Market Commentary

PORTLAND
INVESTMENT COUNSEL®

July 28, 2014

News Highlights

Financial Services Companies

Barclays has hit out against a US lawsuit alleging the bank misled clients about the level of high-frequency trading activity in its anonymous “dark pool” venue. In the court filing, Barclays’ lawyers rejected the allegation that investors have been given a wrong impression about the amount of high-frequency trading in the Barclays LX dark pool “by glossy marketing brochures or quotes from magazine articles”.

Credit Suisse: 2Q results: solid numbers with a 6% clean pre-tax beat although mainly driven by good Investment Bank performance whereas Wealth Management is light and Wealth Management margin has disappointed again. Clean pre-tax CHF1.36bn vs cons CHF1.29bn (+6%). This excludes the CHF1.6bn US tax-settlement announced in the quarter. Beat vs consensus driven by Investment Bank where pre-tax is 21% ahead of cons (CHF1.03bn vs cons CHF849bn) on good FICC (Fixed Income, Currencies and Commodities) result (+4% YoY vs US peers on ave -10%). Wealth Management fractionally light at pre-tax CHF569m (cons CHF577m) and surprising fall in gross margin (99bps vs 103bps expected), although disappointment tempered by decent inflow number (CHF7.4bn vs cons CHF6.5bn). Capital ratios are in line (Core Equity Tier 1 9.5%, leverage 3.7% - both as expected). Mgt still guiding to >10% Core Equity Tier 1 by year end. Size of the 2Q FICC beat in view of guidance given in May for ~20% lower YoY trading revenues vs actual outcome of +1%, suggests a large June swing which suggests high beta nature of Credit Suisse’s core FICC franchises (esp. high yield & emerging mkts). Credit Suisse is to withdraw from commodities and trading and further trim other parts of its fixed income, currencies and commodities businesses.

Deutsche Bank : An examination by the Federal Reserve Bank of New York found that Deutsche Bank AG’s giant U.S. operations suffer from a litany of serious financial-reporting problems that the lender has known about for years but not fixed, according to documents reviewed by The Wall Street Journal.

Deutsche Bank, HSBC, Bank of Nova Scotia Accused of Silver Fix Manipulation: Bloomberg reported over the weekend that Deutsche Bank AG, HSBC Holdings Plc and Bank of Nova Scotia were accused in a lawsuit of rigging the price of billions of dollars in silver, an allegation similar to earlier suits involving the London gold fix. The banks unlawfully manipulated the price of the metal and its derivatives, an investor claims in a complaint filed yesterday in federal court in Manhattan. “We intend to vigorously defend ourselves against this suit,” Diane Flanagan, a spokeswoman for the Bank of Nova Scotia, said in an e-mail. Juanita Gutierrez, a spokeswoman for HSBC, and Amanda Williams, a representative for Deutsche Bank, declined to comment.

JPMorgan is nearing a deal to sell half its stake in the portfolio of its buyout arm, One Equity Partners, according to people familiar with the matter, as the bank pares down to focus on core businesses. J.P. Morgan is in advanced discussions with investment firms Lexington Partners LP, which is leading the acquisition, and Carlyle Group LP’s AlpInvest Partners unit, to sell them half of the roughly $4.5bn in investments One Equity manages for the bank. (Source : Wall Street Journal)

Lloyds Banking Group (the Group) announces that it has reached settlements totalling £218 million to resolve with UK and US federal authorities legacy issues regarding the manipulation several years ago of Group companies’ submissions to the British Bankers’ Association (BBA) London Interbank Offered Rate (LIBOR) and Sterling Repo Rate.

Royal Bank of Scotland: pre-announced a strong performance for 2Q14. Operating Profit Before Tax was reported at £2.0bn and statutory PBT at £1.0bn. The results beat expectations due to approximately £0.6bn higher income, only £0.1bn higher expenses and £0.6bn lower impairment charges. The group reported £0.3bn better non-interest income, largely due to a c£0.2bn gain in Citizens. Otherwise, the better performance was driven materially lower impairment charges in its Core business. Core Equity Tier 1 capital ratio was 10.1%, c0.5% higher than the market anticipated and tangible NAV at 376p. New guidance today for 2014 is (1) 2014 Net Interest Margin flat on 1st Half with deposit re-pricing benefits now taken, (2) restructuring charges of £1.5bn in 2014 (previously £2bn), with an unchanged £5bn 2014-17, (3) impairment charge of c£1b,. Management are understandably cautious that 1st Half 2014

numbers reflect favorable markets and will not necessarily be sustained and warned that litigation and other legacy issues could drag down its results in future quarters.

State Street : operating earnings per share of $1.39 adjusts to $1.29 ex. tax benefits and recoveries, beating consensus ($1.26) on better fee income and in line expenses. Fee income grew 6% Q-Q, with across-the-board gains. FX (+$17 mm Q-Q) and securities lending (+$33mm Q-Q) notably outperformed expectations, with securities lending higher on seasonal activity and new business, and FX volume stronger as increased volume more than offset very low volatility. Net interest income was also modestly better than expected on a huge average balance sheet, which also results in 0.12% of core Net Interest Margin compression. Higher management fees (+$8mm Q-Q) were driven by stronger global equity markets, while higher servicing fees (+$50mm Q-Q) were driven by net new business, a weaker U.S. dollar, and stronger equity markets. Assets under custody grew 3% Q-Q, but was slightly weaker than expected, while Assets under management increased 4% Q-Q and was in-line with expectations. The Basel III adjusted Tier 1 common equity ratio under the standardized approach increased 20bp (to 11.3% from 11.1%). The supplementary leverage ratio at the holding company increased to 6.1% from 6.4% in 1Q. Share repurchase totaled 6.3mm shares and $410mm in 2Q14, with authorization for $1.3B remaining for the next three quarters.

The International Accounting Standards Board last Thursday published a standard on financial instruments, a key part of which is a change in the impairment model for how companies recognise losses. IFRS 9 moves from an "incurred loss model" to an "expected loss model". For the first time, banks will have to recognise not only credit losses that have already occurred but also losses that are expected in the future. (source : Financial Times).

Dividend Payers

ABB – Charges linked to costly delays to offshore wind and solar power projects pushed ABB's second-quarter earnings below forecasts. Like many of its rivals, the Swiss company is suffering from a lack of large orders for its power equipment and is working its way through a backlog of less profitable contracts. Its business making subsea cables and power systems to connect renewable energy to the grid is losing money as offshore wind farm projects, which offer some of the biggest returns, have been delayed by storms. ABB said its net profit fell 17% in the quarter to $636 million. ABB said in April it would redouble efforts to turn the troubled Power Systems division around, which racked up its third consecutive loss in the second quarter, of $24 million. ABB said most offshore wind projects should be completed by the end of 2015, while 90% of ABB's projects to build and construct solar power plants should be finished by the end of this year. The problems in Power Systems depressed the company's operating profit margin, which fell to 13%, the lower end of its mid-term target of 13%-19%. Signs are growing that large orders - contracts worth over $15 million - are starting to trickle in once again. Orders grew 13% in the quarter to $10.6 billion, with roughly half of the rise attributable to large orders, including a $400 million deal to supply a power transmission link in eastern Canada. This resulted in a positive book-to-bill ratio of 1.04. The Zurich-based company stuck to cautious guidance for its markets, saying uncertainty in some emerging economies may offset more encouraging signs in the United States and parts of Europe.

BCE/Bell Aliant – BCE Inc said last week it will pay C$3.95 billion ($3.68 billion) to take regional affiliate Bell Aliant private, securing access to its cash flow and bolstering BCE's position as Canada's largest telecom company. The deal for the 56% of Bell Aliant that BCE doesn't already own comes as the telecom industry braces for the possible emergence of a fourth national wireless company, a key goal of the federal government's telecom policy. BCE's move should protect its dividend growth profile. Montreal-based BCE said the deal will save the combined companies C$100 million a year in costs, partly due to the elimination of duplicate public company costs. While Bell Aliant's main operations are in Atlantic Canada, the deal also broadens BCE's prospective customer base in some areas of rural Ontario and Quebec. BCE said the deal values Bell Aliant at C$31 a share, a premium of 10% to the stock's close on Tuesday. It expects to close the deal by late November. For every share they own, Bell Aliant investors can elect to receive cash, or 0.6371 of one BCE share, or C$7.75 in cash and 0.4778 of one BCE share. Acquisition targets for BCE have been limited. The Canadian government has adamantly opposed deals that would give additional market share or spectrum to the country's three dominant players: BCE, Rogers Communications and Telus. BCE competes with Rogers and Quebecor in Eastern Canada for phone, Internet and TV customers, while sharing a national wireless network with Western Canada-focused Telus. BCE, which operates under the Bell name, will fund the deal

with available cash, and it will issue about 61 million shares to fund the equity portion. It said cash will cover a quarter of the purchase, and stock the rest. Bell Aliant's board unanimously advised investors to back the deal. BCE said over the next five years it plans to spend C$2.1 billion in Atlantic Canada, whose provinces of New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island had a combined population of 2.3 million in a 2011 census.

GEA Group – closed the second quarter of 2014 on a positive note. The GEA Farm Technologies and GEA Refrigeration Technologies segments in particular saw encouraging growth. At €1,170 million, the company's order intake adjusted for currency translation effects again almost reached the all-time highs seen in the prior-year quarter. This places GEA's order intake at the upper end of expectations. In the second quarter of 2014, the revenue generated by GEA's continuing operations increased by 5.0% to €1,118 million (previous year: €1,065 million). Exchange rate movements reduced revenue by 3.0%. In the first half of 2014, revenue amounted to €2,068 million (previous year: €1,989 million). This corresponds to organic growth of 7.0%. The group's operating earnings before interest tax, depreciation and amortization (EBITDA) in the second quarter rose to €128 million, up €10 million (8.1%) year-on-year. The operating EBITDA margin saw further improvement to 11.5% of revenue. The company's operating EBITDA in the first six months of the year increased by €22 million to €213 million. At 10.3% percent, the operating EBITDA margin was up 71 basis points year-on-year. Consolidated profit amounted to €81 million in the second quarter, a 7.2% increase year-on-year. This corresponds to earnings per share of €0.42 for the period (previous year: €0.39). In the quarter Moody's increased GEA's credit rating from Baa3 to Baa2 with a stable outlook. Assuming that there is no unexpected slowdown in global economic growth, GEA is reiterating its previous business outlook for 2014.

Johnson Matthey reported underlying EBIT of £103.6mn, 7% behind estimates (£112m) and 11% down yoy. Weakness came from the Process Technology division where timing on new orders has been delayed (sales down 17% yoy); however, management retained divisional guidance for progress in 2014/15. FY group guidance is also maintained for results "broadly in line" yoy - we note Management are now guiding to a £(25)mn FX EBIT headwind (from £(20)mn previously). Average seasonality (adjusted for FX) implies FY EBIT of £450m (-4% decline yoy) - below guidance (£469m), and consensus (£471mn). Financially: Net Debt of £771mn, from £760mn FY14. 1.4x ND/EBITDA.

Pearson: reported 1H14 revenues in line with consensus. In 1st Half 2014, Pearson reported continuing revenues of £2,047 million, down by -7% yoy in reported terms, up by +2% yoy in currency neutral terms, and flat yoy in organic terms; total revenues (including Mergermarket) were £2,056 million. Continuing revenues were in line with company-collected consensus of £2,048 million. North America grew by +2% yoy in organic and currency-neutral terms but was penalized by Sterling strength, as reported revenues declined by -6% yoy; Schools saw growth support from digital products such as Schoolnet and Connections (+26%) offset by declines in learning services; both Higher and Profession Education grew modestly. Approximately 1/2 of the +2% organic rate was due to the shift of the purchasing cycle in the US from December to January (which is expected to unwind in 4Q). The UK still accounted for >50% of Core segment revenues, despite declining -15% yoy. The school qualifications business was affected in two ways: 1) lower exam volumes due to less early GCSE taker and less re-sits (nonreversing); 2) delayed testing for BTech (expected to reverse in 2H). The organic performance was helped by positive showings in China, South Africa, and Saudi Arabia. The acquisition of Grupo Multi accounted for +11% of the +18% ex-currency rate. Following 1H14 reporting, the long-term picture for Pearson appears unchanged; no significant negative newsflow was released and full-year guidance was maintained. In the less important of the two half years (typically accounting for 40% of revenues and "very significantly less" of operating profits), Pearson saw stronger showings for its (newly debuting) North America and Growth segments, with a more challenged Core region. Pearson's management painted a picture of imminent normalization in its restructuring effort, after 1.5 years of accelerated one-off charges.

POSCO reported a strong set of underlying numbers for 2Q14 with operating profit 12% higher than our estimate. Lower net income, however, was driven by one-off forex losses. The non-steel business was the key driver for the strong sequential earnings while the recovery in steel business was better than estimated. The key trends from the earnings release, in our view, included: 1) the non-steel business is likely to remain strong with continued ramping up of the Myanmar oil and gas business; 2) the higher-than-expected implied EBITDA margins in steel should aid the earnings recovery; 3) c20% acceleration

in capex from earlier guidance implies greater focus on non-steel business; and 4) earnings headwinds from currency appreciation should recede going forward.

Roche reported Q2 group revenues of CHF11,478m in line with consensus estimates however relief from both efficiencies and one-off benefits within the pharmaceuticals division drove group core operating profit 4% ahead (absolute) and 140bps (margin) ahead of consensus. The margin beat was specifically driven by higher than expected non-recurring gains from product disposals (CHF508m versus expectation of CHF400m), increased underlying royalty income, lower royalty expenses and cost efficiencies – specifically within pharma marketing and distribution. Roche continues to spend on its pipeline (R&D +5%) a necessary cost outlay for the company this year and admittedly putting pressure on numbers alongside 2014 patent expiries. Core EPS is 2% ahead of expectations (CHF7.57/share vs. consensus CHF7.40) with the operating profit beat partially offset by the phasing of US R&D tax credits to H2 2014 and a tough H1 2013 comparison that includes two years of tax credits. Roche retains full year guidance of low-mid single digit sales growth and core EPS growth ahead of this. While today's results were not spectacular – they were certainly solid given 2014 is plagued by small molecule patent expiries (unusual for a biologic drug company like Roche) coupled with the need to spend on product development.

Syngenta reported H1 14 adjusted EBITDA of $2,111m, 1% below forecasts ($2,125m). H1 2014 EBITDA margins of 24.8% vs H1 2013 of 26.0% (due to one off issues). Sales ($8,508m) +1% yoy and +4% on a constant currency basis. Total volumes were flat (North America weakness - late season, offset by favourable European weather), prices up 4%. Financially, Operating cash flow was $195mn (from -$68mn previous comparable period) - inventory reduction of ~$400mn. We expect further progression in 2nd Half. Net Debt increased to $3.8bn (from $2.27bn end 2013). Management to prioritise dividend growth and 'tactical share buybacks' - $48mn completed in 1st Half. Outlook: Syngenta are targeting constant currency sales growth of 6% (CS at +4%, consensus +5%). Free Cash Flow generation is now anticipated to be US$1.3bn (previously US$1.5bn, CS US$1.4bn) - due to the poor North American season. Importantly, into 2nd Half we believe Syngenta can generate double digit operating earnings growth.

Rogers Communications – chose quality over quantity in the second quarter, shunning wireless promotions in order to protect margins as mobile subscriber growth fell. The company, Canada's largest mobile phone company, took a 24% hit to net income, it said on Thursday, but investors were encouraged by the early results of a refreshed business strategy. Rogers added 38,000 net wireless subscribers on contracts, a sharp drop from the 98,000 added a year ago. But the average Rogers wireless customer, a blend of contract and prepaid subscribers, paid more per month in this quarter, at C$59.18, versus the previous one. The lower volume of smartphone sales and upgrades, which Rogers must pay upfront to handset manufacturers, helped lift adjusted operating profit for the unit. The Toronto-based company, which is also a major cable television provider, faces tough competition in its major markets and uncertainty around government policy that could usher in an upstart challenger. Profit at the cable division, Rogers' second-largest business, slipped as the company lost a net 33,000 cable TV customers and landline phone and Internet service sales barely grew. Rogers said net income dropped to C$405 million ($378 million), or 79 Canadian cents a share, from C$532 million, or C$1.03 a share, a year ago. Revenue was stagnant at C$3.21 billion, despite several data center and cable network acquisitions in the last year. Excluding restructuring and acquisition costs and stock-based compensation, Rogers earned 84 Canadian cents a share, in line with estimates.

Economic Activity, Consumer and Business Conditions

US – US durable goods orders advanced by 0.74% in June, beating the expectations and offsetting some of May's 1.01% drop, as orders of machinery, computers and electronics jumped in the month. Durable goods orders ex-transportation were also higher than the expectations, at 0.79% versus 0.60%. US inflation rate was 2.1% year on year in June, much as expected and in line with May's rate of inflation, with food prices largely flat in the month, while energy prices leaped 1.6% in June. The core inflation rate, which excludes the effects of the volatile food and energy prices, came a notch short of the expectations, at 1.9% versus 2.0%; also a slight deceleration from May's 2.0%. Most price series were up slightly in the month, with the exception of motor vehicles and utilities bills. All in, inflation numbers in June provided a moment of respire for the monetary policy makers on a background of higher creeping prices.

A mixed bag of data points for the US housing market in June, with a stronger than expected existing home sales level, at 5.05 million units annualized, offset by this morning release of the pending home sales, which were lower by 1.1%, contrary to the expectations for a 0.5% improvement. New home sales were also disappointing, down 8.1% in the month, to a 410,000 units annualized level, from a 440,000 units reading in May, and way short of the expected improvement to a 480,000 units annualized level, though some of the slowdown could be attributed to inclement weather and floods across vast swaths of the US.

Canada – Canadian retail sales continued to grow in May, though only by 0.7% compared to April's 1.3% advance, with auto sales being key contributor in the month. Core retail sales, which excludes sales of motor vehicles, were only up 0.1%, short of the expected 0.3% improvement, as sales in the electronics, food, health and personal care categories dragged lower an otherwise decent performance in sales of furniture, building materials and sporting goods.

China : Further signs of stabilization in the Chinese economy last week with the HSBC/Markit flash Purchasing Manufacturers' Index at 52, an 18 month high, and above expectations of 51.

Ukraine : With the tragedy from the recent air crash resonating across Western capitals, the likelihood of much tougher Western sanctions has risen sharply. As such, sanctions which hurt both sides is the likely next stage (note UK defense minister suggesting Russia could be branded a "state-sponsor of terrorism"; this would raise the risk of companies running afoul of sanctions rules similar to Iran, Sudan, Cuba, Myanmar).

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 1.98% and the U.K.'s 2 year/10 year treasury spread is 1.73% - 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 4.13% - (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 13.16 (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.

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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PIC14-058-E(08/14)