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Energy Sector

U.S. land rig count increased by 3 rigs week/week (w/w) to 443, and is trending up 8% quarter/quarter (q/q). The rig count increase was driven by gains in Horizontal Oil (+8) and Vertical oil (+1), partially offset by declines in Vertical Gas (-3), Directional Oil (-1), Directional Gas (-1), and Miscellaneous (-1), while Horizontal Gas remained flat. Total horizontal land rig count is 74% down since the peak in November 2014.

U.S. horizontal oil land rigs increased by 8 rigs week/week to 302, led by gains in Eagle Ford (+4), Permian (+3), Williston (+1), and "Other" (+1), slightly offset by declines in DJ-Niobrara (-1), while Granite Wash, Mississippian, and Woodford remained flat.

U.S. offshore rig count was down 2 rigs w/w to 17, and is down 69% since June 2014.

Canadian rig count was up 4 rigs w/w as we come out of breakup season but is still 41% off the level this time last year.

International rig count is up 11 rigs month/month (m/m) in July and down 180 year/year (y/y). International rigs averaged 938 in July, with land rigs up 8 and offshore rigs up 3 m/m, led by Latin America (+8), Asia Pacific (+4), Europe (+3), Middle East (+1), partially offset by declines in Africa (-5). This is Latin America's first monthly increase since September 2015.

Northland Power Inc. announced that the Ontario Court of Appeal (OPA) ruled in favour of Northland Power and denied the Ontario Electricity Financial Corporation's (OEFC) application for a stay of retroactive payments. Northland Power is entitled to receive retroactive payments of approx. $95 million, subject to OEFC's exercise of any further appeal rights. Going forward, rates under the contracts will continue to be indexed according to the interpretation confirmed by the courts, consistent with the rates that have been applied since February 2015.

Whitecap Resources Inc. – The company's Q2 2016 operating and financial results have continued to exceed its expectations. Whitecap's Q2 2016 production averaged 40,388 barrels of oil equivalent per day (boed), 5% higher than its forecast of 38,500 boed on a limited capital program of $16.2 million, which was at the low end of its anticipated spending of $15 million to $20 million. The better-than-forecasted production in the quarter was primarily due to operational efficiencies in the field and better base production performance which mitigated the impact of scheduled maintenance and expected downtime. Crude oil prices have improved markedly from the lows of West Texas Intermediate (WTI) US$27.00 per barrel in Q1 2016 to average WTI US$45.59 per barrel in Q2 2016. This combined with the company's low cash costs of $18.96 per barrel of oil equivalent resulted in $54 million of free funds flow (after capital expenditures and dividend payments) in Q2 2016, or a total payout ratio of 42% for the three months ended June 30, 2016. Total payout ratio was 78% for the six months ended June 30, 2016. At the end of the second quarter, Whitecap closed the acquisition of premium oil assets in southwest Saskatchewan for cash consideration of $596 million. The acquisition included 11,600 boed of low decline production (below 5% historically), 660 (483 net) high-quality drilling locations and extensive infrastructure to support continued low-cost production growth. In addition, the company disposed of 100 boed of non-core production and undeveloped lands in Saskatchewan for $25 million, further strengthening its balance sheet. Whitecap added to its hedges: currently 50% of oil hedged at $70/barrel (bbl) for second half of 2016, 27% of oil at $61/bbl for 2017 and 16% of 2018 oil at $60/bbl. Whitecap's capital program (a remainder of $114 million for a total of $175 million) will be heavily skewed towards the fourth quarter, when it expects to exceed its 51,000 boed exit target production. An average WTI of US$45.59 for the second quarter led to realized prices of $50.18 for Whitecap and an operating net-back of $29.12, including $7.48 of hedging gains.

Financial Sector

Ares Capital Corporation reported core Net Interest Income per share of $0.39, above consensus of $0.38. The strong performance was primarily due to lower than expected expenses, excluding costs associated with its announced acquisition of American Capital, Limited (ACAS) and non-core performance fee expenses. Net Asset Value (NAV) per share rose modestly to $16.62 from $16.50 q/q. Ares' joint venture Senior Direct Lending Program (SDLP) completed its initial funding in July. Ares sold $529 million of investments and its partners sold $503 million providing a total of $926 million ($106 million unfunded) in 10 first lien senior secured loans. Ares committed $217 million in subordinated certificates of SDLP that are expected to yield around 13.5%. It took roughly a year to fund about $1 billion of commitments, which is the expected pace of originations for the SDLP ahead. The wind down of its prior joint venture SSLP (senior secured loans program) continues to pressure the portfolio yield with the yield on its SSLP subordinated certificates dipping to 10% at the end of Q2 from 11.75% in the prior quarter. The yield is declining as senior notes are paid down ahead of Ares investments. The SSLP portfolio declined $3.8 billion from $10 billion at the end of Q2 2015 to $6.2 billion a year later. While this should provide additional yield pressure, the ramping of SDLP should help provide a partial offset. While solutions have been offered to its prior SSLP partner, the likelihood of a restructuring or refinancing of the position appears low near-term. Nonetheless, the continued pay down of senior debt ahead of Ares decreases the risk of the investments and provides enough of a risk-adjusted return that management is not overly concerned about the impact of the wind down. With a stable and potentially growing 10% dividend and shares trading at 93% of NAV, we believe shares remain attractive.

Three of the U.K.'s biggest banks face extra charges of about £1.5 billion ($2 billion) after the Financial Conduct Authority (FCA) said it will probably delay a deadline on payment protection insurance complaints by a year. Lloyds Banking Group Plc may have to set aside an additional £750 million to cover the cost of compensating consumers who were mis-sold Principal Protection Insurance (PPI). Royal Bank of Scotland Group Plc may require £500 million while Barclays Plc could need £250 million. The FCA raised the prospect of additional charges for U.K. banks, in a scandal that has so far cost them about $41.8 billion, when it said it would consider a mid-2019 time limit for PPI claims in an e-mailed statement last Tuesday. (Source: Bloomberg)

Berkshire Hathaway Inc.'s Q2 2016 operating Earnings Per Share (EPS) of $2,803 per A share ($1.87 per B share, +18% y/y) were slightly above expectations of $2,757 per A share ($1.84 per B share). The Q2 results reflect better-than-expected earnings in the BNSF and Finance and Financial Products segments, offset by lower-than-projected earnings in Manufacturing, Service and Retail, and Utilities and Energy. Foreign Exchange gains were also a factor in the most recent quarter compared with FX losses a year ago. Book value per share increased 1.7% q/q to $160,009 per A share ($106.67 per B share). Berkshire Hathaway faces ongoing earnings headwinds from its BNSF railway as well as the industrial and manufacturing businesses, but we anticipate a recovery in earnings growth by 2017. The company's intrinsic value should benefit from substantial acquisitions including Kraft Heinz as well as Precision Castparts (its largest deal ever). Mr. Buffett intends to remain at the helm for around another decade and his succession plan is in place. Berkshire currently has $42 billion of immediately deployable cash for acquisitions based on our estimates.

Brookfield Property Partners LP - Funds From Operations per unit increased 25% y/y in Q2 2016. Brookfield Property Partners has been quietly undergoing a significant shift over the past two years. It has completed the sale of a large volume of mature assets, in many cases a partial interest, with the proceeds invested in opportunistic acquisitions which should drive stronger returns over an extended period of time. In the near-term, cash flow growth has been strong as the lease-up of the vacant office space in lower Manhattan combined with internal growth in the remainder of its core divisions, has completely offset the large volume of asset sales. For Q2 2016, Brookfield Property Partners reported Funds From Operations per unit of $0.35, up 25% from $0.28 in the year-ago period, and ahead of consensus of $0.31. The solid y/y growth was primarily driven by acquisitions in the opportunistic platform, notably Centre Parcs, Associated Estates, an office portfolio in Brazil, and a number of investments in self-storage and student housing assets completed in the first half of this year. Its London office portfolio is 98% leased with an average term of lease of approx. 12 years. In addition, only 5% of Brookfield Property Partners equity is exposed to the pound on an unhedged basis. The reported IFRS NAV per unit was $29.75 at Q2 2016, essentially unchanged from $29.93 at Q1 2016. Management asserted on the conference call that all asset sales have been completed at a premium to IFRS values which suggests that the IFRS value is understated. In addition, there has been no evidence of a decline in asset values in London following the Brexit vote.

Fifth Third Bancorp said in its 8-K statement last Wednesday it entered into a share repurchase agreement with a broker to purchase $240 million of its outstanding common stock. Fifth Third expects to receive a substantial majority of the shares by Aug. 5 and settle the transaction on or before Nov. 2. We note this figure equates to one-quarter of its $660 million approved repurchase plan PLUS the full $75 million after-tax gain it expects to record in Q3 2016 tied to the termination of a portion of its Tax Receivable Agreement (TRA) with Vantiv Inc. At current levels, this equates to 12.7 million shares or 1.7% of its shares outstanding.

HSBC Holdings Plc reported underlying Q2 2016 Profit Before Tax of $5,361 million, 9% ahead of consensus with the key differences of Income 3%/US$405 million, Costs -1% (better)/US$79 million whilst Impairment was 6%/US$73 million worse with associates of 8%/US$53 million making up the rest. The group's updated 2017 cost target correcting for movements in currency was US$29.2 billion versus 2017 consensus expectations of US$29.7 billion with the first half run-rate annualising to US$31.0 billion after adjusting for Brazil. Total NAV for the period finished at US$7.53, which was up -$0.06 q/q. Core Equity Tier 1/Risk Weighted Assets was 12.1% or +0.2% better q/q whilst the leverage ratio finished at 5.1% improving 0.1% in the quarter. The 2nd interim dividend total was in line at $0.10 per share but the group also announced a 2nd half 2016 share buyback program of $2.5 billion with regulatory approval representing a positive surprise and approx. 2% accretive. The group committed to sustaining its annual ordinary dividend at current levels for the foreseeable future, which is ahead of consensus expectations. The timetable for achieving an Return on Equity >10% has been removed (previously next year) but consensus wasn't anticipating this in any case. Overall, we believe a good set of underlying numbers and a solid message on capital.

IGM Financial Inc. net earnings available to common shareholders for the three months ended June 30, 2016, were $172.9 million or 72 cents per share compared with net earnings available to common shareholders of $198.5 million or 80 cents per share for the comparative period in 2015. Revenues for the three months ended June 30, 2016, were $744.3 million compared with $763.2 million a year ago. Expenses were $521.8 million for the second quarter of 2016 compared with $506.5 million a year ago. Total assets under management at June 30, 2016, were $134.7 billion compared with $136.0 billion at June 30, 2015. Mutual fund assets under management at June 30, 2016, were $128.7 billion compared with $129.7 billion at June 30, 2015. "Mutual fund assets under management at June 30, 2016, reached $76.2 billion, largely on the strength of strong investment returns in the quarter," said Jeffrey R. Carney, President and CEO of Investors Group Inc. and IGM Financial Inc. Mutual fund sales for the second quarter of 2016 were $1.8 billion, a decrease of 6.1% compared with $1.9 billion in the prior year and mutual fund net redemptions for the second quarter of 2016 were $168 million compared with net sales of $27 million a year ago.

ING Bank reported Q2 €1,417 million underlying net results versus €1,064 million consensus. The reported delta was due to operational leverage: revenues were 8% higher than consensus (supported by trading income and net interest income), expenses 8% lower (3% lower on underlying basis), while loan loss costs were in line. The two operating divisions generated Profit Before Tax above consensus: Retail (+12% excluding one-off savings) and Commercial Banking (+26%).

Royal Bank of Scotland Group Plc (RBS) - Higher litigation charges for the quarter of £1,284 million drove RBS to statutory loss of £695 million versus consensus expectations of £25 million. With a plethora of one-offs impacting the numbers the underlying operating profit came in at £877 million against consensus of £1016 million. Income was -1% behind at £3,123 million on an underlying basis with costs at -£2,060 million in line, whilst impairment was £119 million weaker at £186 million driven by £89 million of Oil and gas charge. Restructuring charges were £392 million whilst litigation and regulatory costs were £1,284 million with an unexpected additional £400 million charge for mis-sold PPI, £96 million relating to Ulster tracker mortgages and the bulk of the remainder relating to U.K. shareholder litigation. NAV per share came in at 345pence versus market expectations of 349pence finishing down -6pence q/q. The Core Equity Tier 1/Risk Weighted Asset ratio was 14.5% versus 15.1%. Work on cloning the banking platform for Williams & Glynn's bank has been halted while the group explores other options for disposal. Finally, management were cautious in their outlook statement, suggesting the potential for impairment charges to increase before dissipating in future years.

Activist Influenced Companies

Zoetis Inc. reported its financial results for the Q2 2016 and increased its revenue and adjusted net income guidance for full year 2016. The company reported revenue of $1.2 billion for the second quarter of 2016, an increase of 3% compared with the Q2 2015. Net income for the Q2 2016 was $224 million, or $0.45 per diluted share, compared with a net loss of $37 million for the Q2 2015, on a reported basis. Adjusted net income for the Q2 2016 was $246 million, or $0.49 per diluted share, an increase of 14%. Revenue in the U.S. segment was $594 million, an increase of 10% compared with the second quarter of 2015. Revenue in the International segment was $602 million, a decrease of 3% on a reported basis and an increase of 2% operationally compared with the Q2 2015. Zoetis' guidance for the full year 2016 has been increased. The company's guidance for the full year 2016 is the following: revenue of between $4.800 billion to $4.900 billion, reported diluted EPS for the full year of between $1.52 to $1.63 per share, adjusted diluted EPS for the full year between $1.86 to $1.93 per share.

Canadian Dividend Payers

BCE Inc. reported a higher-than-expected quarterly profit as it added more wireless subscribers who also paid more for service, while its internet and television growth slowed. The company added a net 69,848 postpaid wireless customers in the second quarter, up from 61,033 a year earlier. Rogers said two weeks ago that it added 65,000 such customers in the same period. Bell's fixed-line business weighed as it signed up fewer new television customers than expected, partly due to competitive pressure and economic headwinds. BCE's blended average revenue per user (ARPU) increased 2.9% to $64.32, helped by a larger proportion of two-year contracts, a higher postpaid smartphone subscriber mix, and increased wireless data usage. BCE's net income attributable to shareholders rose 2.5 percent to $778 million in the second quarter, from $759 million a year earlier.

Brookfield Infrastructure Partners LP (BIP) reported net income for its second quarter of $156 million ($0.59 per unit) compared to $18 million ($0.01 per unit) in the prior year. The increase in net income is attributable to higher earnings generated predominantly in its transport and energy operations. During the quarter BIP also recorded a non-recurring gain of approximately $100 million in its toll roads business. FFO (funds flow from operations) during the quarter benefitted from solid organic growth across the business, in addition to its increased ownership in its North American natural gas transmission and Brazilian toll road business. The payout ratio for the quarter was 66%, well within BIP's target range of 60-70%. "2016 is proving to be a strong year for our business, with FFO per unit up 12% to date," said Sam Pollock, CEO of Brookfield Infrastructure. BIP's utilities segment generated FFO of $100 million for the quarter, an increase of 8% from the prior year, driven by yet another period of record connection activity at BIP's regulated distribution operation, incremental earnings on growth capital commissioned into its rate base and inflation indexation across a number of its businesses. BIP's transport segment generated FFO of $102 million in the second quarter, slightly lower than the $104 million recorded in the prior year. The results benefitted from higher tariffs, greater volumes at BIP's rail logistics business in Brazil, strong light vehicle traffic on its Chilean toll roads and cost savings at its Australian rail operation. The Board of Directors has declared a quarterly distribution in the amount of $0.59 per unit, reflecting a 3.5% increase. Brookfield Infrastructure also announced that its Board of Directors has approved a three-for-two unit split of Brookfield Infrastructure's outstanding units.

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Global Dividend Payers

The Procter & Gamble Company (P&G) reported higher-than-expected quarterly sales and profit as demand strengthened for its products for babies, women and home care. P&G said it expected total net sales to rise about 1% in the year ending June 2017. This works out to $65.95 billion, in line with the average analyst estimate. Sales excluding its Venezuela operations and the impact of acquisitions, divestitures and currency are expected to rise about 2%. P&G has been shedding unprofitable brands and focusing on core brands such as Gillette, Pampers and Tide to revive sluggish sales. The company said it expects to start benefiting immediately from its plan to save up to $10 billion in the next five years. A significant portion of these savings will be invested in revenue growth. P&G's sales in China in the fourth quarter were flat from a year earlier, arresting a decline in the prior three quarters in the company's biggest market after the U.S. Net sales fell 2.7% to $16.1 billion in the quarter ended June 30, the eighth straight quarter of decline, but beat the average analyst estimate of $15.83 billion. Excluding items, P&G earned 79 cents per share, topping the average estimate of 74 cents.

Economic Conditions

American businesses might be shy about buying new equipment and expanding facilities these days, but they have no qualms about taking on more workers. Non-farm payrolls were 255,000 higher in July following an upwardly-revised 292,000 increase in June and an upgraded 24,000 print in May. Though downshifting to 189,000 in the past six months (from 219,000 the prior six months), job growth remains robust in our view, and sturdy enough to drop the jobless rate over the medium term. However, another sizeable jump in the labour force (and further uptick in the participation rate) **held the unemployment rate steady at 4.9%**. Average hourly earnings rose 0.3% to keep its yearly pace at 2.6%, up from 2.2% in July 2015. The industry breakdown again showed wall-to-wall strength in hiring. Back-to-back strong job reports should sooth the Fed's earlier concerns about a softer labour market, clearly putting a September rate hike back on the table in our view.

U.S. Personal spending rose a better-than-expected 0.4% in June and 0.3% in real terms, rounding out the best quarter for shoppers since late 2014 (up 4.2% annualized). Sales were strong in all three major spending areas (durables, non-durables and services). The solid handoff to the quarter suggests in our view consumer spending will downshift only moderately in Q3.

U.S. core personal consumption expenditures (PCE) price index change, part of the U.S. personal income report and U.S. Federal Reserve's favourite inflation gage, clocked in at 1.6% year on year rate of change for the month of June, in-line with May's reading and continuing to provide ample breathing room for the central bankers' accommodative policies. U.S. trade deficit unexpectedly opened up to $44.5 billion in June, from $41.0 billion in May, as exports retreated and imports improved, driven by a buoyant consumer sentiment.

Canada – The Canadian balance of goods trade balance for June continued to stay in a relatively deep deficit of $3.63 billion, about in line with May's print, though larger than the expectations for a $2.82 billion read. Exports improved marginally in the month, driven by higher prices, yet the advance was exceeded by the growth in imports, due to both prices and volume.

Canadian employment fell 31,200 in July following a flat performance the prior month (technically a drop of 700). Full-time jobs dropped 71,400. The unemployment rate edged up a tick to 6.9% from 6.8% both last month and a year ago, even though the participation rate fell yet again to 65.4% (its lowest level since 1999). Most of the weakness was concentrated in the public sector (-42,000). There was a big drop in "public administration" and in Ontario/Quebec, which suggests that many of those working on the census may have fallen out of the figures, although Stats Canada makes no mention of the census. Private sector payrolls actually rose 13,600 in the month. Total hours worked actually managed to nudge up 0.1% in the month, but wages slipped to a meagre 1.8% y/y pace from 2.0%.

Financial Conditions

The Bank of England cut rates 25 basis points last week, added another £60 billion of Quantitative Easing (QE) and it launched two new programs to support growth. The first new program is to spend £10 billion in high quality corporate bonds and the second is to spend up to potential £100 billion GBP to ensure commercial banks continue to lend even after the cut in interest rates. The decision was not unanimous. Several of the members objected as Forbes, McCafferty and Weale objected to the higher level of QE bond buying and Forbes also objected to the purchases of corporate debt. This might help explain why the BOE decided not to do anything immediately after the Brexit vote and waited a meeting to find some consensus on acting. We also are going to have to ponder now where the Bank of England thinks the lower bound is. The committee sounds like it is willing to cut rates again but we believe it unlikely it would want to take interest rates to negative like other countries.

The Reserve Bank of Australia (RBA) cut rates 25 basis points to 1.5% as 20 of 25 economists had forecasted. The RBA had provided no guidance but said the cut would improve the prospects for growth and inflation returning to target.

The U.S. 2 year/10 year treasury spread is now .87% and the U.K.'s 2 year/10 year treasury spread is .52% - 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 3.43% (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 11.72 (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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