

News Highlights

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Our views on economic and other events and their expected impact on investments

Sept 14th 2015

Energy Sector

Chevron – Kazakhstan could cut oil output by a tenth next year if prices drop to \$30 per barrel, its energy official said, becoming one of the first big oil producers to acknowledge limits to its ability to withstand a battle for market share with OPEC. It was not immediately clear whether the country would be forced to cut output because some production would be losing money at that price or whether it was voluntarily prepared to cut output, which is only partially controlled by the state. Last year, non-OPEC Kazakhstan produced about 1.6 million barrels a day, almost on a par with Angola, OPEC's eight biggest producer. Deputy Energy Minister Uzakbai Karabalin told reporters that if the oil price next year was \$50 per barrel, Kazakhstan would produce 79 to 80 million tonnes, little changed from this year's forecast of 80.5 million tonnes. But if the price drops to \$40, Kazakhstan's output would be 77 million tonnes and if oil were to fall to \$30, production would be cut to 73 million tonnes, Karabalin said. Kazakhstan is the second biggest producer in the former Soviet Union, where the largest producer - Russia - has taken the opposite approach to dealing with falling crude prices. Russian Energy Minister Alexander Novak was quoted as saying by Interfax on Wednesday that Russia might increase output by 1% this year from 10.6 million barrels per day in 2014. Mexico, which like Russia and Kazakhstan is not an OPEC member, said it would also not consider cutting oil output at the moment.

Oil production in Kazakhstan has been falling as the bulk its fields are depleting. Output dropped 1.2% last year to 80.8 million tonnes and is expected to fall again in 2015. The Chevron-led venture, Tengizchevroil, is Kazakhstan's largest oil producer. Last year, its output fell 1.5% to 26.7 million tonnes and is expected to remain unchanged in 2015. Kazakhstan was hoping to boost oil output, a major source of budget revenues, through the Caspian offshore Kashagan oil field, which was launched in September 2013 after a decade of delays and cost overruns. But it halted production a few weeks later when gas leaks were detected and it is not expected to be up and running before 2017, a date confirmed by Karabalin on Wednesday. Kazakhstan officials had expected the country to be producing between 90 million tonnes and 100 million already in 2015, thanks to Kashagan. Karabalin said the lower forecasts were not due to Kashagan's delays: "This is not about Kashagan, but because the oil price is different now and costs are different."

Royal Dutch Shell shelved its Louisiana-to-Texas Westward Ho pipeline after years of delays, reductions in scope and after other new pipelines began flowing. "After a thorough review and as a result of changing market conditions, Shell Pipeline Company LP has decided to not proceed with the proposed Westward Ho Pipeline project," spokeswoman Kimberly Windon said. Proposed in 2011 at a top capacity of 900,000 barrels per day, Shell said Westward Ho would move Gulf of Mexico and imported crudes from the St. James, Louisiana oil hub to Houston. The leg between Nederland, Texas and

Houston would move up to 500,000 bpd, and the entire project was targeted to start in late 2015. The line was intended to accommodate growth in medium sour and other crudes. It also would restore a flow from Louisiana to Texas after Shell reversed its Houma-to-Houston pipeline – now called Zydeco – to move Texas crudes to Houma, St. James and Clovelly, Louisiana. However, in mid-2012 Shell slashed Westward Ho's initial capacity to 300,000 bpd after wrapping up an open season to gauge shipper interest. Shell said it could be expanded to 900,000 bpd if shipper interest warranted. Then other pipeline projects began moving inland U.S. output to Houston and the Nederland/Port Arthur area, flooding the region with crude while interest in Westward Ho waned. Those projects include TransCanada Corp's 700,000 bpd MarketLink pipeline, which transports oil from the U.S. crude futures hub in Cushing, Oklahoma, to Nederland, and Enterprise Products Partners' 780,000 bpd pipeline from its ECHO hub in Houston to Beaumont. In October last year, Shell said Westward Ho was on hold to allow for another open season, and proposed initial capacity rose to 400,000 bpd. Shell pushed the target startup date to late 2017.

Total SA plans to operate the delayed coking unit at its Port Arthur, Texas, refinery at reduced production levels until a crane is repaired, which is expected to take up to four weeks. Total plans to operate only one of the coker's four drums until the crane's repairs are complete. The crane, which is designed to remove coke and coke dust from the pit, has been out of service for several months for repairs. Bulldozers and loaders are being used to remove coke and coke dust while the crane is unavailable. It was unclear what impact this would have on production at the 225,500 bpd refinery. Total reiterated that the refinery's production is reduced. Sources have told Reuters the refinery's production has been cut back to about half, though the company was looking at ways to boost fuel output. The delayed coking unit's four giant drums heat gunky crude oil residue into petroleum coke, which can be used as a coal substitute. High-pressure, hot-water jets cut the coke from drums where it falls, along with the water, into the pit.

Financial Sector

Bank of Montreal has agreed to buy General Electric Co.'s transportation finance business in the U.S. and Canada. The unit had net earning assets of about C\$11.5 billion (\$8.7 billion) as of June 30, BMO said in a statement that didn't disclose terms. The GE unit's management team and about 600 employees will join Bank of Montreal. BMO is gaining the largest financier to North America's commercial truck and trailer industry, which services manufacturers through dealers to end users, the lender said. About 83 percent of the assets are loans and 17 percent are leases, with 90 percent of the portfolio in the U.S. and the rest in Canada. The company, based in Irving, Texas, has 11 U.S. offices and four in Canada. The price will be based "on net earning assets balance on closing, plus a premium," according to the bank's presentation. Assets may rise by C\$1 billion by the time the deal closes, expected by the end of January, executives said on the call. The bank said the

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transaction, which includes goodwill of about C\$450 million, is expected to add about 3% to adjusted net income.

Barclays Plc has sold a £1.6bn (\$2.4bn) portfolio of UK loans to a group of investors led by the Goldman Sachs Group Inc. The loans are part of £110bn of assets Barclays has designated as “non-core”, which it no longer wants and intends to sell or run down. Barclays said the loans, which had a notional value of £1.6bn, or £1.2bn on a risk-adjusted basis, will have a positive impact on its core capital ratio. (Source Reuters)

Berkshire Hathaway – Billionaire investing icon Warren Buffett said there are dozens of countries in which his sprawling Berkshire Hathaway Inc conglomerate would be interested in buying new businesses. Berkshire earlier this year agreed to acquire a German motorcycle apparel and accessories retailer - a purchase that Buffett described as an advertisement to markets that he is shopping abroad. “It was an ad. It was an ad that paid us,” said Buffett, 85, who over the past five decades has built Berkshire Hathaway into one of the world’s most valuable companies. He spoke to Reuters in an interview while in New York for the Glide Foundation’s 16th annual event charity lunch. Buffett said he is most likely to hunt for acquisition targets in big economies. “I like larger economies simply because we want to buy things of size, but there’s dozens of countries I would be delighted to buy in,” he said. “The price would have to be right too.” While the so-called Oracle of Omaha has consistently said he wants to keep a \$20 billion cash cushion on hand, that still leaves him a significant bankroll for buying more companies. Berkshire Hathaway ended the second quarter with \$66.59 billion of cash. Since then the company announced it had agreed to purchase Precision Castparts Corp in a deal that values the maker of aerospace and other parts at \$32.3 billion. Berkshire Hathaway also recently issued debt in euros, and Buffett said he would consider issuing more debt in the future denominated in foreign currencies. He said Berkshire Hathaway would need to have ample assets in the currency of any future bonds it issues.

Warren Buffett, told CNBC on Tuesday that he added to his share stake in International Business Machines Corp in the third quarter. “We bought it in the first quarter, and normally I wouldn’t tell you this, but we bought some in the third quarter,” Buffett told the cable television network. Buffett’s Berkshire owned a more than 8% stake in IBM as of June 30. Buffett also said that the U.S. economy was not growing at a “booming” rate but remained on the path it has been on for six years of growing at a rate of 2% or a little better annually. He said he would “be a little careful” about getting too excited about quarterly statistics. Buffett also said Berkshire still has ample cash after agreeing to buy Precision Castparts Corp for over \$32 billion and would never hold less than \$20 billion in cash. He said Berkshire “might be a little less aggressive in the open market” given the Precision Castparts deal, but added: “I haven’t held back from doing anything because of that upcoming purchase.” Buffett, whose Berkshire owns warrants entitling it to buy 700 million Bank of America shares at \$7.14 each between now and 2021, said that if he could vote on Bank of America Chief Executive Brian Moynihan’s title, he would vote to have him in both the CEO and chairman roles.

Commerzbank - Expects to arrange new renewable energy financing projects totaling ~€50m in 2015 vs €34m last yr with focus on Germany, Western Europe, and US. New financing projects totaled €54m at June 30th. CBK’s renewable energy loan portfolio €bn at 2014-end with 70% onshore wind, 5% offshore wind, 22% solar energy. Institutional investors are showing increased interest in offshore wind as market matures.

Credit Suisse plans to sell its US Private Banking business (US\$100bn AuM). Swiss media report that Credit Suisse is looking to offload its US wealth management business as part of the October strategy. This business is c. US\$100bn AUM (this is only the US portion but the business also has to c. US\$15bn offshore LatAm business), or 1/8th of the total business. We believe as a global Private Bank, you cannot afford not to have onshore US presence because you may lose key Ultra High Net Worth Individuals in other regions that want to have local access & so Credit Suisse should in our view be looking at other areas that suffer in terms of profitability e.g. structured credit, certain areas of securitisation or Prime services.

Royal Bank of Scotland agrees to sell portfolio of corporate loan commitments related to banking business in China, booked offshore to China Construction Bank for ~£498m cash. Sale will generate ~£4m profit on disposal, completion subject to client consents. Portfolio being sold comprises £594m of loan commitments with drawn assets of £494m as of July 31st, equivalent to Risk Weighted Assets of ~£237m as of that date. Portfolio generated a profit after tax of £2m in FY14, proceeds to be used for general corporate purposes. Deal expected to be substantially completed during 4Q.

Royal Bank of Scotland has appointed Bank of America Merrill Lynch to ready 2016 listing of Williams & Glyn. The Sunday Telegraph reported, without citing sources, that RBS hoped to value the bank at £1.5 billion (\$2.31 billion) and that investment bankers would start meeting investors later this year to discuss the planned float. RBS was ordered to sell Williams & Glyn, which comprises 314 branches and is focused on lending to small businesses, by European regulators as a condition of its £46 billion government bailout during the 2007-09 financial crisis.

Standard Chartered - STAN & Manulife have entered a 15-year distribution partnership providing Manulife the exclusive right to offer its Mandatory Provident Fund product to Standard Chartered’s customers in Hong Kong. Manulife confirms acquisition of STAN’s HK pension business. As part of the arrangement, Manulife will acquire Standard Chartered’s existing MPF and Occupational Retirement Schemes Ordinance businesses, and the related investment management entity. The transaction is expected to close in 1st Half of 2016. Financial terms of the transaction were not disclosed.

The European Central Bank’s supervisory arm has set the capital levels that the euro zone’s largest lenders must hold and will communicate its draft decisions to the banks shortly, several sources with knowledge of the matter said on Monday. Around 80% of the institutions supervised by the ECB will be required to hold a Common Equity Tier 1 ratio of

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between and 9% and 12%, with half of the total having to hold a CET1 of 10%, a banking source said before the ECB decision. (Source Reuters)

Activist Influenced Companies

ABB – cut its revenue growth target and announced a “strategic review” of its low-margin power projects business in what could be a step towards a sale of assets by the Swiss engineering group, during its latest capital markets day. Faced with lower energy prices and a slowdown in China, ABB also said it was implementing a \$1 billion savings programme, meaning costs of \$600 million in the final quarter of the year. ABB, which makes everything from factory robots to power transformers, is now targeting average annual growth in revenue of just 3% to 6% until 2020, trimming a prior goal of 4% to 7%. ABB is also combining its low-margin Power Systems business, which in 2014 booked hundreds of millions in losses on projects including North Sea wind farms, with its Power Products business that sells transformers. A strategic review of this new division, called Power Grids, was under way, said ABB Chief Executive Ulrich Spiesshofer. The new Power Grids division has 39,000 employees and \$12.6 billion in sales, but an operating profit margin of just 4.7%, less than a third of ABB’s most profitable divisions. Were ABB to shed Power Grids, it would be its most-significant disposal since 2000 when it sold its 50% share of a power generation business, with 50,000 employees and nearly €10 billion in revenue, to Alstom. ABB is seeking to narrow a profitability gap to what Spiesshofer calls “best in class peers” -- rivals like General Electric which recently won approval from regulators to buy France-based Alstom’s power business. ABB also said it would accelerate restructuring, aiming to save \$1 billion annually by the end of 2017. The steps are expected to cost \$1.2 billion in total. ABB faces increased pressure to boost performance from a new activist investor, Sweden’s Cevian, which has accumulated a stake of more than 5%. But its efforts have been complicated by the slowdown in China, ABB’s second-biggest market. “Short term it’s a really difficult environment,” Spiesshofer told Reuters on China. “With the distribution channel at the moment people are uncertain about the economic future and therefore they are very careful with the stocking level, they are trying to de-stock.” The precipitous fall in oil prices has also dented the company’s sales to customers in the upstream oil and gas sector. “We see a massive contraction of discretionary spending of our oil and gas customers,” he added. Cevian, which has also bought stakes in German steelmaker ThyssenKrupp AG and Swedish truck maker Volvo, generally invests in companies in which it sees the potential to double the value of its investment within three to seven years. Since June, when Cevian announced its stake, the shares have lost about 11% of their value. Spiesshofer said last week that Cevian was in “listening mode,” indicating the investor has not so far actively demanded dramatic changes.

Pershing Square – William Ackman, head of hedge fund firm Pershing Square Capital Management, said that stocks were cheap at current levels and that Mondelez International Inc could be an acquisition target. “I think stocks are pretty cheap,” Ackman told cable business channel CNBC, but he excluded energy stocks since he was not an investor in the sector. On Mondelez, Ackman said: “Either the current team will get the business to its potential in reasonably rapid fashion, or it will be a target.” Ackman has built a stake worth about \$5.5 billion in Mondelez, the maker of Cadbury chocolate and Oreo cookies. Ackman, who first announced a \$1 billion short bet against Herbalife Ltd and accused the company of being a pyramid scheme in 2012, said: “the last way we win here is just basic business deterioration.” Herbalife has repeatedly denied Ackman’s claims. Global financial markets have been rattled in recent weeks by fears over China’s slowdown, with all three major U.S. stock indexes posting losses of at least 3% last week. Ackman’s Pershing Square Holdings portfolio dropped 9.2% in August.

Canadian Dividend Payers

Nothing to report this week.

Global Dividend Payers

Syngenta announced today that it has received US EPA approval for ORONDIS™ a new high-performance fungicide. First sales are expected in the 2016 season. ORONDIS offers vegetable and specialty crop growers a step change in controlling diseases such as downy mildew and late blight. Its new mode of action complements and expands Syngenta’s market-leading fungicide portfolio and helps address increasing resistance to some products. In extensive trials, ORONDIS has shown unparalleled efficacy at significantly lower rates compared with other fungicides. Davor Pisk, Chief Operating Officer, said: “ORONDIS is the latest launch from our \$3.6 billion crop protection pipeline. It offers growers a highly effective and sustainable tool to combat diseases that can devastate crops and diminish yields.” ORONDIS contains the active ingredient oxathiapiprolin. Syngenta secured a license to develop and market products containing oxathiapiprolin from DuPont in 2013 and has exclusive rights for foliar and soil use on all crops in North America and for foliar use on vegetables, grapes and other specialty crops outside North America. ORONDIS has a peak sales potential of more than \$150 million. Launches in several major markets and across a range of crops are planned.

Toyota Motor presented the global debut of the new fourth-generation Prius in Las Vegas on 8 September. The new model is longer, wider, and lower than the current model. Toyota plans to release the new Prius in Japan at the end of 2015 and the US in early 2016. We anticipate benefits from releasing the new model,

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including replacement by previous model owners, acquisition of new customers, and decrease in selling costs.



Economic Conditions

US – The US consumer sentiment, as measured by the University of Michigan, retreated more than expected in September to 85.70 index points versus 91.20 index points and August's 92.90 index points level, as both the 'current conditions', but, in particular, the 'expectations' component of this composite index dropped in the month. The consumer credit grew by \$19.10 billion in July, broadly in line with the expectations, though a significant deceleration from June's \$27.0 billion figure.

Canada – Canadian housing starts jumped to a 216,900 units annualized figure in August, from 193,000 units for July and significantly ahead of the consensus expectations which were calling for a 190,000 units annualized figure. The significant improvement was driven by a leap in Toronto condo starts, 53,000 units annualized, with nation-wide multi-unit starts reaching 143,000 units annualized in August. Building permits retreated by 0.6% in July, significantly less than the expected 5.0% drop, while the new housing price index was up 0.1% for the same month, a deceleration from June's 0.3% advance.

On the Canadian business activity side, confirming the weak second quarter of this year was the reading of capacity utilization, which, as at the end of June was sitting at 81.3%, lower than the expected 81.7% and a 1.3% drop from the end of the first quarter.

Australia – Australia will have its fifth prime minister in eight years after the ruling Liberal Party on Monday voted out Tony Abbott in favor of longtime rival Malcolm Turnbull, following months of infighting and crumbling voter support. Turnbull, a multi-millionaire former tech entrepreneur, won a secret party vote by 54 to 44, Liberal Party chief whip Scott Buchholz told reporters after the meeting in Canberra. Australia is set to hold elections before the end of next year, and Turnbull, expected to be sworn in as prime minister on Tuesday, told reporters he had no intention of calling an early poll to cement his legitimacy. Foreign Minister Julie Bishop was re-elected deputy leader of the party which, with junior coalition partner the National Party, won a landslide election in 2013. Abbott had earlier pledged to fight the challenge from Turnbull, but was ultimately unsuccessful in overcoming the "destabilisation" that he said had been taking place within the party for months. Abbott ousted Turnbull as leader of the Liberal Party in 2009, though Turnbull has consistently been seen as a preferred prime minister. However, Turnbull's support for a carbon trading scheme, gay marriage and an Australian republic have made him unpopular with his party's right wing. The challenge came as Australia's \$1.5 trillion economy struggles to cope with the end of a once-in-a-century mining boom and just days before a by-election in Western Australia state widely seen as a test of Abbott's leadership.

The Bank of England has lowered its estimate for the UK's economic growth in the third quarter of this year from 0.7% down to 0.6%. For the second month, Ian McCafferty was the only one of its Monetary Policy Committee (MPC) members to vote for an increase in rates. Policy makers also said that the risks from the slowing Chinese economy had increased since August. (Source:BBC News)

House price inflation across the UK is now likely to hit 6% this year, according to the Royal Institution of Chartered Surveyors (RICS). At the start of 2015, RICS expected that prices would rise by just 3%. However, it has now revised its estimate upwards, due to the shortage of homes on the market, and "accelerating prices". Mortgage lender the Halifax said house price inflation in the year to August was 9, with the monthly rise up 2.7%. (Source:BBC News)



Financial Conditions

The Bank of England has voted 8-1 to keep interest rates on hold at 0.5%.

The Reserve Bank of New Zealand (RBNZ) has reduced the official cash rate by 25bp to 2.75%. This highly-anticipated policy decision was the third consecutive adjustment since the central bank began easing this year. It was only at the beginning of last year that the RBNZ began hiking interest rates, largely in response to immense inflationary pressures from the housing market and strong immigration, but the broader inflation outlook never caught up.

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 1.45 and the UK's 2 year/10 year treasury spread is 1.24% - 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 3.90% (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 5.0 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 25.07 (compares to a post-recession low of 10.7 achieved in early June) and while, by its characteristics, the

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VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

Mutual Funds

Portland Investment Counsel Inc. currently offers 7 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
- Portland Value Fund

Private/Alternative Products

Portland also currently offers private/alternative products:

- Portland Focused Plus Fund LP
- Portland Private Income Fund
- Portland Global Energy Efficiency & Renewable Energy Fund LP
- Portland Advantage Plus Funds
- Portland Private Growth Fund

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, Macquarie, Barclays, TD, Scotiabank



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Source: Thomson Reuters, Bloomberg, KBW,BMO, Credit Suisse, Macquarie, Barclays, TD, NBFInacial

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