



News Highlights

Energy Sector

Crescent Point Energy Corp – Canada's No. 3 independent oil producer, said on Wednesday its quarterly profit rose 36% as acquisitions boosted oil production and prices strengthened. The company said net income in the second quarter was \$98.6 million, or \$0.24/share, up from \$72.3 million, or \$0.19, in the year-before period. Operating income, which excludes most one-time items, rose 34% to \$174.6 million, or \$0.43/share, from \$130.3 million, or \$0.34. The result missed the consensus expectations of \$0.48. Cash flow, a key indicator of the company's ability to fund new drilling, rose 26% to \$636.7 million, or \$1.55 a share. Average daily oil and gas production rose 17% in the quarter to 137,368 barrels of oil equivalent per day (boed), up from 117,799 boed a year earlier. Crescent Point's output was boosted by the CanEra acquisition as well as by its purchase of Saskatchewan oil properties from a private company. It expects average output this year of 138,000 boepd, up from its previous estimate of 135,500 boepd. It pegged annual cash flow at \$2.5 billion, up from \$2.45 billion. The company said its average oil price rose 15% in the quarter to \$97.52 per barrel.

Pacific Rubiales – Colombia's largest private oil producer, reported second-quarter net profit of \$229 million, more than three times that in the same period last year and helped by a jump in crude output to record levels. Revenue in the quarter was \$1.34 billion, 27% higher than the same period a year earlier. Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) rose 19% to \$722 million. The company is shifting its strategic focus towards opportunities in Mexico, who announced last week the opening of its energy industry initiated with a process called Round Zero. Pemex will maintain initially an 83% of the country's 2P reserves and 100% of the proved reserves, but will farm out, through JVs, roughly 10 projects in areas where it lacks technical and financial resources. The next round, Round One, involves untapped fields with some 109 blocks to be awarded for exploration in the spring of 2015. The initiatives are expected to bring an additional 500k boe per day of production on line by 2018, to add to the country's current 2.5 million boed. In preparation for the next round of oilfield tendering, Pacific Rubiales set up an office in

Mexico, staffed with ex-PDVSA (Petroleos de Venezuela SA) oilfield veterans.

Royal Dutch Shell – announced the sale of two onshore U.S. shale gas assets in exchange for \$2.1 billion and acreage in different gas-rich areas as the energy company restructures its North America business and reins in costs. Shell agreed to sell to Ultra Petroleum its relatively mature natural gas-producing properties in Wyoming's Pinedale field, a total of 155,000 acres, in a step which will mark its complete exit from one of its first U.S. shale investments in 2001. Ultra will pay Shell \$925 million in cash and give it acreage in the oil and gas-rich Marcellus and Utica fields in Pennsylvania and Ohio, respectively. The Anglo-Dutch company will also sell its 107,000 acre Haynesville field in north Louisiana for about \$1.2 billion in cash to Dallas, Texas-based explorer Vine Oil & Gas LP and its partner, investment fund Blackstone Group LP. Shell's Chief Executive Ben van Beurden is seeking to offload \$15 billion-worth of assets by the end of 2015, including in North America.

Financial Sector

Barclays - Bloomberg & Markit Ltd are potential bidders for Barclays Index unit. The index unit, known as Index Portfolio and Risk Solutions, provides some of the most widely used benchmarks for measuring the movements in prices of corporate and government bonds. Bids being discussed are about \$1 billion.

Barclays Bank of Kenya (BBK) plans to start a mortgage finance division to tap demand for housing that far outstrips supply in the east African country. The bank, controlled by Barclays Plc said profit was 6.1 billion shillings (\$69.36 million), with the loan book growing by 20% to 128 billion shillings. Management said interest rates are expected to ease, which would buoy lending, and the bank was keen to expand its mortgage portfolio, with annual demand for housing in Kenya outstripping supply by about 100,000 units. Barclays Kenya's profit lagged its rivals Equity Bank, the country's biggest by deposits, and KCB, the largest by assets.

Berkshire Hathaway Inc's – share price last week surpassed and closed above \$200,000 for the first time, the latest milestone for a company that Warren Buffett has built over nearly five decades into what some view as a microcosm of the



U.S. economy. Class A shares of Berkshire, which have never been split, closed up \$3,500, or 1.8%, at \$202,850, giving the Omaha, Nebraska-based company a market value of more than \$333 billion. Berkshire's share price first crossed the \$100,000 barrier on Oct. 5, 2006. The Standard & Poor's 500 has climbed just 44% since that date. In the second quarter, Berkshire Hathaway posted a record \$6.4 billion profit, helped by a stock swap and growing earnings in many businesses, on revenue of \$49.76 billion. By some measures, Berkshire remains moderately priced, trading at about 1.4 times its book value, a measure of assets minus liabilities, in the most recent quarter. Buffett has said he will consider buybacks only at or below a 1.2 times multiple.

Berkshire Hathaway Inc is reported to have hired two senior executives from American International Group Inc's Asia operations to boost its insurance business in the region.

Element Financial – delivered \$0.14 of free operating cash flow in Q2 on \$4.1 billion of earning assets. The Q2 adjusted operating earnings per share were \$0.11 on \$75.1 million in revenue. The reported earnings per share for the quarter were \$0.04. The company earned \$43.1 million in net interest income and rental revenue, net before provision for credit losses, more than double last year's \$20.4 million. Element reported good overall originations, of \$793 million, driven by Commercial/ Vendor Finance, offset somewhat by Aviation and Rail, which is usually lumpy. Target for originations for the year is set at \$3.9 billion, excluding the effects of the PHH's auto fleet business acquisition. Gross yield for the quarter stood at 7.24%, dragged lower by the Aviation business, but interest expense was also lower. Element reported it has been negotiating with credit rating agencies for access to investment grade credit rated debt financing (a big positive for the company if realized). Element has recently hired a structured finance team, with potential to increase its fee income as a result.

JP Morgan – Win Bischoff, chairman of Britain's accounting watchdog the Financial Reporting Council, will also become chairman of JPMorgan Chase's European arm. His appointment to JPMorgan comes at a time when British lawmakers are keen for the FRC to scrutinise the accounts of banks more closely. Bischoff's appointment at the bank has been approved by the banking sector's two main regulators, the Financial Conduct Authority and the Bank of England's Prudential Regulation

Authority, the FRC said. Bischoff took up the reins at the FRC earlier this year after stepping down as chairman of Lloyds bank. He will work about two days a week at the bank and two and a half days at the watchdog. Bischoff began his role as a non-executive director and lead independent advisor of JPMorgan Securities, the Wall Street bank's main legal entity in Europe, the Middle East and Africa.

In a separate announcement, investment firms Lexington Partners and Alinvest Partners said they would buy about 50% of the portfolio companies held by JPMorgan's private equity business, One Equity Partners. One Equity executives will form a new private equity investment advisory firm, OEP Capital Advisors LP, and become independent from JPMorgan once the sale is completed, according to a statement issued by the companies. Reuters had earlier reported that One Equity Partners had investments valued at more than \$4 billion.

Lloyds – Britain has reportedly abandoned plans to sell shares in Lloyds Banking Group to private retail investors next month because of a decline in the bank's share price. Finance Minister George Osborne had been keen to sell some of the government's remaining 25% stake to private investors to let taxpayers share some of the benefit from the bank's return to profit. But a 15% decline in the bank's share price since the start of the year has persuaded Osborne to ditch the idea. The decision significantly reduces the government's chances of selling all its shares, which it sees as a milestone in Britain's recovery from the financial crisis, before the next election in May 2015. UKFI believes that a sale to private retail investors will be easier when the market has more clarity over Lloyds' future dividend prospects. Lloyds has said it will ask Britain's financial regulator for permission to resume dividend payments in the second half of the year. UKFI has already sold a 13.5% stake in the bank, raising £7.4 billion, in two separate sales to financial institutions such as pension funds and insurers in September and March. The first two Lloyds sales were sold at discounts of 3% and 4.6% to the market price.

Royal Bank Scotland - confirms considering sale of Coutts International Reuters reports. A source indicated the unit could net RBS between £430mn-£650mn.



Standard Chartered - Reuters reports Standard Chartered are to conduct a "look back" review, in a new investigation by NY's Department of Financial Services (DFS), for signs of possible money laundering or other criminal activity. DFS had inserted a monitor into Standard Chartered as part of the original 2012 \$667mm settlement for violating US sanctions against Iran. Standard Chartered currently processes 2m USD transactions each month and suggestions are the fine will be >\$100mm plus further extension of DFS monitoring beyond 2015 current timeline. KBWe \$200mm DFS fine.

Global Dividend Payers

BHP Billiton – Diversified mining company declared its preference for a demerger of its aluminium, manganese and nickel assets on Friday, setting the stage for the formation of a separate business that could be worth at least \$12 billion. BHP has long aimed to sell or spin off its manganese, aluminium and nickel assets, which contribute little to its earnings. Some of the largest shareholders in BHP welcomed the announcement. BHP is likely to offload between \$1.0-2.7 billion of its debt to the new vehicle. Its net debt as of Dec. 30 was \$27.1 billion. BHP is relying on iron ore for the lion's share of fiscal 2014 earnings after beating its own guidance for full-year output. The businesses to be divested have been overshadowed by a decade of soaring growth in its iron ore, copper and coal businesses driven by China's rapid economic expansion. At the same time, BHP has expanded in oil and gas through shale acquisitions in the United States. "By increasing our focus on these four pillars, with potash as a potential fifth, we will be able to more quickly improve the productivity and performance of our largest businesses," the company said in its statement.

Deere&Co – posted quarterly results which were marginally better than expected and reflected strong sales of the company's construction and forestry equipment. The overall quarterly profit was lower compared to last year. Deere cut its full-year outlook as declining grain prices discouraged farmers from purchasing its tractors, harvesters and other agricultural machinery. The Des Moines, Illinois-based company, the world's largest maker of farm equipment, said it now expects to earn \$3.1 billion in fiscal 2014, down from its previous forecast of \$3.3 billion. The company said it expects total U.S. farm cash receipts, which correlate closely with investment in new ag equipment, to fall to \$387.1 billion in 2014, down from \$407.1 billion in 2013 and below its previous forecast of \$392.7 billion. Deere also cut its forecast for South America. Deere

said it now expects full-year industry sales in the region to fall 15% in 2014, down from a previously forecast decline of 10% percent. The one bright spot in Deere's core farm market was the U.S. livestock sector, where the company said rising meat and poultry prices were driving sales of smaller tractors and helping to moderate the weakness in the grains sector. For the most recent quarter ended July 31, Deere reported a net profit of \$850.7 million, or \$2.33 a share, compared with \$996.5 million, or \$2.56 a share, a year earlier. Sales retreated by 5% to \$9.5 billion.

Graincorp – Australia's GrainCorp Ltd appointed an executive from U.S.-based agribusiness CHS as its new CEO on Tuesday, and said it did not expect former suitor Archer Daniel Midland Inc to return with a fresh bid in the near term. GrainCorp said Mark Palmquist, who currently oversees CHS's international grain businesses, will take the helm at Australia's largest grain handler on Oct. 1. Don Taylor, Graincorp executive chairman and interim CEO, said Palmquist's appointment was made without consulting ADM, which still owns nearly 20% of the Australian firm.

Rheinmetall – has reportedly won a contract to supply Greece tank ammunition worth over €50 million.

Roche Holding SA – is reportedly in talks to buy the almost 40% stake in Japan's Chugai Pharmaceutical Co Ltd that it does not already own for about \$10 billion. The Swiss group could announce a deal to take full control of its Japanese partner for oncology and arthritis drugs as early as next week, although no final decision has been made, Bloomberg said. There has long been speculation that Roche might swallow Chugai - following a similar buyout of U.S. biotech group Genentech in 2009 - to maximise exposure to the Japanese drugs market, the world's second largest after the United States. Roche, the world's largest producer of cancer medicines, has a long track record of making bolt-on acquisitions. Schwan reiterated last month that he planned to steer clear of mega-mergers and focus instead on smaller deals and partnerships. In its most recent deal, Roche agreed in July to pay up to \$1.725 billion to buy Seragon Pharmaceuticals, a privately-held U.S. biotech company that researches breast cancer treatments. Acquiring the rest of Chugai would be a considerably larger purchase but would still be very manageable for Roche, which has a market value of about \$250 billion. Roche is also reportedly bidding for



InterMune, an orphan drug company (i.e. developing treatments for rare diseases). InterMune specializes in treating fatal scarring of the lungs.

Serco – The boss of British outsourcer Serco said he was confident the sweeping changes he was making would restore the fortunes of the firm. The company reported lower than expected debt and stuck to its 2014 profit forecast, but warned the guidance depended on it cutting costs, fixing failing contracts and uncovering no further problems. Chief Executive Rupert Soames, a grandson of famous wartime Prime Minister Winston Churchill, joined from Aggreko in May to lead a recovery. He has overhauled management and launched a review of Serco's strategy and contracts. Soames will outline his findings of the review at Serco's annual results in March. It has also been reported that Soames' right-hand man in a successful era at Aggreko, Angus Cockburn, will join Serco in October as chief financial officer. Serco said adjusted operating profit fell to £50.7 million (\$85 million) in the six months to June 30. Net debt fell by a better-than-expected £172 million to £559 million, aided by a share sale in April, potentially easing the likelihood of a further equity raise, analysts said. The firm said it was on course for 2014 adjusted operating profit at constant currency of not less than £170 million pounds. Serco runs services in 30 countries but makes almost half its revenue in Britain.

Economic Conditions

US – The US industrial production advanced by 0.44% in July, ahead of the expected 0.30% improvement and building on June's 0.38% increase. The improvement was wide based with all but one sector, the US utilities, advancing in the month. Particularly strong in the month were manufacturing and production of business equipment. The US capacity utilization inched higher, to 79.23%, largely in line with the consensus expectations.

On the consumer front, meanwhile, retail sales were barely positive for July, up 0.04%, falling short of the expectations for a 0.20% advance. The core sales figure, which excludes autos sales, was up 0.1%, also short of the expectations, which were calling for a 0.4% increase. Sales were higher for health and personal goods, as well as clothing and food and beverage, offset by reduced sales of general merchandise, furniture and electronics. The consumer sentiment for August, as measured by the University of Michigan,

was more subdued than expected, at 79.20 index points, relative to the expected 82.50 reading, deteriorating from July's 81.30 index points level. The culprit was a significant drop in the consumer 'expectations', as the 'current conditions' component of this composite index was actually higher in the month.

Just released this morning, the National Association of Home Builders' (NAHB) housing market index, surprised on the upside, with a 55 reading for August, ahead of the consensus expectations for a flat 53 index points reading; showing increased optimism on the part of the US homebuilders.

Canada – Corrected employment numbers for July were reported on Friday, with the initial 200 jobs gain turning into a much larger 41,700 payroll additions. The unemployment rate was one tenth lower, at 7.0% helped by the much larger revised gain and a flat participation rate, at 66.1%. Same as in the preliminary report, the largest gain was registered in part-time jobs, up by 59,900 in the month, offset by a less severe 18,100 full-time positions loss.

UK unemployment edged closer to a six-year low in the three months to the end of June, official figures have shown. The Office for National Statistics said the unemployment rate fell to 6.4% in the quarter, the lowest since late 2008 and down from 6.5% in May. The number of people unemployed fell by 132,000 to 2.08mn. But average wages excluding bonuses rose by 0.6% in the year to June, the slowest rise since records began in 2001. Including bonuses, wages fell 0.2%, the first fall since 2009. BBC News

Financial Conditions

US:US Federal Reserve policymakers remain determined to flatten the yield curve as much as possible, having indicated they expect 'exceptionally low levels of interest through 2014 with the Federal Reserve carefully calibrating the beginning of unwinding quantitative easing and undertaking that the Federal Reserve will keep rates low until mid 2015. The U.S. 2 year/10 year treasury spread is now 1.95% and the U.K.'s 2 year/10 year treasury spread is 1.69% - 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. It seems the top tier



6-9 investment banks will continue to command their market and possibly increase their share – as barriers to entry for newcomers have in our view been raised.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 4.12% - (was 3.31%, end of November 2012 the lowest rate since the Federal Reserve began tracking rates in 1971), as the Federal Reserve effectively continues to give priority to incentivising home ownership. Existing U.S. housing inventory is at 5.5 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, a more promising 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 13.15 (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 currently offers 5 mutual funds:

- Portland Advantage Fund
- Portland Canadian Balanced Fund
- Portland Canadian Focused Fund
- Portland Global Banks Fund
- Portland Global Income Fund
- Portland Global Dividend Fund

Private/Alternative Products

Portland also currently offers 3 private/alternative products:

- Portland Focused Plus Fund LP
- Portland Private Income Fund
- Portland GEEREF LP

Net Asset Value:

At the close of business each day we publish the Net Asset Values (NAV) of our mutual funds onto our Portland website at <http://www.portlandic.com/prices/default.aspx>

Closed-End Fund

Spreads on the closed-end fund remain, in our view, very attractively priced to purchase.

The Portland Investment Counsel's 2013 Fourth Quarter Fund update is now available on the website.

At the close of business each day we publish the Net Asset Values (NAV) of our funds onto our Portland website at <http://www.portlandic.com/prices/default.aspx>

The price details published are replicated here below from which you can see we also highlight whether the funds share prices are trading at a premium or discount to their respective NAV.

Market Commentary



PORTLAND
INVESTMENT COUNSEL®

August 18, 2014

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Source: Thomson Reuters, Bloomberg, Company reports

Certain statements included in this document constitute forward-looking statements, including those identified by the expressions “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend” and similar expressions to the extent they relate to the Fund. The forward-looking statements are not historical facts, but reflect the Portfolio Management team’s current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Portfolio Management team has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise. PORTLAND INVESTMENT COUNSEL and the Clock Tower Design are registered trademarks of Portland Holdings Inc.

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