a partnership (50/50 Joint Venture) with Zijin Mining Group on the Porgera mine and has now announced a strategic cooperation agreement with Shandong Gold Mining on a 50/50 Joint Venture at Veladero. Shandong has agreed to pay \$960 million in cash for the 50% stake. The investment in Veladero is the first step to the agreement with Shandong, which also includes the potential to jointly develop Pascua and evaluate other investments in the El Indio gold belt such as Alturas. Barrick plans to use a part of the proceeds to fund the planned \$2.9 billion debt reduction by the end of 2018.

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Brookfield Infrastructure Partners LP advised that it has completed the previously announced acquisition of a 90% ownership interest in Nova Transportadora do Sudeste S.A. (NTS) from Petroleo Brasileiro S.A. (Petrobras) through a Brookfield-led consortium, for total consideration of approximately \$5.2 billion. The purchase price is payable in two tranches - an upfront payment of \$4.2 billion due on closing and the balance payable on the fifth anniversary of the closing. "Closing this transaction was one of our top priorities for 2017," said Sam Pollock, Chief Executive Officer of Brookfield Infrastructure. "We are deploying approximately \$1.3 billion at closing to significantly expand our utilities business in a sector and geography that we know well, where we will earn strong risk-adjusted returns." Over the past six months, Brookfield Infrastructure has undertaken various capital raising initiatives to solidify a funding plan for its pipeline of strategic initiatives. Consequently, this investment in NTS will be funded from existing corporate liquidity which totaled approximately \$3 billion at March 31, 2017.

Global Dividend Payers

ABB Ltd. acquires the privately owned Austrian group Bernecker + Rainer Industrie-Elektronik (B&R), which makes programmable logging controls (PLCs) and industrial Personal Computers for machines in the industrial automation sector. The acquisition of B&R is in line with ABB's strategy of expanding its offering in industrial automation (broadening the offer around the robot). By end segments B&R also complements ABB's strong presence in process industries, transportation and utilities by its exposure to food & beverage and healthcare (customers include Nestlé SA, The Procter & Gamble Company, and Roche Holdings AG). B&R the privately held company also makes components for machines used by automotive makers such as BMW, Daimler and Volkswagen. B&R employs more than 3,000 people and reported sales of more than US\$600 million in 2016 with an Earnings Before Interest and Tax of US\$75 million. In conjunction with the deal, ABB set a midterm growth target for B&R of reaching more than US\$1 billion in sales (the acquisition to be "operational" Earnings Per Share accretive on the first year) and year 4 synergies are expected to be 8% of B&R sales. ABB declined to reveal what it was paying for B+R more than that is was in line with peers. But on Reuters, rumors has it was close to US\$2 billion. The deal increases ABB's sales in the industrial automation segment to around US\$15 billion and consolidates its position as number two in the US\$130 billion global industrial automation sector behind Siemens. B&R will improve ABB's exposure to growing end segments compared to ABB's troubled process industries exposure. We expect more of these deals as ABB strives to improve its exposure in automation and offers surrounding Robotics.

AT&T Inc. – U.S. wireless carrier AT&T said it would buy Straight Path Communications Inc., a holder of licenses to wireless spectrum, for \$1.25 billion in an all-stock deal. Straight Path is one of the largest holders of 28 GHz and 39 GHz millimeter wave spectrum used in mobile communications.

Syngenta AG – China National Chemical Corporation (ChemChina) and Syngenta last Wednesday announced that they have received approval from the European Commission for the proposed acquisition of Syngenta by ChemChina and today announced that they have received approval from the Comisión Federal de Competencia Económica in Mexico (COFECE) for the proposed acquisition of Syngenta by ChemChina. These represent further steps towards the closing of the transaction, which is expected to take place in the second quarter of 2017. Syngenta is a leading agriculture company helping to improve global food security by enabling millions of farmers to make better use of available resources. Through world class science and innovative crop solutions, our 28,000 people in over 90 countries are working to transform how crops are grown. We are committed to rescuing land from degradation, enhancing biodiversity and revitalizing rural communities.



Economic Conditions

Canada – Canadian economy added 19,400 new jobs in March, significantly ahead of the expectations calling for 5,000 additional positions. Most of the positions added in the month were full-time, according to Stats Canada, however, most of the jobs added were in self-employment. By sector, growth was driven by manufacturing and construction.

Just released, the Canadian housing starts jumped in March, to a 253,700 units annualized level, from 214,300 units in February surprising the economists which were expecting a flat reading for the month. Growth in the units started has been broadly distributed geographically, with most of the increase being driven by condo starts.

U.S. – The U.S. NMI, the non-manufacturing purchasing managers' index, issued by the Institute for Supply Management (ISM), surprised on the downside for the month of March, at 55.2 index points, relative to the expectations for a 57.0 index points read and February's 57.6 index points level, signifying the expansion in the services sector, while still very much likely, might be slower than previously thought. Meanwhile, on the consumer side, the US consumer credit unexpectedly expanded by \$15.2 billion in February, compared to expectations for a \$13.9 billion addition and January's \$10.9 billion increase.

U.S. Nonfarm payrolls rose just 98,000 in March, while the prior two monthly gains were knocked down a total of 38,000. Back-to-back declines in retail payrolls are concerning in light of recent softness in consumer spending. Some of the weakness could reflect payback from unusually mild weather the prior month and a snowstorm in the March survey period, as construction hiring cooled sharply. Some payback was also warranted by the earlier strong payroll gains, still averaging 218k in the first two months of the year. More encouraging is that the household survey showed another large

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job gain north of 400k. The latter sliced the unemployment rate by two-tenths to a cycle-low 4.5%.

U.S. goods & trade deficit narrowed to a smaller-than-expected 2-month low of \$43.6 billion in February, from a 2-year high of \$48.2 billion in the prior month (January was revised from being known as a 5-year high). The better balance is good news, but the composition wasn't great. All of the improvement came as imports took a 1.8% drop (perhaps listening to "suggestions" to buy American and import less?)—with declines in autos and consumer goods ex autos making a dent—while exports rose for the third straight month, but by a modest 0.2%. For Q1 so far, in real terms, the deficit is still weighing on growth but less so than in prior quarters. These days, how trade fares between the U.S. and its major trading partners is of more interest than usual, particularly after President Trump signed an order last week, that will see trade scrutinized on a country-by-country basis, and on a product—by-product basis. The deficit with its NAFTA (North America Free Trade Agreement) partners widened to a 3-month high in February, but all of the deterioration was with Mexico.



Financial Conditions

The Reserve Bank of Australia left rates unchanged at 1.5% as universally expected by economists. It was the seventh straight meeting interest rates were left unchanged amid growing pressure for it to increase rates to contain soaring house prices.

The U.S. 2 year/10 year treasury spread is now 1.09% and the U.K.'s 2 year/10 year treasury spread is .99% - 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 13.35 (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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