News Highlights

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PORTLAND INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments. January 4, 2016

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Portland Funds: Regular Distributions

Portland Global Banks Fund will increase its targeted monthly distribution by approximately 8% from $0.0417 to $0.045, effective immediately.

Portland Global Dividend Fund and **Portland Global Income Fund** will maintain their targeted monthly distributions of $0.0417.

Portland Funds: Special Distributions

Portland Global Dividend Fund paid a special distribution in the amount of $0.031483, $0.070746 and $0.183598 per Unit for Series A, Series A2 and Series F, respectively. The special distribution was on account of foreign income earned by the fund in excess of its expenses and is in addition to the regular monthly distribution of $0.0417 per unit. The special distribution was paid at the same time as the regular monthly distribution on December 31, 2015 to unit holders of record on December 30, 2015. During 2015, there were corporate events on two of Portland Global Dividend Fund's holdings which contributed significant additional foreign dividend income for tax purposes resulting in a portion of the distributions for the year being treated as foreign income. The holdings were (i) Hutchison Whampoa Limited which merged with Cheung Kong Holdings Limited and simultaneously spun off part of its business and (ii) BHP Billiton PLC which spun off South32 Limited.

Portland Value Fund paid a special distribution of $0.009119 and $0.063206 per Unit for Series A and Series F, respectively.

Portland Advantage Plus – Everest Fund, Portland Advantage Plus – McKinley Fund and **Portland Advantage Plus – Value Fund** paid special distributions on December 31, 2015 per below:

Everest Series A -	$0.287471
Everest Series F -	$0.273890
McKinley Series A -	$0.117344
McKinley Series F -	$0.133977
Value Series A -	$0.041989
Value Series F -	$0.486806

Energy Sector

Middle East – Saudi Arabia's execution of the Shi'ite cleric Nimr al-Nimr has triggered a diplomatic breakdown in relations with Iran. The kingdom cut ties with Tehran after protestors on January 3 stormed the Saudi embassy following the death of Nimr. Riyadh has also ordered Iranian diplomats to leave Saudi Arabia. Worsening relations between the two Gulf powers come as both race to increase oil output. Brent oil has fallen almost 47% to around $37 per barrel since April 2015, as Saudi Arabia has continued to dictate OPEC's strategy of forcing prices lower despite Iranian concerns. The energy markets are likely to react by re-pricing in a geo-political oil price premium. While current Saudi-Iran relationship worsening is one of the most serious in decades and could further escalate, we believe that ultimately the two factions would pursue their economic interests first and foremost and will be careful not to excessively affect the markets.

Royal Dutch Shell plc said it planned to cut the 2016 capital spending following its proposed takeover of BG Group by $2 billion to $33 billion. The Anglo-Dutch company expected the $53 billion BG acquisition to be completed by February 15 pending both companies' shareholder approvals in late January. Shell said the deal would enhance its cash flow and its ability to maintain dividends even as oil prices are expected to stage a slow recovery from 11-year lows. Top 10 Royal Dutch Shell and BG Group shareholder Aberdeen Asset Management plc said it supported Shell's proposed $53 billion acquisition of its smaller British rival. Aberdeen Asset Management owns 1.8% of both Shell and BG and is the ninth largest investor in both firms.

Financial Sector

Barclays plc Ex-Barclays trader Milko Ostendorf loses his unfair dismissal case against his former employer. Ostendorf was appealing against an earlier ruling. "We welcome the Tribunal's decision to uphold its initial ruling in favour of Barclays and again dismissing Mr. Ostendorf's claims," a Barclays spokesman said.

Barclays will pay $13.75 million to settle a U.S. regulator's claims that inadequate procedures for supervising mutual fund sales led to thousands of unsuitable transactions affecting the bank's retail brokerage customers. The sanction includes $10 million that will go to harmed investors and a $3.75 million fine, the Financial Industry Regulatory Authority said in a statement last Tuesday. The alleged misconduct spanned five years and involved more than 6,100 transactions in which clients of Barclays' brokerage unit were switched from one mutual fund to a similar one, with the result being higher costs in some instances, according to a settlement order.

Berkshire Hathaway Inc. – The newspaper unit of Warren Buffett's Berkshire Hathaway Inc. (BH Media) said it purchased The Free Lance-Star, a newspaper in Fredericksburg, Virginia, from Sandton Capital Partners. The terms of the purchase were not disclosed and the transaction also included Print Innovators, a commercial printer that prints the newspaper and other publications. Sandton, a specialist in distressed and alternative investments, acquired the assets in bankruptcy in June 2014. The addition of The Free Lance-Star, which has a daily circulation of 31,700, means BH Media now has 32 daily newspapers nationwide, including the Omaha World-Herald in Nebraska and the Richmond Times-Dispatch in Virginia. BH Media owns more than 70 newspapers and other titles, as well as WPLG, an ABC-affiliated TV station in Miami, Florida. In his March 2013 letter to Berkshire shareholders, Buffett said newspaper industry profits are certain to decline, but that papers that report local news well and have sensible Internet strategies "will remain viable for a long time."

BNP Paribas sa was notified by European Central Bank (ECB) that it will have to meet Core Equity Tier 1 ratio of 10% in 2016 on consolidated basis. Transitional Core Equity Tier 1 ratio was 10.9% on Sept. 30 2015; BNP Paribas states it is "well above" minimum requirement for 2016. Capital requirement includes G-SIB (Global Systemically Important Bank) buffer set at 0.5% for 2016; to reach 2% in 2019. Core Equity Tier 1 ratio for 2019 set at 11.5%; bank intends to reach that level "well in advance" on strong recurrent organic capital generation, active capital management. BNP considering strategic alternatives for First Hawaiian Bank unit; if successful would boost Core Equity Tier 1 ratio by approximately 40 basis points, which would we believe allow bank to reach fully loaded Core Equity Tier 1 anticipated level by mid-2017. BNP to take goodwill impairment of €0.9 billion in Q4 2015 for Banca Nazionale del Lavoro given increased capital allocation requirement. BNP also confirms 45% dividend payout target and so in our view we still remain concerned that the bank may well yet need a capital raise.

Commerzbank ag has sued four banks in the United States, claiming that they failed to properly monitor billions of dollars in toxic mortgage-backed securities acquired by the German lender before the 2008 financial crisis. The Bank of New York Mellon Corporation and units of Deutsche Bank ag, Wells Fargo & Company and HSBC Holdings plc were named in the lawsuits filed in the last weeks of 2015 in Manhattan federal court. BNY Mellon "abandoned its obligations to protect the rights of investors" and did nothing to protect the collateral underlying the Collateralized Debt Obligations, Commerzbank said, noting that it suffered $750 million in losses. Commerzbank made similar claims involving mortgage-backed securities of $640 million in the Deutsche Bank case; $290 million for Wells Fargo; and $204 million for HSBC.

JPMorgan Chase & Company: On December 28, the Wall Street Journal reported that JPMorgan will raise deposit rates for some of its biggest clients in January, according to a person familiar with the matter, following the Federal Reserve's decision to raise interest rates this month. The move by JPMorgan makes it an early mover among its American rivals. The deposit-rate increase by JPMorgan will affect most institutional clients, and the size of the increases will vary, the person said. They will apply to "operating" deposits, which are less likely to be withdrawn in a crisis. The move won't affect deposits of retail clients. While most U.S. banks are holding firm on deposit rates, some large Canadian banks have in recent weeks increased deposit rates on U.S. dollar-denominated accounts in Canada. The Toronto-Dominion Bank, Bank of Nova Scotia and Canadian Imperial Bank of Commerce are among the Canadian banks that have increased deposit rates for certain U.S. dollar-denominated corporate accounts, according to representatives for the banks.

U.K. Bank Litigation - The U.K.'s Financial Conduct Authority (FCA) has scrapped two more probes into the banking industry, as reported on Thursday by The Financial Times, less than a day after the regulator dropped another review of Britain's banking culture. The Financial Times also reported that the FCA has closed a study into the way lenders incentivise their staff to sell financial products and will shelve an investigation of how insurers use customer information.

Activist Influenced Companies

Pershing Square Holdings Ltd. – Bill Ackman`s Pershing Square has trimmed its stake in embattled drugmaker Valeant Pharmaceuticals International, Inc. from 9.9% to 8.5%. In a regulatory filing on New Year`s Eve, the activist said it had sold about 5 million shares in order to generate a tax loss for investors. Pershing Square has backed Valeant heartedly in the last few months, following an inquiry by U.S. lawmakers into the drugmaker's medicine-pricing policies and attacks from short-sellers. In November, Pershing Square almost doubled its exposure to Valeant`s stock - which previously was at 5.7% - through options. Shares in the company have gained 16.3% since then.

Valeant's Chief Executive J. Michael Pearson was hospitalized with a "severe case of pneumonia" and is receiving treatment, a company spokeswoman said. Pearson, 56, joined Valeant as CEO in September 2010 after a 23-year career at McKinsey & Company and became chairman of the board in 2010. His illness comes as investors are turning up pressure on the Canadian drugmaker to provide a more detailed plan on how it will grow profits in 2016. Under Pearson's leadership, the company has come under U.S. government scrutiny for acquiring off-patent drugs and drastically hiking the prices. Valeant has said it plans to rebuild lost business in 2016 through a new distribution agreement with Walgreen's pharmacies. Still, Valeant's price hikes are the subject of investigations by the U.S. Congress and federal prosecutors in New York and Massachusetts.

Canadian Dividend Payers

Brookfield Infrastructure Partners LP – Australia's antitrust regulator said it will consider a watered down version of Canadian infrastructure giant Brookfield Asset Management Inc.'s $6.5 billion bid for freight firm Asciano Limited, reviving the prospect of a deal. The Australian Competition and Consumer Commission (ACCC) said Brookfield offered to sell one of the target company's rail freight businesses and one of its own coal terminals to ease the regulator's concerns that the buyout would give it too much market dominance. The ACCC's decision to reopen its scrutiny is a step forward for what

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would be Australia's biggest takeover by a Canadian firm. In October, the ACCC complained the deal would give Brookfield the trains and the train tracks in some areas, shutting out other haulage players. In November, it rejected Brookfield's "behavioural undertakings" intended to overcome its concerns. The ACCC had been widely expected to reject Brookfield's offer by a deadline of Dec. 17, but said it will now give a final verdict on Feb. 18, the same day it gives a ruling on Qube Holdings Ltd.'s offer for Asciano.

Brookfield Property Partners LP – announced that one of its subsidiaries has completed the acquisition of Potsdamer Platz in Berlin with its joint venture partner, an Asian sovereign wealth fund. The parties are not disclosing the purchase price. The mixed-used estate comprises 17 buildings, 10 streets, and two squares covering a gross area of more than 2,900,000 square feet in the center of Berlin. The buildings are a mix of office (1,376,000 square feet), retail (493,000 square feet), residential (271,000 square feet), leisure (446,000 square feet), and a hotel (138,000 square feet) and are home to more than 480 national and international companies. Ric Clark, Chairman of Brookfield Property Partners, commented: "Potsdamer Platz is one of the world's iconic properties, and we are pleased to be adding it to Brookfield's growing portfolio of world-class assets."A prime asset at the geographical center of Berlin, Potsdamer Platz is the meeting point of the city's five most bustling streets in a star-shaped intersection. Redeveloped by Daimler in the 1990s and designed by an international team of world-renowned architects including Renzo Piano, Richard Rogers and Hans Kollhoff, Potsdamer Platz sits among Berlin's historic, creative, and government districts and attracts more than 100,000 visitors every day. Potsdamer Platz is also a transport hub served by U-Bahn, S-Bahn, regional express trains and bus services and with a direct connection to the new Berlin Brandenburg International Airport in 2017.

Global Dividend Payers

Syngenta ag's president, former ABB Limited CEO and CFO Michel Demaré, commented in an interview with Finanz und Wirtschaft that Syngenta has no choice than to merge with somebody as the industry is very dynamic and shareholders are expecting imminent action. However, he believes the outlook for 2016 provides little encouragement, hence, the share price has little upside potential for now, which means that shareholders' short-term expectations cannot be fulfilled.

Allegedly, Syngenta is in talks with Chinese National Chemical Corporation (ChemChina) but not only with them. The CFO sees the following options: (i) Syngenta could go for a take-over but the available targets are very limited; (ii) Syngenta could merge with a competitor, or (iii) it could sell itself. The board is currently scrutinizing what the best solution could be but Demaré obviously remains tightlipped when it comes to his favourite solution. However, he says that there is no concrete offer on the table. As for ***Monsanto International***, he reiterates that it was not Syngenta's fault that the targeted merger did not take place. He says that Syngenta's Seeds business would have had to be sold (for antitrust reasons) and replaced by Monsanto's, which would have triggered cultural risks. In addition, the suggested tax plans (tax inversion in a third state) would have not been possible because the US has changed tax laws in the meantime. As for ***ChemChina***, Demaré sees significant potential as China needs food security and technologies, in order to feed the people. China has not the necessary resources inland to do that. It has to invest internationally and to find the necessary strategic partners. Therefore, Demaré considers the Chinese as seriously as Monsanto, BASF or Bayer. As for the ***price***, a potential bidder has to pay a high-cycle price, otherwise a take-over does not make sense for Syngenta's shareholders.

Economic Conditions

U.S. – The Institute for Supply Management (ISM) Purchasing Managers Index (PMI) for December of 2015 surprisingly retreated to 48.2 index points from 48.6 index points in November, while the consensus expectations was factoring in a slight improvement to a 49.0 index points reading. As a reminder, a reading below 50.0 index points signifies likely contraction in the manufacturing sector. The current reading is the lowest in six and a half years and it should, at least, give the Fed's some pause for thought as they contemplate the next step in the process of monetary tightening.

The U.S. home prices, as measured by the S&P Case-Shiller Home Price Index for 20 U.S. metropolitan areas, improved at a 5.5% year-on-year pace in October, one of the fastest paces in recent months, with strong readings across the nation.

U.S. **existing home sales** plunged 10.5% to 4.76 million (annualized) in November, far below even the most bearish of estimates, following a 4.1% tumble in November. The entire decline was in the usually steadier detached home category, rather than in multiples, and all four major geographical regions were hit hard. However, according to the National Association of Realtors, new industry regulations by the federal government required lenders and title companies to process more forms, thereby "heavily" delaying sale closings. Simply put, demand didn't change, the processing rules did. Look for a big-time rebound in December, as housing market fundamentals remain constructive, including, falling joblessness, still-low mortgage rates, easing loan standards and plenty of pent-up demand from millennials. The drop in closings lifted the months' supply to 5.1 from 4.8 previously, only slightly above the past year average and still consistent with a balanced-to-lean market. Accordingly, prices continue to rise briskly, with the median up 6.3% year over year.

U.S. **personal spending** rose 0.3% in November, as expected. After inflation, of which there was none last month, spending rose a similar amount after a flat October. This marked a pretty decent start to the holiday shopping season, and keeps consumer spending on track for about 2.25% annualized growth in Q4, after spending hopped along at a 3% or better pace in five of the previous six quarters. The month saw strong gains in autos, clothing, recreational goods and basically anything housing related, such as furniture. **Personal income also rose 0.3%**, fully supporting the advance in spending and keeping the savings rate relatively high at 5.5%. Inflation remained low, with the annual headline rate rising only slightly to 0.4% while the core rate held at 1.3% for an 11th straight month. The moderate slowing in consumer spending in the current quarter was likely matched by a pullback in business spending on equipment and software following a stellar 9.9% annualized gain in the third quarter. **Durable goods orders** were steady in November, holding onto the prior month's 2.9% advance. However, core capital goods orders (ex-aircraft and defense) fell 0.4% following two solid months, leaving them up only slightly in Q4. Strength in motor vehicles and electrical equipment was more than offset by a pullback in machinery and primary metals, reflecting the ongoing slump in the mining and energy sectors. While core capital goods shipments (ex-defense) rebounded 2.3%, this merely offset the previous two monthly declines, leaving the category down modestly in the quarter. We believe this points to a modest decline in business capital expenditure in Q4 after Q3's surge.

Financial Conditions

The U.S. 2 year/10 year treasury spread is now 1.19 %and the U.K.'s 2 year/10 year treasury spread is 1.29% - 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.

Influenced by the withdrawal of quantitative easing, the U.S. 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). Existing US housing inventory is at 5.1 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 18.21 (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 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 and Renewable Energy Fund LP
- Portland Advantage Plus Funds
- Portland Private Growth Fund

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