

News Highlights

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

June 20, 2016

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Energy Sector

U.S. land rig count increased by 10 rigs to 398, which is the third consecutive week of gains and the first double-digit weekly increase since July 2015. This week's increase was led by vertical oil (+6), horizontal oil (+3), directional gas (+2), slightly offset by directional oil (-1), while horizontal gas and vertical gas remained flat week over week (w/w). Total horizontal land rig count is 76% down since the peak in November 2014.

U.S. horizontal oil land rigs increased by 3 rigs w/w to 264, led by gains in Woodford (+3), Permian (+2), Eagle Ford (+1), partially offset by losses in Mississippian (-1) and "Other" (-2), while Williston, DJ-Niobrara, Granite Wash, and Utica remained flat w/w. Additionally, the Permian vertical oil land rigs were up 1 and the Barnett vertical oil land rigs were up 5 w/w.

U.S. offshore rig count was up 1 rig w/w to 21, and is down 61% since June 2014.

Canadian rig count was up 4 rigs w/w as we come out of breakup season and is 48% off the level this time last year.

Financial Sector

Bank of America Corporation will continue to increase the number of salespeople as it scales back on support staff, a senior executive said on Tuesday. Speaking at an industry conference, Thong Nguyen, head of retail banking, said sales positions, which used to account for 5% of employees, now account for 30%. That ratio will get to 40% next year and eventually reach 50%, he said. (Source: Reuters)

Barclays plc has described as "fundamentally misconceived" a \$1.0 billion-plus lawsuit brought by British financier Amanda Staveley over the bank's emergency fundraising from Gulf investors at the height of the credit crisis in 2008. Staveley's private equity group PCP Capital Partners is claiming damages for alleged fraudulent misrepresentation in a civil case lodged at London's High Court in January that sheds light on how Abu Dhabi and Qatari sheikhs helped bail Barclays out nearly eight years ago. Laying out a 44-page defense in a court document seen by Reuters on Thursday, Barclays denied dishonesty and recklessness and called PCP's assertion it had been a potential investor in the Abu Dhabi syndicate at the time "utterly speculative and flawed". (Source: Reuters)

Barclays also announced the appointment of Tim Main as Chairman of Global FIG, based in New York. Mr. Main joins Barclays from Evercore Partners where he was most recently Senior Managing Director, with responsibility for covering clients in banking, specialty

finance and wealth and asset management. Mr. Main has more than 25 years of experience in banking and has advised on some of the largest and most transformational deals over the past two decades including the merger of Wachovia and Wells Fargo & Company, RBC's \$4.1 billion acquisition of Ally Canada and most recently M&T Bank's takeover of Hudson City for \$3.7 billion.

Brookfield Asset Management Inc. (BAM) today announced the completion of the spin-off of Brookfield Business Partners L.P. (BBU), the primary public vehicle through which Brookfield will own and operate the business services and industrial operations of its private equity group on a global basis. "The spin-off of Brookfield Business Partners completes the fourth pillar of our strategy to consolidate Brookfield's major business units and furthers our asset management strategy, providing investors with direct access to many businesses within our private equity group," said Bruce Flatt, CEO of Brookfield. The spin-off was effected by way of a special dividend of units of BBU to holders of Brookfield's Class A and B limited voting shares. Shareholders of BAM now own 19,725,150 BBU units, or an approximate 22% limited partnership interest in BBU, with Brookfield owning the remaining 78% limited partnership interest in BBU, on a fully-diluted basis. Brookfield also holds the general partner interest in BBU. The BBU units commenced regular-way trading on the Toronto Stock Exchange and the New York Stock Exchange this morning under the symbols "BBU.UN" and "BBU" respectively. Prior to completion of the spin-off, BBU acquired from Brookfield certain business services and industrial operations, including Brookfield's construction services business, a variety of other service businesses principally related to commercial and residential real estate, oil and gas exploration and production businesses in Australia and Canada, and select industrial manufacturing operations.

HSBC Holdings plc - Chairman Flint Says HSBC is one of the 'Best Placed Banks in Asia', WSJ reported. HSBC is grabbing Asia wholesale banking market share, WSJ reports, citing an interview with Chairman Douglas Flint. The region is a "logical extension" for the bank to connect Hong Kong trade and private wealth with the rest of world. It may take several years before Pearl River Delta region in southern China near Hong Kong generates meaningful results but will build out its Pearl River Delta operations for "as long as it takes".

HSBC has drawn a line under a long legal battle in the U.S. by agreeing to pay a record \$1.575 billion to resolve a class action case stemming from its acquisition of Household International. The bank said on Thursday that a U.S. unit, HSBC Finance, would incur a pre-tax charge in the second quarter of about \$585m, having agreed to pay \$1.575bn to bring an end to a suit filed 14 years ago. The settlement on Thursday, reached just hours before a second jury trial was due to begin in a Chicago federal court, was less than a \$2.5 billion judgment against some claims entered in 2013, and much less than HSBC's

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estimated exposure of up to \$3.6 billion. (Source: Financial Times). Net of existing provisions, the pre-tax charge to the P&L will be U\$585 million. Assuming no tax relief, the charge is equivalent to 2p of Tangible Net Asset Value (1Q 2016 529p) and 0.05% of Risk Weighted Assets. This settlement is too small in our view to have any influence over dividend decisions. The stock trades at 9.7x 2017 estimates and 0.8x Tangible Net Asset Value for an 8.5% return in 2017E. We think the >8% dividend yield will support the shares.

Standard Chartered plc - CEO, Bill Winters found more than just bad loans when he took over at Standard Chartered, Bloomberg reports. He says he uncovered a culture where a few senior managers flouted ethics rules for personal gain and considered themselves "above the law." The lender is cracking down after "recent transgressions" concerning some employees' outside business interests, close financial dealings with co-workers and excessive expenses, according to a series of memos issued over the past two months that were seen by Bloomberg News.

Wells Fargo has thrown down the gauntlet to fintech start-ups, arguing that a roll out by big banks of a real-time payments system will mean customers have no reason to use alternative ventures. The world's largest lender by market value is set this summer to allow customers to make immediate transfers over ClearXchange, a network owned by seven big banks. Rivals Bank of America and US Bank began offering the service earlier this year. The plans are the latest sign that big retail banks are determined to avoid being wrongfooted by Silicon Valley start-ups. They present a potential challenge to peer-to-peer services such as Venmo, which is owned by PayPal, and Square Cash. (Source: Financial Times)

Activist Influenced Companies

Nothing new to report.

Canadian Dividend Payers

Nothing new to report.

Global Dividend Payers

ABB Limited has appointed Sami Atiya to its Executive Committee as President of the Discrete Automation and Motion (DM) division. He succeeds Pekka Tiitinen, who will return to his home country as Managing Director of ABB in Finland. Mr. Atiya served at Siemens for 18 years in the US and Europe, most recently since 2011 as CEO of the Mobility and Logistics division - where he was in charge of integrating the Invensys Transport business - and as CEO of the Computer Tomography unit from 2008 to 2011. With a PhD in the field of robotics, sensors and data processing he appears to be well qualified. The DM division has suffered amongst other from the slowdown in the North American oil & gas market. Going forward, we expect to see a greater push in the area of higher level software.

AT&T Inc. - A U.S. appeals court decision upholding government rules that would impose new restrictions on how internet providers collect user data could disadvantage Verizon Communications Inc and AT&T Inc's pursuit of Yahoo Inc's digital assets and new ad revenue. The U.S. Court of Appeals for the District of Columbia upheld the Obama administration's landmark rules barring internet service providers from blocking or slowing down consumer access to web content. This dealt a blow to big cable and mobile phone companies, which plan to appeal the decision in the full appellate court or Supreme Court and urge Congress to intervene. Both Verizon and AT&T are bidding for Yahoo's web assets and are primarily interested in Yahoo's advertising technology tools that leverage user data to deliver targeted ads. A part of the new rules could limit their ability to collect and use customer data to boost ad revenue. The "net neutrality" or "open internet rules" were crafted by the Federal Communications Commission last year. Data privacy rules in the new regulations proposed by the FCC earlier this year would limit an internet provider's ability to collect user data and share it with advertisers and other third parties. The data privacy rules have yet to take effect, as the FCC is sifting through public comments before putting together a final version. According to the data privacy rules, internet providers such as AT&T and Verizon would have to ask users to consent or "opt-in" before their data, such as which sites they visit and personal information, can be used by internet providers.

The Procter & Gamble Company has appointed David Taylor as chairman of the board, effective July 1, 2016. Taylor assumes the position in addition to his role as President and CEO following the retirement of current Executive Chairman A.G. Lafley, who was named as Chairman, President and CEO in 2013. Prior to being named CEO, Taylor served as Group President of Global Beauty, Grooming and Health Care. Previously, Mr. Taylor was responsible for Family Care and Home Care, both of which delivered consistent double-digit profit and mid-single-digit sales growth under his leadership. Taylor and Lafley have worked closely together in the past year on the Company's strategy to strengthen and focus P&G's business and brand portfolio.

Wal-mart Stores Inc. announced that they would stop accepting Visa cards in Canada and is blaming the decision on the inability to reach an agreement on an appropriate fee despite Visa claiming they offer one of the lowest rates available to any merchant in the country.

Economic Conditions

U.S. industrial production fell more than expected in May, with the 0.4% decline accompanied by **downward revisions** to the prior 2 months. (Plus, the overall index is down on a year-over-year basis for nine straight months....we haven't seen that since 2009.) Manufacturing, which carries an 80% weight of the index, fell for the 3rd time in the past four months (down 0.4%) and back below year-ago levels. Utilities were down 1.1% on warmer weather. There were a couple of positivesmining perked up for the first time

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since August 2015, up 0.2% in May. And, within the industry groups, computers and electronics were higher.

U.S. – The U.S. retail sales posted a stronger than expected 0.5% growth rate in May, ahead of the expected 0.3% improvement, yet decelerated from April's 1.3% advance. The core retail sales, which exclude sales of vehicles and auto parts, were up 0.4% in the month, in line with the expectations, with growth broadly distributed across retail categories. U.S. consumer prices, as measured by the changes in the consumer price index (CPI), moved only 1.0% higher (in year-on-year) terms, on tenth lower than the consensus expectations and the April reading. Core CPI change, which removes the effects of food and energy prices, was 2.2% in May, in line with the expectations and one tenth higher than April's reading.

U.S. housing starts: the 0.3% decline wasn't as large as expected (consensus looked for ~2%), leaving overall starts at 1.164 million units annualized. Although April's bounce was shaved a bit..... what was a 6.6% increase to 1.17 million units is now a 4.9% rise ... March's level was revised up over 1%. So the revisions were, on net, higher. All of the declines were centered in the volatile multi-family component while single family starts were up for the 2nd month in a row. Starts in the Northeast and the Midwest were down sharply, while the South and the West, which accounted for 75% of total starts, were higher. Excluding the Northeast and the Midwest, starts were up 5.1%. Building permits were disappointing, however, on the surface, as the 0.7% increase was well below expected (consensus ~1.8%).

Canada – Canadian inflation has tempered somewhat in May, as the most recent reading of the year-on-year changes of the core consumer price index (CPI) fell in-line with the expectations, at 2.1%, one tenth lower than April's reading of the same. The headline reading, which includes the effect of the more volatile price series, was actually even more muted, at 1.5%, compared to expectations for a 1.6% rate and April's 1.7% reading.

Canada - The International Monetary Fund said last Monday that Canada is coping well with lower oil prices and weaker growth, but needs to pursue a fiscal and monetary policy mix that supports near-term output. In a statement following its annual policy review with Canada, the IMF cautioned the full macroeconomic and financial effects of the oil shock have yet to fully play out in Canada, which saw real gross domestic product growth halve to 1.2% in 2015. The Fund said its board of directors welcomed Canada's "pro-growth" budget and noted that additional fiscal support should be considered if conditions worsen. "Growth is expected to rebound in 2016, supported by exchange rate depreciation and accommodative monetary and fiscal policies, but uncertainty about oil prices, challenges in sustaining the global recovery, and elevated domestic vulnerabilities suggest risks to the outlook are tilted to the downside," the IMF said. (Source: Reuters)

France - Fitch has affirmed France's credit rating at AA. Fitch says nation's ratings reflect diversified economy, macro-financial stability, strong and effective civil, social institutions. Economic recovery in line with Fitch expectations; GDP projected to grow by 1.4% this yr and next.

Government has made progress in structural reform agenda. Financing risk remains low; nation has run moderate current account deficits.

UK - Yes, this is it...on Thursday, Britons decide whether or not they want to be part of the European Union. Both camps set aside their differences and stopped campaigning last week out of respect to the slain MP. But they returned over the weekend and as of Monday, the polls showed the "Brexit" camp trailing the "Remain" camp, and the (Betfair) odds of the U.K. remaining a member rose to 68%. But polls can change.

UK - United Kingdom affirmed at AA+ by Fitch; Outlook Stable. Fitch says UK's ratings benefit from a high-income, diversified & flexible economy; credible macroeconomic policy framework, sterling's international reserve currency status further support ratings. Fitch sees UK GDP growth 1.9% this year, 2.0% in '17 and '18.

UK - House prices across the UK continued to grow in April, with London prices leaping by more than 14% over the past year, according to official figures published last Tuesday. The average house price in the UK increased 8.2% year on year to £209,054, up 16,000 from the same time in 2015. In London, which continued to be far more expensive than anywhere else in the country, the average house price is now more than £470,000, up by nearly £60,000 on April last year. The figures were calculated by a new, more accurate, index based on data from the Office for National Statistic. (Source: The Independent).

UK - Consumer price inflation in the UK held steady in May as rises in transport and hotel costs were offset by falls in the price of clothing and food. At 0.3%, the headline rate of inflation has risen from its record lows of last year, but is still well below the Bank of England's 2% target. As economic growth has weakened, investors have pushed their expectations of an interest rate rise further and further back, all the way into 2020. The supermarket price war, cheaper oil and subdued wage pressures have all helped hold inflation down for an extended period. (Source: Financial Times)

UK - mutual funds have shed 18% of assets in the last 12 months, data shows, pointing to a crisis of investor confidence over low oil prices, fears of Chinese recession and Britain's vote on European Union membership. The Thomson Reuters Lipper data, based on investment flows in UK Investment Association (IA) fund categories, showed a £38 billion (\$54 billion) drop in the year to end-May, with nearly £16 billion of net outflows in January alone. In a turbulent year, most of the world's most popular asset classes have been sapped by concerns about the world economy and political upheaval, including Britain's possible EU exit. (Source: Daily Mail).



Financial Conditions

Bank of England (BoE) unsurprisingly decided to remain on the sidelines this month, a mere 7 days before the country votes on its future with the European Union. The vote was to keep rates at a record low 0.5% and the Asset Purchasing at £375 billion was unanimous. But warnings about leaving the EU were splashed all over

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the press release and the Minutes. The line that “the most significant risks to the MPC’s forecast concern the referendum” was repeated, as well as the “outcome of the referendum on EU membership continued to be the largest intermediate risk facing UK financial markets, and possibly also global financial markets.” Also, “Through financial market and confidence channels, there are also risks of adverse spill-overs to the global economy.” The BoE was briefed on contingency plans for the referendum.

Bank of Japan (BOJ) - The Japanese central bank kept its policy stance unchanged which was a widely expected decision, but its currency still surged. The BOJ maintained its pledge to keep increasing the monetary base at an annual pace of 80 trillion yen with the extended duration of about 7-12 years and its other buying programs.

Russia - Russian central bank cut interest rate by 50bps as inflation comes down and economy stabilized.

The U.S. 2 year/10 year treasury spread is now .94% and the UK’s 2 year/10 year treasury spread is .76% - 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 3.54% (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 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 17.22 (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](#)

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