



News Highlights

Enbridge Inc – said on Friday it would not be able to give a start date for its newly reversed Line 9 crude oil pipeline until a Canadian regulator decides whether to force it to install safety valves at major water crossings on the route. Enbridge said it cannot say when the line, which would carry crude from Sarnia, Ontario, to Montreal, could enter service until it gets a ruling from the board on that request. The 300,000-barrel-per-day pipeline initially had been expected to be in service in early November. That plan was put on hold earlier this month after the regulator noted that the company had failed to install the valves, a condition imposed by the board when it approved the project. In a letter to the regulator dated Oct. 23, Guy Jarvis, the head of Enbridge's liquids pipelines unit, said new and existing valves on the line were sufficient to meet the board's conditions. Placing valves on either side of all 329 water crossing on the route would offer only marginal additional protection, he said. The board has 90 days to rule on Enbridge's request.

Pacific Rubiales – During the first nine months of 2014, the Pacific Rubiales continued with its exploratory drilling activity in Colombia and Peru, drilling a total of 39 wells, comprised of 17 exploration wells, 19 appraisal wells and three stratigraphic wells. Of this total, 28 wells discovered economic hydrocarbons for a total exploration success rate of 72%. In addition to these 39 wells, ten wells in Brazil, Peru, Papua New Guinea, Guatemala and Colombia are at the drilling or testing stages with four of these wells having already encountered hydrocarbon indications either while drilling (gas and oil shows), or in cores and/or on petrophysical logs. Jose Francisco Arata, President of the Company, commented: "Over the past 12 months, the Company has more than doubled its net light oil production. Approximately 10,000 bbl/d of new net light oil production has been delivered through the drill bit to date, from successful exploration wells drilled in the first nine months of 2014. We also have additional barrels behind pipe, in several of the most recent recently drilled exploration wells. These results demonstrate the quality and value of our exploration portfolio."

Financial Sector

Lloyds Banking Group Plc, Britain's largest mortgage provider, is expected to announce about 9,000 job cuts next week as its customers shift to online services from physical branches. It is expected the bank will detail the cuts, a target for branch closures and the increasing automation of its services as part of a new three-year plan on Oct. 28, when it releases third-quarter results (Source: Bloomberg) . A guesstimate suggests would equate to c£3-600m of savings or c3-6% on Group profit. Looks to be c10% of the workforce

(total cost 2013 £5.7bn = £570m) although suspect that is generous. £30k a head = c£300m.

Standard Chartered has notified thousands of UAE small and medium-sized enterprise customers it is closing their accounts as it responds to pressure from US regulators to cut its risks following an anti-money laundering settlement. "We regret to notify you that Standard Chartered Bank will no longer be able to provide banking services to you, and your account(s) will be closed 30 days from the date of this letter," the bank wrote in a letter to customers dated 9 October. The letter has angered UAE customers, who say they have not been given enough time to close their accounts. (Source: Reuters)

State Street: STT reported GAAP EPS of \$1.26. Operating EPS of \$1.35 backs-out several typical adjustments, but also \$0.12 from a provision on outstanding and potential FX claims. Excluding this add-back, operating EPS was still \$1.23, beating consensus of \$1.21. The core beat was driven by both revenues and expenses. Operating revenue was relatively flat Q-Q, as higher servicing fees (+1%), stronger management fees (+5%) likely with help from bigger performance (fees), and solid FX (+12%) offset the seasonal decline in securities lending (-33%). AUA/AUC grew marginally and AUM was 2% lower, as net new business and stronger global equity markets were offset by the stronger dollar. New asset servicing wins totaled \$302B (up from \$250B in 2Q) and AM wins were \$3B (down from \$18B in 2Q). Operating expenses (excluding the \$70mm provision for FX claims) declined 2% Q-Q, led by a decline in compensation (-3%), due to the stronger dollar and lower incentive costs. This was partially offset by higher transaction processing expenses (+3%) to support increased servicing volume and higher occupancy (+3% off of a low 2Q). STT achieved ~60bp of positive operating leverage Q-Q and ~130bp Y-Y. The Basel III adjusted Tier 1 common equity ratio under the standardized approach decreased 40bp (to 10.9% from 11.3%). The supplementary leverage ratio at the holding company also decreased to 5.7% from 6.1% in 2Q. Share repurchase totaled 5.8mm shares and \$410mm in 3Q14, with authorization for ~\$880mm remaining for the next two quarters.

The ECB/EBA bank stress test results: were in line with expectations with 24 banks failing under the adverse scenario. Only 12 banks of the 24 currently are still below the ECB/EBA standard after measures already taken year to date in 2014. These banks will need to raise an additional €9.9b. With stress test results behind us, further stimulus coming from ECB's TLTRO program and a lower EUR, these next few months are probably the best chance we've had in a long time to see Eurozone lending pick up. Next up is for the ECB to announce the amount of covered bonds that it bought in its first week. In our view, the ECB and EBA announcements mark the last round of capital

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raises in European retail banks. At system level, the capital shortfall on an adverse scenario is €10bn, hardly a systemic risk, reflecting a total of €300bn of capital raises since 2008. We remain concerned that universal banks still face litigation and operational capital adjustments which were not addressed by the ECB, a reflection of the impossibility of the task. Nonetheless, estimates that aggregate banks by underlying 2016 profitability and Asset Quality Review/ adverse scenario adjusted excess capital/shortfall as a percentage of market cap, shows we believe that ING and BNP Paribas screen well while a lower than expected Core Equity Tier 1 ratio at Lloyds Bank will raise questions on dividend timing ahead of the Bank of England stress test in December.

Global Dividend Payers

ABB saw a real impact in Q3 from the lower order backlog from 2013, as organic sales fell 4% while reported sales were down 7% from negative FX and divestments. However, Q3 orders rocketed and grew 24% y-o-y, with large project orders increasing 236% (including an \$800 million order for a subsea power link in Scotland) and base orders 2.5%. The adjusted EBIT margin was broadly in line but the weaker sales made EBIT come in 9.8% short of expectations. Orders grew in all regions and this, together with the release in large project orders, clearly adds fuel to sales forecasts for the second half of 2015, although weaker Q3 sales and the Q4 outlook in Europe and Americas make for reduced expectations in the near term. We see ABB improving margins in 2015e as a function of Systems earnings turning positive on EBIT, and better margins in Developing Markets as well as in Power Products.

BHP Billiton said it expected to limit annual capital expenditure to \$14 billion after a planned demerger next year. The company's capital and exploration expenditure declined by 32% in 2014 to \$15.2 billion, chief executive Andrew Mackenzie said in a presentation to investors. "Our level of investment is expected to decline again in 2015 to \$14.8 billion and be no more than \$14 billion beyond the demerger," he said. Previously, BHP had said it was targeting annual capital expenditure to below \$15 billion. BHP, the world's biggest mining company, in August announced plans to spin off operations worth roughly \$16 billion to focus on its most profitable activities.

The company said it was on track to meet its full-year iron ore production guidance after mining a record 62 million tonnes in the September quarter at its Australian operations, 15% over the year-ago period. The world's third-biggest supplier of the ore has expects Australian production to reach 245 million tonnes for the fiscal year ended June 30. "At Western Australia Iron Ore, we have completed our major supply chain investments and, for the first time

in a decade, we have no major projects in execution," BHP chief executive Andrew Mackenzie said in the group's production report. BHP plans to cut iron ore production costs by more than 25% and squeeze more tonnage from its mines.

Pearson reported 9Month 2014 revenues are flat on organic terms, in line with expectations. In 9M 2014, Pearson reported headline sales of -6% which is largely due to the strength of sterling against the US dollar and key emerging market currencies. North America grew by 2% in organic and currency-neutral terms; however, reported revenues declined by -6% yoy. School saw growth support from both virtual and blended schools (Connections

Education) and clinical. Higher Education grew modestly with gains in market share and growth in digital broadly offset declines in print. This segment continues to benefit from later second semester purchasing. In addition to the currency effect, the North America business is affected by the impact of legislative changes in Texas and California and softness in the Open Territories. Core was down -6% yoy in organic, -7% yoy ex-currency terms and by -10% yoy in headline terms. The segment continues to be negatively affected by the UK school qualifications business and declines in Western Europe. While the Financial Times reported strong growth in digital subscriptions (+23% yoy to more than 476k), it was offset by declines in print. Growth was flat in organic, +11% yoy ex-currency terms and declined by -1% yoy in headline terms. While the segment benefited from growing English Language Learning enrolments in China and college enrolments in Saudi Arabia and South Africa, this was offset by decline in enrolments in sistemas in Brazil and the impact of the partnership with IBM in India (Pearson will no longer recognise revenues from the hardware associated with its Digiclass multimedia teaching solution). On organic terms, Growth decreased from 7% in 1H:14 to flat on 9M14 due to the phasing of purchasing in South Africa. After 10 years at Pearson and serving as CFO for eight years, Robin Freestone has decided to step down. Freestone's decision will raise questions on several fronts: 1) whether there are disagreements at the top 2) whether this signals a change in strategy or 3) a prelude to more changes in management. Because he is overseeing the transition, it should not in our view be as traumatic, but it will increase uncertainty at a time when the company is undergoing significant changes. Pearson re-iterated its guidance for the full year and indicated adjusted EPS in 2014 to be between £0.62 and £0.67. Company's restructuring programme is on track with restructuring costs for the year expected to be £50m in 2014. Restructuring costs are expected to return to normal levels in 2015.

Procter & Gamble – said it would exit its Duracell battery business, likely through a split-off into a separate company, as it looks to focus on faster-growing brands. P&G, which also reported a slight fall in quarterly sales, said a stronger dollar would significantly hurt revenue



and earnings in the current quarter. The world's No. 1 household products maker said in August it could sell about half of its slow-growing brands in the next two years and cut jobs to revive sales growth and save costs. P&G does not break out Duracell numbers, but the world's No.1 battery business is estimated to earn about \$500 million before interest, taxes, depreciation and amortization. The household products maker also said on Friday that it had agreed to sell its interest in a China-based battery joint venture for an undisclosed amount. P&G said in September that it would sell the last of its pet food business to Spectrum Brands Holdings for an undisclosed amount. P&G said it expected the percentage growth in its net sales to be little changed or rise by a low single digit, including a 2% point negative impact from a strong dollar. Net income attributable to P&G fell to \$1.99 billion, or 69 cents per share, in the first quarter ended Sept. 30 from \$3.03 billion, or \$1.04 per share, a year earlier. Core earnings were \$1.07 per share, in line with the consensus expectations. Net sales fell to \$20.79 billion from \$20.83 billion.

POSCO reported an in-line set of underlying numbers for 3Q14 with a 5% q/q increase in consolidated operating profit. Lower net income, however, was driven by one-off forex losses, according to the company. The company is guiding to 33% of the profits in 2014 to come from non-steel businesses (compared to historical average of around 15%). This compares to around 28% in 3Q'14 and 29.9% for 9M'14 so the non-steel profits should continue to increase (the Operating Profit from the Myanmar gas field of 70mn Korean Won in 3Q'14 compared to 36mn KRW in 1Q'14, for example, as the production there ramps up). Lower iron ore prices should aid continued margin recovery in the steel business in 4Q14 and asset monetisation should gather steam, following the stake disposal announcement in the specialty steel and E&C division. Volume displacement concerns should abate as Hyundai Steel is nearing its full ramp-up of BF#3 without any tangible impact on Posco volumes.

Rheinmetall – German tank manufacturer Rheinmetall is close to buying steel group ThyssenKrupp's marine systems business, according to Wirtschaftswoche. The two companies are about €100 million apart on a possible price for the division which includes submarines and surface vessels, and a deal could be reached as early as the end of this year. Analysts have said Rheinmetall is aiming to bulk up in response to efforts by German rival Krauss Maffei Wegmann (KMW) to combine with French rival Nexter, a move designed to help them withstand defence-spending cuts. Two months ago, Germany's economy minister urged the arms industry to consolidate with European peers.

Total CEO Christophe de Margerie was killed last Monday in Russia as his private jet on taking off, collided with a snow plough. Our

thoughts and sympathies are with his family, friends and all the employees at Total. The Total Board has since appointed Patrick Pouyanne to the role of CEO with the reappointment of Thierry Desmarest, the former Total CEO, as Chairman. Investors should be reassured by the depth and quality of the management team and that the direction of the company for the coming three years is already clearly defined. Thierry Desmarest, former CEO of Total, has served on Total's Board as Honorary Chairman for a number of years and as such his appointment as Chairman until the end of 2015 appears very logical. Patrick Pouyanne, who will take over the CEO duties, may be less well known to investors but having joined the Total group in 1997 he has held a number of positions across the upstream before being appointed to oversee the overhaul in the refining and petrochemical division of Total. That tenure has seen the downstream deliver over \$400m in cost improvements and has been a key source of earnings surprise in the past two years. The wide range of Mr Pouyanne's experience across government, Total's businesses together with the focus on cost discipline are likely to prove key strengths at the top of Total at a point when both the company and the industry appear to be undergoing fundamental changes.

Economic Conditions

U.S. existing home sales rose a more-than-expected 2.4% in September to 5.17 million units annualized, the highest level in exactly one year. (No revisions to prior months.) After the 1.8% setback in August, this extends the string of improvement that started up again in the spring. More homes and condos were on the market last month but with the strong jump in sales, the months' supply still slipped to a 6-month low of 5.3 (for the total; single family was down to 5.4), well within normal.

U.S. new home sales unexpectedly inched higher in September, versus widespread expectations for a hefty decline. Sales edged up 0.2% to a 6-year high, which is pretty impressive considering that they were 15.3% higher in the prior month. And they now stand 17% over year-ago levels, the second straight month of double-digit gains. But it is important to appreciate September's level of home sales was only 467,000 units annualized because there were significant downward revisions to the prior three months. August's 504,000 was chopped to 466,000 (but still the highest since July 2008), and July's 427,000 was sliced to 404,000. And instead of showing an increase in July of 1.9%, sales actually slipped 1.2%. Finally, June's 419,000 pace of sales was diced up to 409,000. All in, the # of home sales was considerably fewer than originally reported so in absolute terms, sales have been pretty flat over the past couple of years.

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The US inflation as measured by the changes in the consumer price index (CPI) remained mild, with a 1.7% year on year rate of change in September, a notch ahead of the expectations and in line with August's reading. The core CPI reading, which excludes the effects of volatile food and energy prices, was also tame, at 1.7%, and in line with the consensus expectations. Energy prices decreased in the month, due to the weakness in crude prices, while food prices actually advanced in the period.

Canada – Retail sales in Canada took an unexpected turn lower in August, by 0.3%, dragged lower by sales of auto vehicles and gasoline. Core retail sales, which exclude the effects of auto sales, were also 0.3% lower, short of the expectations for a 0.2% improvement. Most retail categories retreated in the month, excluding clothing, which was up 1.3%.

Spain's unemployment rate fell to the lowest since the end of 2011 in the third quarter as its economy turned into one of the fastest-growing in the euro region. Joblessness fell to 23.7% in the three months through September from 24.5% in the previous quarter, as reported by Spain's national statistics institute INE. The economy grew 0.5% in the period, the Bank of Spain predicts. (Source: Bloomberg)

Brazilian election: In the closest election in recent memory, Brazilian President Dilma Rousseff was re-elected, securing 51% of the vote to opposition candidate Aécio Neves' 48% (with 99% of votes reported). USDBRL has rallied +3.4% this morning as the markets digest the news. A second term for Dilma raises serious questions about whether we'll see a shift in the macroeconomic policy mix that has left Brazil with stagnating growth and high inflation amid growing state intervention.

Financial Conditions

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 US 2 year/10 year treasury spread is now 1.88% and the UK's 2 year/10 year treasury spread is 1.55% - 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 US 30 year mortgage market rate has increased to 3.92% - (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 US housing inventory is at 5.3 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 17.87 (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 6 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

Private/Alternative Products

Portland also currently offers 4 private/alternative products:

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

Net Asset Value:

The Net Asset Values (NAV) of our investment funds are published on our Portland website at <http://www.portlandic.com/prices/default.aspx>

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Sources: Thomson Reuters, Bloomberg, Macquarie, Credit-Suisse, KBW, Bank of America, TD, BMO

Source: Thomson Reuters, Bloomberg, Company reports

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