Market Commentary

PORTLAND INVESTMENT COUNSEL®

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News Highlights

On June 18th Mandeville will be hosting its next ACCESS2015 event at The Portland Holdings auditorium, 1375 Kerns Road, Burlington. Michael Lee-Chin, Executive Chairman of Portland Holdings Inc. and Chairman of Mandeville Holdings Inc. will speak on "Don't just invest. Co-invest...Enhance the creation of wealth."

If you wish to attend, kindly visit www.powerofaccess.com. to register.

Energy Sector

Crescent Point Energy – Hedge fund and activist shareholder FrontFour Capital Corp said it plans to vote against the proposed sale of troubled Canadian producer Legacy Oil & Gas to Crescent Point Energy Corp. Connecticut-based FrontFour owns 6.8% of outstanding Legacy shares and said in April it planned to nominate three directors to the debt-ridden company's board. Crescent Point, Canada's No. 4 independent oil and gas producer, agreed to acquire Legacy for shares and debt in a deal valued at $1.53 billion. Crescent Point offered 0.095 of its own shares for each Legacy share, but the value of Crescent Point shares has since fallen from $29.82 on May 26 when the deal was announced to $27.13 on Tuesday, pushing the offer down to $2.58 per Legacy share. "In light of the structure of the transaction and current trading price of Crescent Point shares, we cannot support the plan of arrangement as proposed," FrontFour portfolio manager Zachary George said in a statement. George is the son of former Suncor Energy Inc Chief Executive Officer Rick George

Financial Sector

Ares Capital Corp – Canada Pension Plan Investment Board (CPPIB) said it has agreed to buy GE Capital's private equity lending portfolio for $12 billion, in a deal that will greatly expand the largest Canadian pension fund's lending business. GE's Antares unit is the leading lender to middle market private equity-backed transactions in the United States. In the past five years it has provided over $120 billion in financing. GE announced plans in April to sell $200 billion worth of finance assets as it focuses on its industrial products business. In a separate statement, GE said it plans to continue to run the Senior Secured Loan Program - a joint venture between affiliates of GE Capital and affiliates of Ares Capital; and its Middle Market Growth Program, a joint venture between affiliates of GE Capital and affiliates of Lone Star Funds; for a period of time to provide CPPIB the opportunity to work with both parties. If CPPIB is unable to reach deals with both parties GE said it plans to wind down its investments in those two programs. With this deal, GE said it has now finalized $55 billion worth of asset sales and it remains on track to complete roughly $100 billion worth of asset sales this year. GE and CPPIB expect the deal to close in the third quarter, pending regulatory approvals. JPMorgan Securities and Citigroup advised GE on this transaction, while Credit Suisse and Morgan Stanley acted as CPPIB's advisors. CPPIB has invested over $16 billion in leveraged loans, high yield bonds, and mezzanine financings since 2009. This deal solidifies its foray into the lending sphere.

Barclays - US investment bank Stifel Financial Corp said on Monday it would buy Barclays Plc's US wealth and investment management unit, which is largely made up of the former brokerage arm of Lehman Brothers. The deal value was not disclosed, but Barclays said the sale would have minimal financial impact. Stifel is hoping to bring on board the unit's 180 advisers, who manage about US$56bn from offices in 12 cities. This compares inauspiciously with the 250-300 advisers that Barclays executives said were working a year ago. (Source:Reuters)

Berkshire Hathaway – HJ Heinz Company and Kraft Foods Group announced regulatory approval from Canada's competition bureau for the proposed merger. Transaction remains subject to approval by Kraft shareholders and other customary closing conditions. Kraft will hold a special meeting of shareholders to vote on the merger on July 1, 2015. Canadian competition bureau has issued a "no action" letter, as the bureau does not intend to challenge companies' proposed merger.

BNP Paribas - On 5 June 2015, Les Echos reported that BNPP aims to reduce costs at the French Corporate & Investment Bank operations. The Head of CIB is progressively putting into place the management teams in the various business lines. He is focusing on an extensive restructuring, with the goal to create integrated corporate and institutional coverage and an integrated markets business. The purpose is in our view among others (1) to increase the front office productivity of the Fixed Income, Currency and Commodities business and eliminate silo approach relative to equities; (2) increase cost efficiency - BNPP cost/income ratio is configured for a stronger market environment with 79% C/I in Global Markets in 2014; (3) reduce Balance /Sheet consumption. We expect BNPP to communicate on their CIB cost synergies and restructuring plans by December 2015.

HSBC: Investor Day - HSBC is planning to cut 20,000 jobs around the world as it tries to reduce costs and simplify its business. That accounts for more than 7% of its 266,000 jobs globally. About 8,000 of those cuts will happen in the UK. The bank will also sell businesses in Turkey and Brazil. Management believe the cost savings (U$4.0-4.5bn by 2017) will be easier to achieve than the 2011-14 period given the reduction in geographic scope and revised organisation structure. The cost saves will then be offset by inflation (U$2.5-2.8bn), growth (U$1.4-1.6bn), regulatory spend (U$0.1bn) and the increased bank levy (U$0.5bn) to get to absolute run-rate costs of U$32bn by end-2017. While not new, we think the cost targets are nevertheless cU$1.5-2bn lower than contained in consensus. The suggestion from management is that absolute costs will rise to 2016 before falling back in 2017.

The U$290bn gross Risk Weighted Assets reduction (about half of which is achieved in Global Banking & Markets) provides scope for U$180-230bn organic RWA increases, equivalent to 7-9% pa. With cU$30bn targeted in GBM, it implies U$150-200bn organic growth in the other businesses. The Core Equity Tier 1 ratio which management targets by 2017 is 12-13%. RWAs will be reduced by U$140bn gross with an associated revenue impact of just U$0.4bn via a selldown of the legacy credit book (U$40bn), reduction in Markets (U$60bn) and reduction in capital financing (U$40bn). The implied revenue return on RWAs is just 0.3%. In the client facing businesses, the target is then to keep absolute run-rate costs flat while growing revenues at a mid-single %, in turn implying that GB&M can move towards the group 10% Return on Equity target by 2017. However, if the hope was HSBC would delever the balance sheet sufficiently to move to a lower 'Global-Systemically Important Bank' bucket (250bps currently) then these hopes look to be dashed based upon the new plan of ($40bn) to +$10bn group RWAs by 2017 [shrinking RWAs by ($40bn) is <2% group RWAs]. The criteria for the decision on domicile are fairly wide-ranging (stability, tax system, government support of growth/financial sector, etc). The decision is likely to be taken at the end of 2015 and if required, shareholder and regulatory approval will then take another two years.

Standard & Poor's UK and German bank ratings now consider the prospect that the U.K. and German governments would provide extraordinary support to their banking systems to be uncertain, meaning that S&P now include no such uplift in the ratings on systemic commercial banking groups domiciled in these countries. However, S&P does recognize that these countries' bank resolution frameworks are now well advanced, and they now include notches of uplift for systemic banks that they expect will hold or build sizeable volumes of bail-in capital in the coming years. For now, Commerzbank downgraded to BBB+, Deutsche Bank downgraded to BBB+, RBS downgraded to BBB+, Barclays was downgraded as well but only from "A" to "A-" so still very high quality and Lloyds was upgraded to "BBB+" from "BBB"

UK Banks - Mansion House speech. In a relatively bank-friendly speech, George Osborne, Chancellor of the Exchequer, talked of a 'new settlement for financial services'. Specifically, the government (1) plans to begin the sale of its RBS stake 'in the coming months' and (2) signaled a shift in the response to bank misconduct towards individual accountability and away from 'ever-larger fines'. Despite press speculation leading up to the event, there was no comment on a change in methodology for calculating the UK bank levy, albeit he suggested that he wants 'Britain to be the best place for European and global bank HQs'. The lack of comment on the UK bank levy at this point was a surprise and appears to dampen hopes that Standard Chartered and HSBC could benefit at the expense of Lloyds and RBS.

Activist Influenced Companies

ABB - New heavy-weight shareholder - Cevian Capital has taken 3.1% of ABB. As a reaction, the stock price jumped 5% (on Thursday). Cevian says that "the current valuation does not correctly reflect the value of ABB". Cevian considers itself as an engaged investor, which takes significant minority stakes in about a dozen European companies, and then engages itself in the development of these companies. The holding period various between 3 and 7 years. Cevian manages EUR 14bn and operates with equity only. In Switzerland, Cevian is holder of Panalpina (12.3%) (Source: Finanz und Wirtschaft).

Diageo -Jorge Lemann's 3G capital recently rumoured in Brazilian press to be interested in Diageio. Diageo' shares promptly rallied 5% on the news as investors are likely thinking of the potential for the Guinness brand within ABI and that brand's African franchise. Lemann/3G are well positioned to evaluate cost-cutting potential & brand-related returns upside from a Diageo take-out given successful experience in prior global consumer deals: Lojas Americanas, ABI, BUD, Burger King-Tim Hortons & Heinz-Kraft. Diageo is in our view attractive following a period of weak share price performance (-6% 1yr vs the SX3P up +16%); It's the clear market leader in the US & in Scotch whiskey, great global brands & a robust footprint in Latam, India and Africa. And the share register is completely open. Even without the threat of a take-out, Diageo in our view offers margin recovery via self-help and top line improvement from US consumer recovery (North America is c45% of group earnings). Diageo is estimated to trade on 2015E/2016E calendar Price / Earnings multiples of 19.3x and 17.8x, about a 10%-15% discount to the Consumer Staples universe for each year.

Global Dividend Payers

AT&T – New U.S. Internet traffic regulations, known as net neutrality rules, will go into effect on Friday after a federal appeals court rejected the telecommunications industry's request to partly suspend their implementation while they are being litigated. The ruling on Thursday marked an early win for the Federal Communications Commission, whose assertion of a broader enforcement authority over Internet service providers is being challenged in court by AT&T Inc and cable and wireless industry groups. The court's decision, which also put the lawsuit on an expedited schedule, is the first step in the legal fight over the rules and does not indicate how the court may ultimately rule on the merits of the industry's challenge. Telecom companies say they do not object to specific net neutrality rules like no-blocking or no-throttling. They are fighting the legal path the FCC chose to set the new regulations after the previous version was struck down in court last year. AT&T and industry groups' lawsuit objects to the reclassification of broadband Internet as a more heavily regulated telecommunications service, and the new broad "unreasonable interference" general conduct standard. "The FCC and Congress have long agreed that this critical service, which is fundamental to consumers' daily lives, should be lightly regulated to continue the enormous investment and innovation that has enabled the Internet-related economy to thrive," said USTelecom President and Chief Executive Walter McCormick Jr.

Cheung Kong Infrastructure – Qatar Investment Authority has bought an aggregate stake of 19.9% in HK Electric Investments Ltd from billionaire Li Ka-shing's firms for HK$9.25 billion ($1.19 billion), as the global investor seeks investment opportunities in Asia. Power Assets Holdings Ltd sold a stake worth HK$7.68 billion ($990.79 million) in HK Electric to Qatar Investment Authority, as the Hong Kong power utility eyes new acquisitions in the global energy industry. Power Assets said its holding in HK Electric fell to 33.37% after it sold a 16.53% stake, remaining as the controlling shareholder of the power supplier.

Together with a stake of 3.37% bought from Cheung Kong Infrastructure Holdings Ltd, Qatar's sovereign wealth fund holds a stake of 19.9% in HK Electric.

Procter & Gamble – Henkel & Co AG and Coty Inc, both of which have personal care and cosmetics businesses, reportedly made binding offers to buy separate parts of Procter & Gamble Co's beauty businesses worth up to a total of $12 billion. The bids would bring P&G one step closer to shedding several assets it considers non-core, as its chief executive officer, A.G. Lafley, presses on with his cost-cutting strategy. Henkel made an offer for P&G's haircare business, which includes the Wella and Clairol brands, and could fetch a valuation of $5 billion to $7 billion. While Henkel is considered to be the most likely buyer, private equity firm KKR & Co LP is also reported to have submitted a bid for the haircare business. Coty, which makes perfume for fashion brands Calvin Klein and Marc Jacobs and owns nail polish brand OPI and Rimmel mascara, has submitted bids for P&G's fragrance unit and its cosmetics business. Buyout firm Clayton Dubilier & Rice LLC also submitted a bid for P&G's cosmetics business, which includes drugstore brands CoverGirl and Max Factor and could fetch around $3 billion in a sale.

Warburg Pincus LLC, another private equity firm, is also interested in P&G's cosmetics business as well as its fragrance unit, which includes brands like Hugo Boss and Gucci, and could fetch around $2 billion.

Lafley said last year he would reverse Cincinnati-based P&G's strategy of aggressive expansion and shed more than half its brands. P&G has already divested some of its non-core brands. Last year, the company sold its Duracell battery brand to Warren Buffett's Berkshire Hathaway Inc for $4.7 billion and sold some of its soap brands to Unilever Plc.

Roche - At 2015 ASCO Annual Meeting, the world's largest oncology conference (29 May to 2 June 2015), Vontobel report that Roche presented headline results with its anti-PD-L1 in lung cancer likely to change the treatment paradigm in the near future and drastically improve patients' life expectancy. In the first-line setting, Roche observed synergetic effects between chemotherapy and its anti-PD-L1 (now atezolizumab). In this phase I/II trial, Roche achieved a doubling of the patients' response rate to therapy versus previous standard of care. For decades, at best 20-30% of advanced non-small cell lung cancer patients have responded to chemotherapy. Roche reached above 60% overall response rate (ORR) with its combination, while keeping side effects in check. It is believed this level of activity clearly present an unprecedented hope for patients and a potential paradigm shift in 1L lung cancer ahead of Bristol-Myers Squibb (BMS) and Merck. Vontobel believes that the advantageous safety profile of Roche's atezolizumab, together with its unmatched potency in combination with chemotherapy, confirms the company's leadership in NSCLC. In the second-line setting, Roche presented the interim analysis of the POPLAR phase II trial. The study was aimed to inform and enrich the ongoing late phase trials in second-line NSCLC. Vontobel's main conclusion from ASCO 2015 is that Roche is likely to take IO leadership in first-line NSCLC treatment and take a significant part of the second-line through a cost effective targeted approach.

Syngenta – Monsanto is hosting meetings across Europe to woo shareholders in Syngenta after the Swiss seed and crop chemical firm rejected a second takeover approach from its U.S. rival on Monday.

Monsanto's initial approach was rebuffed by Syngenta in May partly on the grounds it did not address regulatory concerns. The U.S. firm said on Sunday it had offered to pay Syngenta $2 billion if the merger failed to get approval from regulators, but this was rejected as "wholly inadequate". Monsanto, the world's largest seed company, faces mounting threats from both regulatory scrutiny and consumer opposition. A drive by the producer of Roundup herbicide to diversify its business is making Syngenta a compelling target. If Monsanto takes over Syngenta, it would gain a broad portfolio of fungicides, insecticides and other herbicides.

Economic Conditions

US – Further to the strong retail sales numbers for May, the University of Michigan's June reading of consumer sentiment was significantly higher than expected, at 94.6 index points, compared to the consensus of 91.5 and May's 88.6 reading. Both the 'current conditions' and the 'expectations' components of this composite index contributed to the improvement.

U.S. labor market is improving - The # of job openings in April (mainly in the private sector) rose to 5,376k, the highest since the

U.S. JOLTs survey began in late 2000. All of the openings were in trade, transportation and utilities, as well as professional & business services, and education & health……all areas which were also strong in May, according to the payroll report. Hiring cooled a bit, to a still high 5,007k from 5,088k in the prior month.

U.S. consumer spending beat expectations handily in May. U.S. retail sales jumped 1.2% in the month, the second fastest pace in over a year, with nearly all store types benefiting from stronger spending. And, there were upward revisions to the prior two months, particularly so for March.

The UK trade deficit narrowed to £1.2bn in April from £3.1bn in March, the Office for National Statistics said. An £8.6bn deficit on goods was partially offset by an estimated surplus of £7.4bn on services, it said. The ONS added that in the quarter to April, exports were flat after 0.3% growth in the first quarter, but imports were up 2.1%, the same as in the three months to March. UK exporters have struggled in the face of weak demand in the Eurozone. Part of the deficit dip was down to a fall in imports of art and furniture, said the ONS. Another factor was less oil being imported. (Source:BBC News)

Canada – Productivity in Canada retreated by 0.1% in the first quarter of 2015, offsetting the 0.3% advance recorded in the last quarter of 2014. The capacity utilization also weakened, to 82.7% from 83.5%, and was lower than expected.

Housing starts jumped to a 201,700 units annualized level in May, from 183,300 units annualized in April, undoubtedly a reflection of the back-log of projects kept on hold by the bad weather in the first four months of the year. The reading exceeded expectations for a 185,000 units annualized level reading. Building permits advanced strongly in April, up 11.6%, building on March's 13.6% strong rate of growth and were driven by strong growth in residential multi-units permits. Meanwhile, the Canadian new housing price index advanced 0.1% in April, as expected.

Australian employment came in strong at +42k versus the +15k expected. The unemployment rate fell from 6.2% down to a 6.0%, its best reading in the past year.

Greece - The IMF have pulled their negotiating team from the talks while Donald Tusk, the President of European Council, warned Athens that "there is no more time for gambling"…."we need decisions, not negotiations". It is quite clear that the creditors of Greece are taking a "take or leave it" stance and forcing Greece to make a decision to either accept reforms on pensions, taxes and the budget or face a technical default. Greece needs to renegotiate a new deal by the end of the month or repay EUR 1.6 Billion which it doesn't have. If Greece does not have a new plan, then the ECB will likely cut the country's bonds as security for the ELA. Without this support, the Greek banking system likely will collapse. Germany and others seem resigned for a Greek default and so presumably have contingency plans in place.

Financial Conditions

Reserve Bank of New Zealand cut interest rates 0.25% last week to 3.25% and surprised the majority of analysts that were expecting no change. The bank bill forward guidance was slashed and the RBNZ provided a clear signal that the next move in the cash rate will be down. There is no doubt the central bank is concerned about weak dairy prices and the falling terms of trade and felt compelled to act despite the hot housing market in Auckland.

US Federal Reserve policymakers remain determined to signal that although Quantitative Easing has stopped, the stimulus remains via keeping rates at present low until earliest September 2015. The US 2 year/10 year treasury spread is now 1.60% and the UK's 2 year/10 year treasury spread is 1.65% - 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 4.04% (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 4.6 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 13.42 (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 5 private/alternative products:

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

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, KBW,BMO, Credit Suisse, Mirabaud, Vontobel

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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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