Market Commentary

PORTLAND INVESTMENT COUNSEL®

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News Highlights

Energy Sector

Royal Dutch Shell will not increase its target to sell $15 billion of assets in 2014-2015 in the face of lower oil prices, the oil company's upstream director said on Tuesday. The Anglo-Dutch major will also maintain its current oil and gas exploration portfolio, Andrew Brown said.

"We do have a continuous need to recycle our portfolio. Fifteen billion (dollars) is still €only a few percent of our total assets and we haven't got any plans to refresh that target," Brown told reporters. Shell has so far sold $12 billion of assets this year, putting it on track to hit the target of $15 billion by the end of next year. The decline in oil prices has also raised questions over the viability of some exploration projects in recent weeks. But Shell's exploration portfolio remains on track, Brown said.

"We test all our projects between $70-$110 a barrel, so the current oil price is in the range of oil prices that we test our projects, so this is business as usual in terms of evaluation of project robustness."

Financial Sector

Citigroup for the first time understands requirements for the next Federal Reserve stress test of its capital thanks to the most complete instructions yet from the regulators, chief financial officer John Gerspach said on Thursday. Gerspach, speaking at an investor conference, said this is "the first time leading into the test that we actually understood what the Fed is looking for." (Source:Reuters).

Barclays, JP Morgan, Citigroup, HSBC, Royal Bank of Scotland and UBS: regulators in the U.S., Britain and Switzerland ordered five banks to pay about $3.4 billion in the first wave of penalties since authorities began a global probe into the rigging of key foreign-exchange benchmarks last year. Switzerland's UBS AG was ordered to pay the most, $800 million, Citigroup Inc. will pay $668 million, followed by JPMorgan Chase & Co. at $662 million. Royal Bank of Scotland Group Plc was fined about $634 million and HSBC Holdings Plc $618 million. Banks and individuals could still face further penalties and litigation following the 13-month probe into allegations dealers at the biggest banks colluded with counterparts at other firms to rig benchmarks used by fund managers to determine what they pay for foreign currency. The U.S. Office of the Comptroller of the Currency is also expected to announce penalties and Finma said it has started enforcement proceedings against 11 UBS employees. The Bank of England has dismissed its chief foreign exchange dealer, Martin Mallett, who has worked at the bank for almost 30 years. He was faulted in a report by Anthony Grabiner for failing to alert his superiors that currency traders were sharing information about client orders. The probes were initially into whether traders colluded to manipulate the WM/Reuters benchmark rates. They have expanded to include whether traders used confidential information to take bets on unauthorized personal accounts, and whether sales desks charged clients excessive commissions. More than 30 traders have been fired, suspended, put on leave, or resigned since the probes began last year. Last week's settlement includes the Financial Conduct Authority' s (FCA) largest-ever fines and marks the first time the FCA has entered into a group bank settlement. Barclays said in an announcement that they chose to withhold their settlement to wait for a combined settlement with other regulators as well, which we interpret as meaning the bank does not wish to exacerbate its relations with US regulators pending the outcome of their decisions. ~30 additional banks will have to overhaul practices with FCA pressing banks to claw back bonuses and to reduce payouts. As far as the Federal Reserve / NY-DFS are concerned, both regulators reportedly declined to join the settlement as their investigations were still at early stages. In addition, DFS purportedly (i) wants to install monitors within both Barclays and Deutsche Bank as part of any settlement, and (ii) views the settlement today as being too weak.

ING Groep plans to sell shares of its former US insurance unit, Voya Financial, reducing the banks stake to 19% from 32.5%. ING is selling 34.5mn shares of Voya , worth $1.38bn, based on Voya's share price of $39.99. Voya has agreed to buy $175mn of its stock in the deal. "Repurchasing shares is an effective way to manage capital and demonstrates our confidence in our plans," Voya Chief Executive Officer Rod Martin, 62, said on a conference call last week. The lock up of 45 days post pricing means the next and final tranche of Voya on the market will be in 1Q 2015. The placement should reduce the core debt (group leverage) by more than €800mn, from the current level of €2,552mn post reimbursement of State support. Next step in our view would be an upstreaming of ING Bank dividend of around €1.1bn as the bank will reach more than 11% CET1 by the end of the year. This should reduce the core debt to €650mn by end of 2014.

Lloyds Banking Group Plc, Britain's largest mortgage lender, plans to eliminate 1,250 jobs as it overhauls the way it sells insurance products. The job cuts at the consumer banking, insurance, commercial banking, finance and group risk operations are part of a broader effort to eliminate 9,000 jobs across the group. CEO Antonio Horta-Osorio, 50, is seeking ways to bolster earnings to help return Lloyds to full private ownership and resume dividends. He last month announced the details of his revamp, which includes shutting 150 branches to cut 1 billion pounds ($1.6 billion) in costs by 2017. "As a result of significantly reduced customer demand, these products will no longer be available on a stand-alone basis," the bank said in a statement. (Source: Bloomberg).

Standard Chartered plans to cut up to 100 retail branches in 2015, or 8% of its network, to help save $400 million a year to improve profitability. The bank is under pressure to improve performance after three profit warnings this year and a 30% plunge in its shares, and is holding three days of meetings with investors in Hong Kong to spell out its plans. Standard Chartered said that returns at its retail bank were being held back by high costs and that it aimed to cut 80-100 branches, out of 1,248 it had at the end of June. The bank aimed to increase assets under management in its wealth management and private banking businesses by 10% or more next year, from $66 billion and $56 billion, respectively, at the end of June. It is also aiming to get more out of its corporate finance bankers. It wants that business to show a 10% or more increase in deals and a similar rise in revenues from its eight priority markets and in revenues per banker. (Source: Reuters).

Canadian Dividend Payers

Northland Power reported results broadly in line for its third quarter. The bottom line was affected by the marking to market of interest rate swaps related to the Gemini financing (accounting effect expected to revert in time). On the topic of accounting for Gemini and Nordsee project build-out, they are expected to impact the balance sheet, but not the income statement, with the exception of the interest rate swaps. Management emphasized repeatedly that NPI has more than enough liquidity to fund the dividend. Payout ratio at 112% (of the free cash flows) before DRIP, 82% when accounting for DRIP. The adjusted earnings before interest, tax, depreciation and amortization (AEBITDA) were up 15% to $87 million, helped by a higher one-time payment from the now exited Panda-Brandywine US venture, offset by lower power prices at Kingston plant. Management maintained its guidance for $350 to $380 million AEBITDA for 2014 and $380 to $400 million AEBITDA for 2015. Total dividend payout ratio guidance was improved for 2014 to 95% to 105%. Gemini is progressing, though capital deployment was marginally slower than expected, with turbines to be ordered in a couple of months, which should trigger a spike in capital deployment. One third of the foundations for the windmill monopoles were completed, while 91 km (some 40%) of export cable has been built, concrete foundations have been poured for the substations and horizontal drilling has been started for the subsea cables. Financial close for NordSee One expected in the first half of 2015. There were some contractor specific delays at the ground solar projects and the Frampton wind project in Canada has seen some cost increases due to CPI indexation of labour costs. Management stated they're working hard at extending the PPAs for Kirkland Lake and Cochrane, which they'd like to keep operational for many more years. Some early stage bidding processes are in place for Ontario and Quebec projects. As for international expansion, the company mentioned their interest in gas and onshore wind in Mexico, as well as solar in Latam, Chile and Colombia in particular. All in, an in-line quarter.

Global Dividend Payers

Aggreko: Q3 trading: Company-compiled consensus PBT is £284m. Underlying growth slowed, as expected, from +12% to +6%, with the Local business up 4% (+10% in 1H) and Power Projects +10% (+14%). Power Projects - contract wins now total 697MW (+32% y/y), up from 500MW at the time of the half year results. However, management guide that the outlook continues to warn of an uncertain market environment. Local Business – the strong performers of the first half – North America, UK and Middle East – continue to be strong and the challenging regions – Australia, Brazil, Continental Europe – remain tough. Germany has shifted from the former to the latter in the quarter, however. Capex for the year is still expected to be £235m for the year and we now have guidance of £140m for 1H 2015, up 31% vs. 1H 2013.

AusNet Services announced its half year results for the period ending 30 September 2014 last week, reporting a 1.1% increase in revenues to $971.3m, a 9% decrease in Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) to $529.4m and a Net Loss After Tax of $4.9m. The net loss and variance to the prior corresponding period is principally due to several items including $163.0m tax impact of a non-binding agreement with the Australian Taxation Office (ATO) to settle all matters concerning the intra-group financing review and a $37.5m Advanced Metering Infrastructure Program (AMI) customer rebates provision. Adjusted EBITDA, which includes a $15.0m AMI asset impairment, decreased by 4.5% to $566.9m and adjusted NPAT decreased by 4.4% to $184.4m. The company declared an interim 2015 distribution of 4.18 Australian cents per security.

GrainCorp Ltd - Australia's largest listed agribusiness, said its annual net profit fell 64% from a year earlier, below analyst forecasts, as dry weather led to lower grain volumes. Net profit came in at A$50.3 million for the full year ending Sept. 30, compared with A$175 million the previous 12 months and lower than the A$88 million consensus forecast. Excluding one-off costs, operating net profit was A$95 million. The company reduced its final dividend to five Australian cents from 20 Australian cents as revenue fell 8% to A$4.09 billion. An expected El Nino weather pattern causes drier weather and lower grain production on Australia's east coast, where Graincorp has most of its business. GrainCorp expects the environment for its core grains business to remain "tight" in the 2015 financial year, with below average volume resulting in less product available for export.

Procter & Gamble / Berkshire Hathaway: P&G has agreed to sell its Duracell battery business in a deal worth about $4.7bn via Berkshire swapping its stake in P&G plus $1.8bn in cash that P&G will inject into Duracell. Swapping shares for an operating business allows both sides to defer taxation, Mr. Buffet said.

SSE – Britain's second-biggest household energy supplier said it expected full-year earnings per share (EPS) to come in at the lower end of expectations on the back of weak energy prices. The utility's wholesale division, which includes its power plants and gas production, posted an 83% fall in operating profit to £26.7 million for the half year ended Sept. 30, due to lower generation at its thermal power stations and wind farms. SSE said it expected full-year EPS to be the same level as the previous year's 123.4 pence. Britain's competition watchdog is investigating the entire energy supply market, a probe that could lead to the break-up of some of the country's largest energy providers. SSE lost 210,000 customer accounts in Britain and Ireland between April and September as more users switched to cheaper independent suppliers. SSE said it was on track to make disposals totalling £1 billion, of which around £400 million have already been signed.

Wal-Mart Stores Inc same-store sales, helped by lower gas prices, rose for the first time in seven quarters, but the world's largest retailer warned it was preparing for a tough holiday season as it moves to match prices with online outlets. Wal-Mart said on Thursday comparable sales at stores open at least 12 months rose 0.5% in the third quarter ending Oct. 31, buoyed by growth in its small-format locations. The market was expecting flat same-store sales. The results suggest Wal-Mart's core low-income customer may be encouraged by the drop in gasoline prices below $3.

Quarterly sales from new and existing stores rose to $119 billion from $115.7 billion, paced by demand for home goods and apparel, and 5.5% growth in comparable sales at Neighborhood Market outlets, the smaller format in which it is investing to counter slowing growth in Supercenters. Customer traffic in the United States dropped 0.7% in the quarter, and operating income fell on higher health-care costs and investments in e-commerce. Wal-Mart lowered the top end of its full-year profit forecast to $5.02 per share from $5.15, partly citing expectations of a highly competitive holiday season. Net profit attributable to Wal-Mart fell to $3.71 billion, or $1.15 per share, for the quarter ended Oct. 31, from $3.74 billion, or $1.14 per share, a year earlier.

Economic Conditions

US – US retail sales advanced 0.3% in October ahead of the expected 0.2% improvement and offsetting September's 0.3% drop, as building materials, furniture, clothing, sporting goods and motor vehicles, all recorded improvements in the month. Even when excluding sales of autos, the core retail number was up 0.3%. The positive trend could be continuing if the reading of consumer sentiment, as measured by the University of Michigan, is something to go by. It improved in November to an 89.40 index points level from an 86.40 points reading in October, with both the current 'conditions' and the 'expectations' component of this composite index improving in the month.

US industrial production unexpectedly fell in October, albeit from very high levels. Output slipped 0.1%, but this comes on the heels of a solid September (although I should mention that the 1% increase was revised down to +0.8%.). The main weakness was centered on utilities, which were down 0.7% (expect a utilities boost in November, as cold temps hit). Excluding utilities, production was flat.

Canada – the Canadian housing starts, at 186.3 thousand units annualized, fell short of the expectations in October and represented a pull-back from September's 197.4 thousand units annualized level. Meanwhile, the new housing price index continued to improve in the September, albeit at a slower pace than in August and than the consensus expectations had factored in.

UK - The Bank of England on Wednesday cut its forecasts for growth and inflation in the U.K. and signalled it is unlikely to raise interest rates until the second half of next year. The gloomier outlook--long flagged by senior officials--reflects worsening prospects for the neighbouring eurozone and the global economy, as well as subdued wage growth at home. The BOE said in its quarterly inflation report it expects annual consumer-price inflation will be close to its 2% target at the end of 2017 provided interest rates rise in line with expectations in financial markets.

Japan : GDP report shows Japan unexpectedly fell into recession in the third quarter (-1.6% GDP vs survey +2.2%).

Financial Conditions

US Federal Reserve policymakers remain determined to signal that although Quantitative Easing has stopped, the stimulus remains via keeping rates at present low until mid 2015. The US 2 year/10 year treasury spread is now 1.82% and the UK's 2 year/10 year treasury spread is 1.54% - 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 4.01% - (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 14.45 (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

Sources: Thomson Reuters, Bloomberg, Credit-Suisse, KBW, BMO

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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.

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