News Highlights

Owners. Operators. And Insightful Investors.

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

Established in 2007

PORTLAND INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments. August 21, 2017

The views of the Portfolio Management Team contained in this report are as of August 21, 2017 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.

Owner Operated Companies

Berkshire Hathaway Inc. – Sempra Energy said it will buy Oncor Electric Delivery Company for $9.45 billion in cash after Energy Future Holdings Corporation, which indirectly owns Oncor, abandoned a deal to sell the power transmission company to Warren Buffett's Berkshire Hathaway San Diego-based Sempra expects to own about 60% of a reorganized Energy Future after the transaction that is valued at $18.8 billion, including Dallas-based Oncor's debt. The development represents a rare blow for Buffett, who avoids bidding wars for companies and had swooped in two months ago to buy Oncor after two previous attempts by Energy Future to sell it were blocked by Texas regulators. In July, the energy unit of Berkshire Hathaway agreed to buy Oncor for $9 billion, but the deal ran into trouble after Energy Future's biggest creditor Elliott Management Corporation opposed the sale arguing it undervalued Oncor. Elliott also tried to put together its own bid for $9.3 billion to buy Oncor.

Energy Sector

U.S. land rig count decreased by 1 rig to 927 rigs, which is the second consecutive week of declines. This is the first time the rig count has declined in two consecutive weeks since May 2016. The rig count was driven by declines in Vertical Oil (-5) and Horizontal Oil (-4), offset by gains in Directional Oil (+4), Horizontal Gas (+2), Directional Gas (+1), and Miscellaneous (+1). Total horizontal land rig count is down 42% since the peak in November 2014. The Permian currently makes up 50% of all oil rigs.

U.S. horizontal oil land rigs decreased by 4 rigs week/week to 650, with declines in Williston (-3), Mississippian (-2), Permian (-1), Granite Wash (-1), and "Other" (-1), partially offset by gains in Woodford (+4) as Eagle Ford and DJ-Niobrara remained flat week/week.

Canadian rig count decreased by 5 rigs week/week, and is up 77% from the level this time last year.

U.S. Gulf of Mexico offshore rig count decreased by 1 rig week/week to 16 and is down 70% since June 2014.

Financial Sector

Barclays PLC - plans to close about 54 branches by year end, Reuters reports. Barclays plans to close branches to reduce costs, Reuters reported, citing an unidentified Barclays spokeswoman. Barclays told customers about the closures in recent weeks. Closures should not result in any net job losses, spokeswoman says. The bank, along with other British lenders, is cutting back its network as customers turn to mobile banking. Barclays, still has around 1,300 branches across the country. The number of branches operated by the major British banking groups has halved in the last 20 years and following political pressure a new rule was set in 2015 that requires banks to assess the impact on local communities of a branch closure.

BNP Paribas SA - Belgian state plans another placement of part of its remaining 7.8% holding in BNP Paribas before year-end, De Tijd reports.

DNB ASA - finalizes share buy-back program announced on July 12 with 5.4 million shares repurchased. A total of 5.4 million shares were repurchased in the open market, whereas a total of 2.7 million shares will be redeemed from the state of Norway, so that its ownership interest in DNB of 34% will remain unaffected following completion of the buy-back program. The weighted average purchase/redemption price for the 5.4 million shares is NOK 152.75 and with this DNB will return approx. NOK 821 million to shareholders. The 8.1 million shares will be cancelled subject to approval by AGM in 2018, whereby the number of DNB's registered shares will be reduced by about 0.5%.

Nordea Bank AB - Danish prosecutors have opened formal investigation of Nordea unit. Nordea's Danish unit was visited by Danish Prosecution Service last week, as expected, in connection with 2016 anti-money laundering investigation. The visit follows the criticism expressed by the Danish Financial Supervisory Authority in June 2016 regarding violations of anti-money laundering legislation by Nordea Bank Danmark. Nordea's focus is to fully co-operate with the Prosecution Service and is committed to ensuring access to all relevant information.

The Royal Bank of Scotland Group PLC - is planning to cut 40% of its London IT staff. RBS, which is 71% Government-owned, announced last Tuesday that it is looking to cut 650 jobs by 2020. Unite Union understands that this, coupled with the 65% reduction of contractors announced, will total a reduction of 880 staff. The announcement follows sweeping cost-cutting plans unveiled by chief executive Ross McEwan earlier this year. These aim to strip out £750 million of operating expenses in 2017, and a total of £2 billion by 2020. (Source: Financial Times)

Activist Influenced Companies

Pershing Square Holdings, Ltd – Billionaire activist investor Bill Ackman said Automatic Data Processing Inc.'s (ADP) stock price could double in the next five years if the human resources outsourcing company cuts costs, streamlines its business and invests in technology upgrades. Ackman's hedge fund Pershing Square Capital Management owns 8.3% of the $50 billion company and he is asking for board seats for himself plus two independent directors and considering pushing the board to make leadership changes. "The person who will fix this is the chief executive officer," Ackman said on a 3-1/2-hour conference call which marked his first public discussion of the investment. He ended with suggestions that Carlos Rodriguez, ADP's CEO of six years, is the wrong man for the job. The investor and two of his analysts laid out how the company should cut staff, focus on innovations, integrate its recent acquisitions better and possibly sell off real estate to consolidate its 143 offices. When Ackman's investment, currently the biggest in his portfolio, first became public, ADP hit back at the hedge fund manager, setting the scene for what could become one of the season's most bitter proxy contests. ADP said Ackman wanted control of its board and a new CEO. Earlier today ADP announced that its Board of Directors, following the recommendation of the ADP Board's Nominating/Corporate Governance Committee, voted unanimously not to nominate any of Pershing Square Capital Management's three candidates for election to the Board at ADP's 2017 Annual Meeting of Stockholders.

Dividend Payers

Dufry AG's - creation of Dufry Cruise Service brings a focus on the growing cruise ship market, which currently makes up 2% of Dufry's sales. It is now adding 1,950m^2 of retail space on new cruise ships. Dufry is currently present on 17 cruise ships (Norwegian Cruise, Carnival, Pullmantur) and operates 9,000m^2 (group 420'000m^2). The new Norwegian Joy relationship adds 9 stores with a total of 1,950m^2 (=0.5%) to this and has a focus on Chinese travellers. The new retail space on Norwegian Joy adds 0.5% to Dufry's retail space and with the creation of the Cruise Services the growing cruise ship channel will get more of a focus. It is part of the strategy to grow also outside the airport channel. Already in April, the Chinese conglomerate HNA Group Co. Ltd. announced the purchase of 16.2% of Dufry from Temasek Holdings Private Limited and GIC Private Limited, but the date of transfer of 9 million shares has just taken place now, but part of it was financed through an equity collar (8% of shares). HNA now owns 20% of Dufry; 21.6% is owned by a shareholder group (Travel Retail etc.), 6.9% by Qatar and 5% by Richemont. With the transaction the uncertainty disappears and the financing indicates that a full takeover will not be a theme in the short-/mid-term in our view. Dufry has started with talks on collaboration in HNA's airports which offers opportunities in the Asian market.

Economic Conditions

U.S. housing starts unexpectedly fell 4.8% in July to a 2-month low of 1.155 million units annualized. However, the decline followed some net upward revisions in the prior two months, and was mostly centered in multiples (-15.3%) while singles, which accounted for 74% of total starts, only slipped 0.5% following an over 8% jump in June and remains elevated. Building permits for multi-family homes took an 11.2% dive in the month, but singles were steady. Overall permits of 1.223 million units annualized are above the level of starts, suggesting some upside in the next month or two. In our view it is difficult to believe this is the start of a trend, given that homebuilders remain very optimistic. However, the constraints builders face are holding back more starts: labor and lot shortages and rising costs for materials.

U.S. retail sales jumped 0.6% in July, double expectations, while the prior month's decline was more than reversed to a 0.3% gain. "Core" sales also rose an impressive 0.6% in the month. Apart from the strong headline increase, the broad strength in sales across different outlets - 10 of 13 major categories advanced - flags sustainability. The increase was led by the auto industry (1.2%, the fourth month of solid gains) and, as usual, by non-store retailers (1.3%, and 11% year/year). But even department store receipts rebounded from consecutive declines. Restaurant sales also extended a healthy uptrend, suggesting that even discretionary spending is doing just fine, another sign of confidence in job prospects and financial security. Retail is one of the few sectors showing outright job losses in the past year, aggravated by earlier store closings at a few large chains. The recent upturn in sales could provide some short-term stability for retail workers, though long-term prospects remain poor in our opinion in the face of increased automation and booming e-commerce.

U.S. industrial production, rose 0.2% in July, slightly below expectations and following an unrevised 0.4% gain in June. Manufacturing, the biggest component of overall production at approx. 75%, slipped 0.1% in the month, the first drop since May, held back by declines in machinery and autos. The other 25% provided an offset: mining picked up 0.5% (4th gain in a row) and utilities jumped 1.6%, reversing June's decline.

Japan Q2 2017 GDP: growth surprises on strong domestic demand. External demand faltered in 2nd quarter but unexpectedly robust private consumption & business spending growth provided healthy GDP boost to record growth of 4%, the strongest expansion since Q3 2015. Public demand also added to growth due to higher Government consumption and unusually strong public investment.

Financial Conditions

The U.S. 2 year/10 year treasury spread is now .88% and the U.K.'s 2 year/10 year treasury spread is .85% - 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 costs of capital.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 3.89 (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 4.4 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 still supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now at the low end of a more normal range of 4-7 months.

The VIX (volatility index) is 14.44 (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 8 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
- Portland 15 of 15 Fund

Private/Alternative Products

Portland also currently manages the following 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

Individual Discretionary Managed Account Models - SMA

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

PIC17-056-E(08/17)