Phone: 1-888-710-4242
Web: www.portlandic.com
Email: info@portlandic.com

Energy Sector

U.S. land rig count ***increased*** by 8 rigs to 382, which is the first weekly increase since August 2015 when the rig count was at 847 and prior to that, was November 2014 when the rig count peaked at 1,864. This week's increase was led by horizontal oil (+8), directional oil (+3), directional gas (+1), partially offset by horizontal gas (-2) and vertical gas (-2), while vertical oil remained flat week/week. Total horizontal land rig count remains 77% down since the peak in November 2014.

U.S. horizontal oil land rigs ***increased*** by 8 rig week over week (w/w) to 255, which is the first weekly increase since December 2015, led by gains in the Permian (+6) and "Other" (+4), partially offset by losses in the Woodford (-2), while Williston, Eagle Ford, DJ-Niobrara, Granite Wash, and Mississippian remained flat w/w. Additionally, the Permian lost 2 vertical oil land rigs.

U.S. offshore rig count was down 3 rigs week/week to 20, and is down 63% since June 2014.

Canadian rig count was down 1 rig week/week and is 63% off the level this time last year.

Financial Sector

Bank of America Corporation's U.S. Trust business plans to add more than 100 financial advisers who cater to the super-rich as part of its strategy to grow wealth-management revenue, a U.S. Trust executive said last Tuesday. The number of private client advisers will rise to more than 450 from 323 over the next three years, Keith Banks, president of U.S. Trust said at a financial services conference in New York. The move is the latest indication that big banks are emphasizing wealth management as a strategy to grow revenue while putting relatively little capital at risk, and the number of financial advisers at U.S. Trust is already at an all-time high. (Source: Reuters)

Bank of Nova Scotia reported second-quarter results which were below market expectations and increased funds set aside to cover bad loans by 40% as lending to energy companies turned sour. Scotiabank, which has the biggest direct exposure of the major Canadian banks to the oil and gas industry, followed rivals Royal Bank of Canada and The Toronto-Dominion Bank in reporting increased bad loan provisions. Net income for the second quarter which ended on April 30, excluding a restructuring charge, was $1.9 billion, or $1.46 per share, compared with $1.8 billion, or $1.42 per share, a year earlier. Scotiabank said its provision for credit losses increased to $752 million compared with $539 million in the last quarter, driven primarily by exposure to the energy sector. Oil prices touched 13-year lows in February, putting increased pressure on Canadian banks' energy clients and leading to rising loan defaults. Energy companies across Canada and the United States have met with their banks in recent weeks to determine how much debt they can continue to hold as part of a bi-annual process that is still underway. Scotiabank's Chief Risk Officer Stephen Hart said the bank had completed more than 70% of the redeterminations, resulting in an average 20% cut in credit lines for three-quarters of clients reviewed so far.

Barclays plc - completes the sale of unit that offered life insurance and pension products in Italy to CNP Assurances SA. Unit has 37,000 customers, approx. €700 million assets under management will transfer as part of the deal. Sale represents annualized cost reduction of approx. €5 million. No financial terms disclosed. Barclays to continue operating corporate and investment banking in Italy.

HSBC Holdings plc has begun cutting senior posts in its investment banking division in a cull that could lead to dozens of staff worldwide losing their jobs, according to sources with direct knowledge of the cuts. HSBC began informing staff in its global banking and markets division in London last week, one of the sources said, with a further round of cuts this week expected to affect around 10 senior people in the unit. A spokesman for HSBC declined to comment. The latest round of job cuts at the bank shows new co-chief of global banking Matthew Westerman is making his mark, two of the sources said. (Source: Reuters)

ING Groep NV has announced that the head of wholesale banking, Bill Connelly, is retiring. He was Head of Wholesale Banking since 2011. His succession is well planned and being replaced by an outsider from GE, Isabel Fernandez. The ING CEO emphasizes that "her experience in growth of new businesses and innovation will help us achieve the Think Forward strategy ambitions".

JPMorgan Chase & Co.'s corporate and investment banking head Daniel Pinto said he expects trading activity to rise by more than 10% in the second quarter compared to the year-earlier period. Speaking at a financial investor conference Wednesday, Mr Pinto said so far in the second quarter the bank has seen higher client activity in fixed income but slightly weaker equities client activity. But since the second quarter of 2015 was "particularly weak for the industry" he expects the bank's trading activity to have a percentage increase in the "mid-teens" in the upcoming quarter. (Source: Financial Times)

National Bank of Canada said fiscal second-quarter profit fell 48% after setting aside more money to cover soured energy loans. The lender raised its quarterly dividend 1.9% to 55 cents a share. Net income for the period ended April 30 dropped to $210 million ($161 million), or 52 cents a share, from $404 million, or $1.13, a year earlier, the Montreal-based firm said Wednesday in a statement. Profit excluding some items was 60 cents a share, matching the consensus estimate. (Source: Bloomberg)

Wells Fargo & Company may have to set aside more money to cover bad energy loans even as oil prices have rebounded this year, Chief Financial Officer John Shrewsberry said. "It's too early to call it as being over or enough or something else," Shrewsberry said Wednesday at an investor conference in New York. Wells Fargo, reserved $1.7 billion to cover potential losses on energy loans in the first quarter, up about $500 million from the end of 2015. The bank had $17.8 billion in outstanding loans to the industry as of March 31, about 1.9% of its portfolio. Oil has surged about 85% since touching a 12-year low in February. (Source: Bloomberg)

Activist Influenced Companies

Hertz Global Holdings, Inc. (HTZ) – The board of directors has formally approved the previously announced separation of its car rental and equipment rental businesses. Emerging from the transaction will be two companies: a new Hertz Global Holdings, Inc., which will consist of the worldwide rental car business and leasing business of Donlen Corporation, and Herc Holdings Inc., which will consist of the worldwide equipment rental business. "The creation of these two public companies enables each to focus on their respective core businesses, thereby increasing the opportunity for both to create optimal shareholder value," said John Tague, president and chief executive officer of Hertz Global Holdings, who will continue in the same role at the new Hertz Global Holdings following the transaction. The transaction will be completed through a dividend distribution of all of the capital stock of a new entity, Hertz Rental Car Holding Company, Inc., which will consist of the worldwide rental car business and the fleet leasing business of Donlen Corporation. The dividend will be paid to existing Hertz Global Holdings' shareholders of record as of June 22, 2016, and, subject to the satisfaction of applicable conditions, is expected to be completed on June 30, 2016. Upon closing, Hertz Rental Car Holding Company will change its name to Hertz Global Holdings and will continue to manage the company's rental car business. Also upon closing, the current Hertz Global Holdings entity will change its name to Herc Holdings Inc. and operate the equipment rental business. On July 1, 2016, the new Hertz Global Holdings will begin regular-way trading on the New York Stock Exchange (NYSE) under the existing HTZ symbol, while Herc Holdings will begin regular-way trading on the NYSE under the symbol HRI.

Liberty Global plc/LiLAC Group – Liberty Global plc announced that the Board of Directors has approved the distribution of 117.4 million Liberty Global Latin American and Caribbean Group (LiLAC Group) ordinary shares that represent the current inter-group interest to Liberty Global Group shareholders, on a pro-rata basis. The 67.2% inter-group interest resulted from the acquisition of Cable & Wireless Communications plc, which closed on May 16, 2016, and subsequent to the distribution will no longer exist. The Liberty Global Group and LiLAC Group are both tracking stocks of Liberty Global plc. The $5 billion distribution to Liberty Global Group shareholders will be made on July 1, 2016 and we believe is expected to significantly enhance the trading liquidity of LiLAC Group`s ordinary shares. We believe LiLAC Group shares provide a unique and well-diversified investment vehicle exposed to Liberty Global's growing businesses in Latin America and the Caribbean, giving shareholders the opportunity to invest directly in the region where LiLAC Group is the leading consumer and business-to-business communications provider serving 10 million video, voice, broadband and mobile subscribers in more than 20 countries. We believe LiLAC Group is expected to generate over $3.5 billion of revenue on an annualized basis, and is well-positioned to be the leading platform for further consolidation in the region.

Canadian Dividend Payers

Brookfield Infrastructure Partners LP – Shareholders of Australian ports and rail freight giant Asciano Ltd. voted for an AUD$9.1 billion ($6.6 billion) buyout by a global consortium led by Canada's Brookfield Asset Management Inc., leaving the company's future in the hands of regulators. The vote was widely expected to succeed since Brookfield and its co-bidders own about half of Asciano's shares and the target endorsed the offer, but the unanimous result has formally left it to Australia's foreign investment and antitrust watchdogs to decide on the deal. The Australian Competition and Consumer Commission last week said it was concerned the takeover would give Brookfield's Australian bid partner, Stevedoring Company Qube Holdings Ltd., too much control over the trucking market.

Northland Power Inc. – The Independent Electricity System Operator (IESO) has confirmed that the 100-megawatt Grand Bend wind farm, jointly owned by Northland Power Inc. and Giiwedin Noodin FN Energy Corp., achieved commercial operation on April 19, 2016. The project, located near the eastern shore of Lake Huron, in Ontario, is a 50/50 partnership between Northland and Giiwedin Noodin FN Energy, which was created to hold the equity interest of the Aamjiwnaang First Nation and Bkejwanong territory (Walpole Island First Nation) in the project. The IESO awarded the project a 20-year contract under Ontario's feed-in-tariff (FIT) program for renewable energy. The wind farm consists of 40 Siemens wind turbines and is expected to produce enough clean, renewable energy each year to power approximately 30,000 Ontario homes. Grand Bend is Northland's second wind project completed under the Ontario FIT program. The 60-megawatt McLean's Mountain wind farm on Manitoulin Island began operations in 2014 and is also a 50/50 partnership with local first nations (the United Chiefs and Councils of Mnidoo Mnising First Nations). "Northland's continued growth demonstrates our commitment to generating stable cash flows and creating long-term value for our shareholders and partners," said John Brace, Northland's chief executive officer. "We are pleased to add the project to our fleet of operating assets, while reducing

Ontario's carbon footprint, and are thankful to all involved in bringing this project to completion on budget and within the expected project schedule."

Global Dividend Payers

Dufry AG investor day, presented its new structure/management and it was once more confirmed that the group is on track with the integration of World Duty Free till mid 2017. Focus is on deleveraging (target to pay a dividend in 2017) with growth acceleration in 2016 - we expect an increase in organic growth in coming quarters and full synergies by late 2017. Asia just represents 10% of group sales - target to increase to 20%. Dufry is present in 14 countries (market share of <5%, global 24%). 91% of sales in airports but in Asia downtown duty free is important (41% of market) - will be a key driver. Acquisitions will also be in the cards, but priority is deleveraging. In UK, Heathrow (concession till 2026) is the most important airport (share 42%); sales growth was +5.4% p.a. in last 5 years and a similar growth is expected in 2016.

Johnson & Johnson has agreed to buy Vogue International, maker of hair care and personal products, for US$ 3.5 billion, as the U.S. healthcare-to-consumer-goods conglomerate returned to major acquiring for the first time since 2011. J&J said the purchase would boost its consumer business, which is the smallest of its three main divisions, namely: pharmaceuticals, medical devices and consumer products.

Johnson Matthey reported 2nd half 2015/2016 underlying Profit Before Tax (PBT) of £210 million, 2% ahead of consensus (£207 million). We note £141 million of exceptional charges/impairments (£38 million cash) relating to the ongoing restructuring and write down of their fuel cells business (£42 million). Guidance for 2016/17 is in line with current consensus (£435 million PBT, 4% growth). 2nd half 2016 operating cash improved by £350 million - a function of improved working Sales excluding Precious Metals £1,589 million (-1% year on year), 2% below expectations. Within Emission Control Technologies (£136 million), European demand growth remains robust; within Process Technologies (£38 million), Chemical catalyst sales are lower (mostly China). Restructuring was completed in Q4 - expected to benefit in 2017. Dividend: Ordinary dividend of 71.5p.

Economic Conditions

U.S. - Nonfarm payrolls grew just 38,000 in May following downward revisions tallying 59,000 in the previous two months. Even adding back roughly 35,000 striking Verizon workers we are left with the weakest print since December 2013. This followed a soft 123,000 gain in April, and lowers the yearly pace to 1.7% from 2.0% last year. The weakness cut across industries, with outright declines in manufacturing, construction, mining and information services, and only modest advances in retail, financial services and professional and business services. The household survey was an even bigger disappointment, printing just 26,000 jobs after a 316,000 drop in April. Equally surprising was a massive 458,000 decline in the labour force, which carved the unemployment rate three-tenths to 4.7%, a new post-recession low. After an encouraging upturn in the past year, the participation rate slid a couple tenths in May. Also of concern for Chair Yellen, the number of involuntary part-time workers jumped the most in 3½ years to a nine-month high, suggesting a reluctance on the part of companies to commit to full-time help. This held the "all-in" jobless rate steady at 9.7%, despite the dive in the labour force. Annual growth in averagely hourly earnings stayed at 2.5%.

U.S. trade deficit deteriorated as expected in April: albeit to a lower-than-expected level due to the magic of revisions. The trade shortfall increased to $37.4 billion from $35.5 billion the prior month, thought this marks a moderate improvement from levels prevailing at the turn of the year. Exports rose 1.5%, showing clear signs of stabilizing possibly because of recent softness in the greenback. Imports jumped 2.1%, but that didn't even retrace half the prior month's decline. Import volumes remain below year-ago levels, reflecting the weakness in business investment. The real trade balance deteriorated slightly in April, suggesting trade will remain a drag on Q2 GDP growth

U.S. Personal spending rose 1.0% in April after no change in March, topping expectations. Real spending jumped 0.6%, and is up a solid 3.0% year/year. The latter pace is fully supported by growth in real disposable income (3.3% year/year). Wages and salaries rose a firm 0.5% in the month, extending an upward trend in response to tightening labour markets and increased minimum wage rates in many states this year. All three categories of spending (durables, non-durables and services) showed strength in April, and the gains were broadly based among outlets. Autos accelerated, and anything tied to the rollicking housing market did well, as did discretionary purchases such as recreational goods. The burst of spending was also supported by a dip in the saving rate, though, at 5.4%, it remains above year-ago levels. The strong start to the quarter suggests real consumer spending will increase about 3.7% annualized in Q2, nearly double Q1's rate (1.9%). This implies an upward revision of Q2 GDP growth estimates from 2.3% to 2.6%. While wages are picking up, inflation remained largely steady in April. The PCE price index rose 0.3%, led by gasoline, pumping the yearly rate to a still-low 1.1% from 0.8%. Core prices rose an expected 0.2%, keeping the annual underlying increase at 1.6%.The tame inflation figures might grant the Fed some leeway to delay a rate hike until July, while the near-unanimous upswing in April economic indicators, including the most important (consumer spending), tilt the pendulum toward a June move, although the UK 'Brexit' referendum likely means a delay until July.

U.S. The Case Shiller **home prices index** for the 20 U.S. metropolitan areas advanced a better than expected 0.9% in March and is 5.4% above the level from a year ago, matching the February rate.

The U.S. consumer confidence, as provided by the Conference Board, unexpectedly retreated in May, to 92.6 index points, from

April's 94.7 level, and falling significantly short of the expected 96.0 points reading.

Canada – The Canadian economic output grew at an annualized 2.4% rate in the first quarter of the year, falling short of the expected 2.9% advance, though pointing to significant acceleration compared to the fourth quarter's anaemic 0.5% result. Growth was driven by the Canadian consumer sector, but net exports (likely benefiting from the weaker currency) also contributed, as did the Canadian housing sector. The Canadian trade balance improved marginally in April, to a $2.94 billion deficit, compared to March's $3.18 billion deficit, yet fell short of the expected $2.45 billion deficit reading. While exports grew by 1.5%, helped by energy exports, imports rose as well, by 0.9%, in the month.

Financial Conditions

The European Central Bank (ECB), as was widely expected, kept interest rates on hold at record low levels (refinance rate 0%, marginal lending facility 0.25%, deposit facility -0.4%). Their macroeconomic forecasts were tweaked ever-so-slightly. The **inflation forecast** for 2016 was bumped up a bit (to +0.2% from +0.1% back in March), but this reflected the recent increase in oil prices. The remaining two years were the same (2017: +1.3%; 2018: +1.6%). The **growth forecast** for this year was also bumped up (to +1.6% from +1.4% in March), largely due to the support given by the ECB's measures but the risks remain tilted to the downside thanks to the global economy and the UK referendum. Note that 2018 growth was tweaked lower (to 1.7% from 1.8%). President Draghi again warned that inflation will remain low or negative in coming months (it already is) but should pick up in the second half of this year. But they must, "without undue delay", get inflation back to target, which is to levels below, but close to, 2%. President Draghi also repeated that for the Euro Area economy to "reap the full benefits" from their policy measures, "other policy areas must contributed more decisively". This is another shout-out to the Euro Area governments to step in, as he reminded one and all that the region still has low potential output growth and high structural unemployment.

The U.S. 2 year/10 year treasury spread is now .92% and the UK's 2 year/10 year treasury spread is .94% - 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 3.66% (was 3.31% end of November 2012, the lowest rate since the Federal Reserve began tracking rates in 1971). Existing U.S. housing inventory is at 4.7 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, 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 13.77 (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 Focused Plus Fund
- Portland Private Income Fund
- Portland Global Energy Efficiency and Renewable Energy Fund LP
- Portland Advantage Plus Funds
- Portland Private Growth Fund
- Portland Global Aristocrats Plus Fund

We want to share our insights with you and welcome your feedback. Our website has the latest, as well as archived videos, company profiles, and press articles. Please visit us at www.portlandic.com.