News Highlights

Owners. Operators. And Insightful Investors.

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

PORTLAND INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments. September 12, 2016

The views of the Portfolio Management Team contained in this report are as of September 12, 2016 and this report is not intended to provide legal, accounting, tax or specific investment advice. Views, portfolio holdings and allocations may have changed subsequent to this date. This research and information, including any opinion, is compiled from various sources believed to be reliable but it cannot be guaranteed to be current accurate or complete. It is for information only, and is subject to change without notice. The contents of this Newsletter reflect the different assumptions, views and analytical methods of the analysts who prepared them.

Energy Sector

U.S. land rig count increased by 3 rigs week/week to 485, marking the 12th weekly gain over the last 15 weeks, and is trending up 16% quarter/quarter. The rig count increase was driven by gains in Vertical Oil (+3) and Horizontal Gas (+4), partially offset by declines in Horizontal Oil (-3) and Directional Oil (-1) as Vertical Gas and Directional Gas remained flat. Total horizontal land rig count is 71% down since the peak in November 2014. The Permian currently makes up ~51% of oil rigs.

U.S. horizontal oil land rigs decreased by 3 rigs week/week to 325 (and is up 78 rigs since the end of May), led by decreases in the Permian (-3) and Woodford (-1), offset by increases in "Other" (+1).

U.S. horizontal gas land rigs increased for the 2nd week in a row by 4 rigs week/week to 71, which is the largest weekly gain since late April 2015.

U.S. offshore rig count increased by 8 rigs week/week to 18 (following a decline of 7 last week) as rigs came back to work after Hurricane Hermine, and is down 67% since June 2014.

Canadian rig count decreased by 2 rigs week/week and is still 27% off the level this time last year.

International rigs averaged 937 in August, with land rigs down 3 and offshore rigs up 2 month/month, led by gains in Asia Pac (+8), Europe (+2), Latin America (+1, second consecutive month of gains, with offshore rigs up 4 month/month and up 7 since May), offset by declines in Middle East (-11, driven by -10 onshore) and Africa (-1). International rigs are down 200 year/year.

Crescent Point Energy Corp. announced increased capital expenditures of $600 million in 2016 and 2017, upwardly revised guidance and a $650 million bought deal financing. Crescent Point issued 33.7 million common shares at $19.30 per share to raise gross proceeds of approximately $650 million. Net proceeds will be used to fund incremental growth capital expenditures during 2016 and 2017 and to reduce bank indebtedness. For 2016, Crescent Point is increasing its Q4 capital budget by $150 million and is revising upward its annual average production guidance to 167,000 barrel of oil equivalent/day (boe/d). Increased 2016, 2017 capital budget will allow co to maintain current 20 rig drilling program over next 12 -18 months, excluding spring break-up. Crescent Point sees 2017 exit production of about 175,000 boe/d to 177,000 boe/d, or an annual growth rate of approximately 5% to 8%. While the equity raise surprised the markets, we believe the increased capital expenditure programs for 2016 and 2017 better positions the company for a likely recovery in crude oil prices beyond 2017 and is a sensible use of the proceeds given the company's top tier capital efficiency and deep inventory of drilling locations.

Financial Sector

Barclays PLC has struck a landmark deal with the Commonwealth Bank of Australia that will allow millions of its customers to send near-instant payments across the world using a mobile phone number. Individuals will be able to transfer money between the UK and Australia through their mobile payment apps. The partnership marks the first time the two banking groups have linked their respective mobile apps and allows the banks to benefit from each other's foothold in their home market. (Source: Financial Times) In addition, Barclays is cutting over 100 technology and back office jobs from its offices in Singapore, as it seeks to reduce costs by relocating those roles elsewhere. The majority of the roles will be transferred to India. "We have now identified a number of additional roles that carry out global activity in Singapore which can be relocated," a spokeswoman for Barclays said in an e-mailed statement. "Regrettably, this will mean that roles will fall away in Singapore, and so we are working closely with the colleagues impacted to ensure they are supported throughout the process," the statement said. (Source: Reuters)

Citigroup, Inc. - Banco Santander Brasil SA and Itaú Unibanco Holding SA are the final two bidders to buy the Brazilian retail banking unit of Citigroup, according to a report in Valor Economico on Thursday that cited three sources familiar with the matter. Neither of the two banks has yet secured exclusive negotiations, Valor reported. (Source: Reuters)

HSBC Holdings PLC - HSBC is to cut 466 jobs in France over 2 years, Les Echos reports. HSBC plans to cut 25% of staff in France by 2018 to reduce costs, Echos says, citing a plan communicated to employee representatives in central works council on Wednesday. The bank is considering 400 early retirement packages, voluntary redundancy plan for employees in IT services, retail banking back office, finance department, several administrative services. This is the 2nd major restructuring plan by HSBC in France since 2011. At the same time, HSBC will start €170million investment plan over 3 years.

Prudential PLC won a $2.5 billion pension-risk transfer deal with paper and packaging company WestRock Co., cementing the insurer's status as the biggest player in the business of taking on retirement obligations for employers. WestRock will purchase a group annuity that requires the insurer to take on responsibility for payments owed to 35,000 U.S retirees and their beneficiaries, the companies said Thursday in a statement.

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

Activist Influenced Companies

Brookfield Business Partners LP – S&P Dow Jones Canadian Index Services will make changes in the S&P/TSX Canadian indices after the close of trading on Friday, Sept. 16, 2016. Changes to the S&P/TSX Composite Index will also affect the S&P/TSX Capped Composite and Equal Weight Composite indices. Stocks added to or removed from the S&P/TSX Composite Index will also be added to or removed from the appropriate global industry classification standard (GICS) sector index. Brookfield Business Partners LP (symbol BBU) will be added to the S&P/TSX Income Trust Index and the S&P/TSX Capped Industrials Index after the close of trading on Friday, Sept. 16, 2016.

Hertz Global Holdings, Inc. – The Hertz Corporation (THC), a wholly-owned subsidiary of Hertz Global Holdings, Inc., has priced its private offering of $800 million aggregate principal amount of 5.50% senior notes due 2024. Both the companies are based in the U.S. Hertz Global is engaged in the industrial equipment rental and car rental business. Earlier on the same day, THC is planning to offer $500 million aggregate principal amount of senior notes in a private offering. The notes are guaranteed on a senior unsecured basis by the domestic subsidiaries of THC. Concurrently, Hertz Holdings Netherlands B.V. is planning to offer €225 million aggregate principal amount of senior notes in a private offering. The offering is expected to close on or about September 22, 2016.

Nomad Foods Limited, the most recent addition to the Portland Value Fund and Portland Advantage Plus – Value Fund, is ready to start looking at more acquisitions now that it has integrated last year's purchase of Findus Group's European businesses, Chief Executive Stefan Descheemaeker said recently. Founded last year by serial dealmakers Martin Franklin and Noam Gottesman as a vehicle to consolidate the frozen foods industry, Nomad has spent this year combining Findus with its existing business from Iglo Group. The maker of frozen fish fingers and vegetables now has the right people and processes in place to successfully turn around future deals, Descheemaeker told Reuters. "We are starting to be more attentive," Descheemaeker said, noting that the most obvious target would be mid-sized frozen foods makers in Europe, where it would have the most synergies. The company currently has about €500 million to €600 million to spend on acquisitions without having to raise more capital. Descheemaeker, a Belgian citizen, used to manage M&A at Belgium's Interbrew and oversaw its marriage to the 3G Capital led Ambev. He remains on the board of directors of the resulting company, Anheuser Busch InBev, the world's largest brewer. He said his approach to deals is similar to that used by ABI and its Brazilian controllers who run private equity firm 3G Capital. They are known for buying companies and ruthlessly managing costs, and have popularized "zero-based budgeting" (ZBB) in which all annual expenses are justified each year. "The synergy game is totally the same," Descheemaeker said about generating growth by building scale. But because Iglo and Findus were previously owned by private equity firms, they were already run leanly and have fewer costs to cut. "We're going to do ZBB but probably in a lighter way," he said, adding that growth is the top priority. Specifically, he is focused on certain "must-win battles" such as peas in the United Kingdom, where he aims to increase market share. Once strengthened, he said Nomad would be in a better position to grow the overall market and can look to move on to other categories and regions.

Pershing Square Holdings Ltd. – Activist investor William Ackman is hungry to repair Chipotle Mexican Grill after taking a stake in the burrito chain and could begin by shaking up a long-serving board and possibly replacing the two co-chief executives. Chipotle is struggling to revive sales after food-borne illness outbreaks and its share price is down nearly 40% in the last year. Ackman, who made his reputation by ousting what he considers underperforming board members and executives, called Chipotle shares undervalued and said he would speak with management but did not lay out specific next steps. Ackman has helped force out Fred Green as CEO at Canadian Pacific and John McGlade as CEO at Air Products. For Ackman, the investment in Chipotle takes him back to his wheelhouse of investing in fast food restaurants after he made money at McDonald's and Burger King. Industry analysts expect Ackman will likely focus on helping revamp Chipotle's board, which has come under fire from shareholders for having served too long, lacking relevant skills and being too chummy with top management. At Chipotle, board members have served for an average 13 years, far longer than the average 8.5 years board members serve on S&P 500 companies, according to executive recruiting firm Spencer Stuart. Sales at restaurants open at least 13 months fell 23.6% in the quarter ending June 30. The company said when it reported quarterly results on July 21 that comparable sales trends in July had improved by 200 to 300 basis points.

Canadian Dividend Payers

Nothing new to report.

Global Dividend Payers

Nothing new to report.

Economic Conditions

U.S. – The U.S. consumer credit continued to expand in July, adding $17.7 billion on top of June's $14.5 billion, ahead of the expectations for a $16.0 billion increase.

Canada – Building permits in Canada inched higher in July, by 0.8%, offsetting some of the June's 5.3% drop, though falling short of the expected 3.0% increase. The housing starts in Canada were also weak for August, at 182,700 units annualized, from 194,700 units annualized in July and against expectations for a 190,000 units annualized level. The new housing price index meanwhile continued to advance, up 0.4% in July, ahead of the consensus which was penciling in a 0.2% improvement.

News Highlights

Owners. Operators. And Insightful Investors.

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

PORTLAND
INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments. September 12, 2016

The volatility inherent in Canadian jobs data was again on display in August, as the addition of 26k jobs more or less offset the loss of 31k jobs in the prior month. The increase did exceed the market consensus (+14k) and was effectively in line with our own forecast for the creation of 30k jobs. The unemployment rate nudged higher to 7.0% as the participation rate also increased. The details of the report showed a healthy tilt towards full-time hiring (+52k) and gains in the public sector (+57k). Losses in part-time and self-employment provided the requisite offsets. Across industries, gains were more or less shared between goods and service producing sectors (+11k and +15k respectively) as a 16k increase in public administration and a 23k drop in professional and scientific services painted the extremes. Regionally, hiring was led by Quebec and Ontario and was more or less flat in Alberta.

British house prices rose at the slowest annual rate in nearly three years during the Brexit vote period, according to figures on Wednesday from mortgage lender Halifax, which contrasted sharply with more upbeat numbers from Nationwide. House prices in the three months to August were 6.9% higher than a year earlier, the smallest increase since October 2013 and down from a growth rate of 8.4% in July. Prices fell 0.2% in August alone, extending a 1.1% fall recorded in July - in contrast to two successive monthly rises in July and August in a separate measure from Nationwide. “The slowdown in the rate of house price growth is consistent with the forecast that we made at the end of 2015,” Halifax economist Martin Ellis said. (Source: Reuters)

Financial Conditions

Canada’s financial regulator released proposed new mortgage rules that could see the country’s lenders hold more capital to offset risks. The draft guidelines have been updated to “reflect the changing risks in the Canadian mortgage market,” the Office of the Superintendent of Financial Institutions said in a statement. The watchdog said in December it would seek to shift the burden of risks to banks and away from taxpayers, part of a broader effort by government to address what some observers say is an overheated housing market. (Source: Bloomberg)

European Central Bank (ECB) has left interest rates unchanged: -40bps deposit rate, 0bp main refinancing rate, 25bps marginal lending rate, citing GDP Q3 growing at a pace similar to Q2 +0.3% vs. Q1 +0.5% but dampened by “subdued foreign demand” including Brexit uncertainties with Inflation expectations trending lower since Brexit. ECB also delayed announcing any additional Quanitative Easing (QE) changes which we believe should not have been a surprise with our expectations Chairman Draghi more likely to lay the groundwork for a December or January announcement to extend March 2017 Quantitative Easing timeline and other changes. Whereas Draghi spent time in the July meeting discussing low bank equity prices hurting monetary transmission, this week’s meeting was significantly more negative for financials with Draghi arguing Eurozone lending fragmentation is no longer of a concern, banks will ultimately benefit from low rates via economic recovery, and banks have already benefitted from QE trading gains. With this in mind, my view is the odds of a deposit rate cut in December is increasing.

The U.S. 2 year/10 year treasury spread is now .90% and the U.K.’s 2 year/10 year treasury spread is .70% - 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 3.44% (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 4.3 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 18.74 (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.

Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel.:1-888-710-4242 • www.portlandic.com • info@portlandic.com

PIC16-052-E(09/16)