News Highlights

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PORTLAND INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments. April 18, 2017

Energy Sector

U.S. land rig count increased by 10 rigs to 823 rigs (5th consecutive double-digit gain). The rig count was driven by gains in Horizontal Oil (+11), Vertical Oil (+3), Vertical Gas (+1), partially offset by Directional Oil (-3), Directional Gas (-2), while Horizontal Gas remained flat. Total horizontal land rig count is down 49% since the peak in November 2014. The Permian currently makes up 51% of all oil rigs.

U.S. horizontal oil land rigs increased by 11 rigs to 572 as gains in Permian (+4), Eagle Ford (+3), "Other" (+2), Williston (+1), DJ-Niobrara (+1), and Woodford (+1), were slightly offset by declines in Granite Wash (-1), while Mississippian remained flat.

Canadian rig count decreased by 13 rigs, but is up 203% from the level this time last year.

U.S. Gulf of Mexico offshore rig count decreased by 1 rig to 21 and is down 61% since June 2014.

Veresen Inc. announced it has closed the previously announced sale of its gas-fired power assets. The company continues to expect the sale of its remaining power assets to be completed during the second quarter of 2017. Each of the agreements is subject to closing adjustments and conditions customary in transactions of this nature, including the receipt of all necessary approvals. The company expects to update its 2017 guidance for the divestiture of the power business once all of the transactions have closed.

Financial Sector

Barclays PLC has reprimanded Chief Executive Jes Staley and will cut his bonus heavily after he tried to uncover the identity of an internal company whistleblower in a case being investigated on both sides of the Atlantic. In a statement on Monday, Britain's second biggest bank disclosed that British authorities were investigating American Staley's attempts to find out who wrote a letter that revealed "concerns of a personal nature" about an unnamed senior employee. New York's Department of Financial Services is also investigating, a person familiar with the matter said. A legal investigation ordered by the bank found that Staley's efforts involved a U.S. law enforcement agency and contradicted the company's own policy. Barclays grants whistleblowers anonymity to prevent any retribution for their actions - in keeping with normal UK practice. (Source: Reuters). The head of security at Barclays also faces an internal disciplinary probe over his part in the whistle-blowing inquiry, the BBC understands. Mr. Staley asked the bank's security chief, Troels Oerting, to find the author of an anonymous letter. The letter questioned the past conduct of a senior recruit, Tim Main, who was a former colleague of Mr. Staley. The Barclays chief executive had worked with Mr Main for several years while they were at the investment bank JPMorgan Chase & Co. Mr. Staley has now received a formal reprimand and a personal financial penalty - which could exceed £1 million - from his own board. (Source: BBC)

Berkshire Hathaway Inc. withdrew its application to the Federal Reserve to boost its ownership stake in Wells Fargo & Company above 10%, and is instead selling 9 million shares to keep it below that threshold. Berkshire said it concluded after several months of talks with Fed officials that maintaining the higher stake would "materially restrict" its ability to do business with the third-largest U.S. bank.

Citigroup Inc. reported Q1 2017 Earnings Per Share (EPS) of $1.35, consensus was $1.23. Excluding $0.08 of net gains in Corp/other, EPS was closer to $1.27 (though guided closer to $0.05 of net losses). It did not break out its repositioning and legal charges. Results also included a $77 million ($0.02) loan loss reserve. Relative to consensus, higher than expected fee income (up 24% from 4th quarter 2016) more than offset lower net interest income which declined 3% from 4th quarter 2016. Revenues increased 3% year/year (+4% ex. impact of foreign exchange translation) to $18.1 billion (consensus $17.8 billion) with increases partially offset by lower revenues in Corporate / Other (-40%), primarily due to the continued wind-down of legacy assets. Revenues advanced 7% sequentially. Tangible book increased 2.1% from Q4 2016 to $65.94. Its Return On Equity (ROE) was 7.4% and its Return On Tangible Common Equity (ROTE) excluding Deferred Tax Allowances (DTA) was 10.2%. Its Core Equity Tier 1 ratio was 12.8% (+20bps). It utilized $800 million of DTA in Q1 2017. Citi repurchased 30 million shares during the quarter, down from 79 million shares in Q4 2016 and 56 million shares in Q3 2016.

JPMorgan Chase & Co. reported Q1 2017 EPS of $1.65 whereas consensus was $1.52. Solid capital markets revenues, a higher than expected net interest margin (net interest income rose 3%, average earning assets declined 0.2%), and sound asset quality were met with increased expense, driven by compensation. Disclosed gains included a $373 million tax benefit related to the appreciation of its stock price upon vesting of employee stock-based awards above their original grant price and a $339 million loan loss reserve release ($93 million wholesale, $246 million consumer). Disclosed charges included legal expenses of $218 million, a $52 million net Mortgage Service Revenue hedge loss, a $29 million impairment expense on leased assets in Corporate Banking, and $3 million of security losses. It also recorded a write-down of its student loan portfolio,

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which was transferred to hedge fund services (HFS) (student Non Conforming Obligations up $434 million sequentially). Net, these items added $0.04. Results also contained a contribution to its foundation. Managed revenues increased 6% year-on-year and rose 5% sequentially to $25.6 billion (consensus $24.7 billion). Tangible book increased 1% to $52.04. It posted a ROE of 11% and ROTE of 13%. Results included $2.8 billion of net share repurchase, up from $2.1 billion in each of the prior two quarters. Average diluted shares declined 0.4%. Core Equity Tier 1 was 12.4% up 20 basis points (11-12.5% target). Its adjusted overhead ratio was 58%, in-line with Q1 2016 but up from 56% in Q4 2016. Compensation expenses increased 7% year/year and rose 19% from Q4 2016. Its headcount grew 1% from Q4 2016. Its loan loss provision increased from $864 million in Q4 2016 to $1.3 billion in Q1 2017. Net reserve releases in the Wholesale portfolio was more than offset by an increase in the consumer provision. The Wholesale net reserve releases were $93 million, primarily driven by Oil & Gas. The increase in the Consumer provision included a write-down of the Student loan portfolio, and higher card net charge-offs (which were in line with company expectations). Still, it released $246 million of net consumer reserves. Its reserve/loan ratio declined 3 basis points to 1.52%.

NN Group NV - NN agreed to exchange all Delta Lloyd NV series A preferred shares and the subordinated loan held by Fonds NutsOhra for ordinary shares in NN Group. This represents an aggregate value of €255 million. The transaction is expected to be completed in April 2017, subject to certain conditions, and after settlement of the Offer on April 12, 2017. The perpetual subordinated loan has a nominal value of €405 million and currently qualifies as restricted tier 1 capital until Jan. 1, 2019. The transaction, all else being equal, will generate an increase in the unrestricted tier 1 capital and a consequent reduction in the restricted tier 1 capital for an amount approximately equal to the nominal value. The transaction is expected to reduce the financial leverage of the combined group and the transaction is not anticipated to have a material impact on the overall Solvency II ratio, cash capital position and operating result of the combined group.

Wells Fargo & Company reported Q1 2017 EPS of $1.00 whereas consensus was $0.97. Relative to expectations, a lower than expected loan loss provision and tax rate were used to mitigate higher than anticipated expenses and a lower than anticipated net interest margin. Results included discrete tax benefits of $197 million ($0.04), of which $183 million resulted from tax benefits associated with stock compensation activity during the quarter. It also released $200 million ($0.03) of loan loss reserves ($100 million release in Q4 2016), while net Mortgage Servicing Rights gains were $102 million ($0.01). These gains were partially offset by $193 million ($0.03) net hedge ineffectiveness accounting impact, resulting largely from foreign currency fluctuations (cost it $592 million in Q4 2016). Net these added $0.05. Results also included $403 million of equity gains (+$97 million) and debt securities gains were $36 million (-$109mn), while operating losses increased $39mn to $282 million on higher litigation accruals. Operating revenue increased 6% year/year and slipped 1% from Q4 2016 to $22.0 billion (consensus $23.3 billion). Tangible book increased 1.8% to $29.79. It posted a ROE of 11.54% (11-14% target). Its ROTE was 13.85%. Core Equity Tier 1 (fully phased-in) was 11.2%, up 40 basis points. It repurchased 53.1 million shares (up from 24.9 million last quarter), which reduced period-end shares by 19.4 million after taking into account seasonally higher common stock issuances to employee benefit plans.

Activist Influenced Companies

Nomad Foods Limited announced the launch of an anticipated refinancing of its existing credit facility with two tranches of €500 million and approximately €510 million seven year term loans. The company expects to follow any term loans syndication with an offering of US$500 million in aggregate principal amount of senior secured notes, also with an expected seven year maturity, subject to market conditions. Alongside the potential financing, Nomad Foods expects to extend out the maturity of its existing €80 million revolving credit facility by up to six years. Nomad Foods intends to use the proceeds to refinance in full its existing outstanding euro and sterling denominated term loans and existing floating rate senior secured notes. Credit Suisse, Deutsche Bank, Goldman Sachs and UBS have been mandated to lead any Financing. Subsequent to the announcement, the seven-year €500 million euro-denominated term loan was guided at 300bp-325bp over Euribor, and a seven-year €470m-equivalent dollar-denominated term loan was guided at 275bp-300bp over Libor.

Restaurant Brands International Inc. – The Financial Post reported that Scotland will be home to the first stand-alone Tim Hortons location in the UK, according to overseas media. The first unit of the fast-food chain will open on Argyle Street in Glasgow this spring. Restaurant Brands announced last summer that it would be taking the Tim Hortons brand into Great Britain. Tim Hortons's joint venture partner in the region is local franchise operator SK Group, which led the expansion of the Domino's Pizza chain in the UK. Gurprit Dhaliwal, chief operating officer of Tim Hortons UK and Ireland, gave the Evening Times the old Tims pitch: "It's hard to explain just how important Tim Hortons is to Canadians. It's not just a restaurant, it's a way of life and a place of 'home,' and we're positive Great Britain will fall in love the brand." The Mirror, meanwhile, made an attempt to explain Timbits to its readers. "They're not 'doughnuts,' but sweet 'dough balls,'" it said. Industry experts say Britain is a good expansion market for fast-food brands because the UK simply does not have as much competition for that kind of dining experience.

Canadian Dividend Payers

Nothing new to report.

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Global Dividend Payers

LVMH Moet Hennessy Louis Vuitton SE reported Q1 group organic sales growth of 13%, which beat Bloomberg consensus expectations of 8%. Reported revenue grew 15% to €9.88 billion, 4% higher that consensus' estimate of €9.5 billion. The beat was driven by all business divisions as growth was achieved in all key regions: Asia, Europe and U.S. Nevertheless, management highlighted the strong double-digit growth in the quarter was helped by the lower base seen last year due to the November 2015 attacks in Paris. The favourable comparison base will continue in 2Q due to weakness in tourist trends seen in France in all 1st Half 2016 (Brussels' airport and underground attacks were in late-March 2016). By sector: **Wines & Spirits was biggest surprise at +13%** vs consensus +5%. Champagne recorded very strong volume growth of 7%, with growth in Europe and US. Cognac posted a strong performance again, in contrast to the expectations of slower growth due to supply constraints. Management highlighted cognac was driven by a significant increase in volume, which we believe was driven by the US. China confirmed the momentum seen in 2016. LVMH is flagging, once again, that the extraordinarily high growth in cognac volume, which we believe is in VS price range, is drying up inventory reserves, which could eventually impact stock availability for the rest of the year. **Fashion & Leather accelerated to +15%** versus cons +9%. The strong beat, which was also better than our above-consensus estimate (11%), was driven by all core brands. We believe Louis Vuitton had a solid start to the year, as already highlighted by management in January. We believe the brand is able to show product innovation across the core collection as well as receiving the positive halo effect from the introduction of the first fragrance product. **Perfumes & Cosmetics strong at +12%** versus consensus +7%. Growth in the division was driven by solid growth in make-up and iconic Dior's fragrances, Givenchy's lipstick lines saw strong development in Asia as well as key launches in the quarter like the new Mon Guerlain and the introduction of Kat Von D at Sephora in France since January. **Watches & Jewellery posted a solid 11%** versus consensus 6%. Bulgari highlighted as solid driver of division's growth, with the Italian brand gaining market share. We believe jewellery continued to outperform watches, while the company highlighted the innovation in the brand within the jewellery line. Moreover, LVMH highlighted the model introduced at Baselworld across TAG Heuer, Bulgari and Zenith. **Selective Retailing good at +11%** versus consensus 8%. Sephora remained the strongest franchise in the division with global market-share gains driven by solid growth in the U.S. and China.

Syngenta AG - China National Chemical Corporation (ChemChina) and Syngenta last week announced that they have received approval from the Ministry of Commerce of the People's Republic of China (MOFCOM) for the proposed acquisition of Syngenta by ChemChina. This represents a further step towards the closing of the transaction, which is expected to take place in the second quarter of 2017.

Syngenta is a leading agriculture company helping to improve global food security by enabling millions of farmers to make better use of available resources. Through world class science and innovative crop solutions, our 28,000 people in over 90 countries are working to transform how crops are grown.

Economic Conditions

U.S. inflation, as measured by changes in the consumer prices index (CPI) decelerated somewhat in March, to a 2.4% headline rate, from February's 2.7% and short of the expectations for a 2.6% print. The core measurement, which excludes volatile price series such as food and energy, was also smaller than expected, at 2.0%, compared to consensus expectations for a 2.3% rate.

The U.S. consumer sentiment, meanwhile, bounced back in April, against expectations for weakening during the month. The University of Michigan sentiment index reached 98.0 points, up from 97.6 and significantly higher than the expected 96.5 level. Both the 'current conditions' and 'expectations' components of the composite index advanced during the month.

Canada – Not surprisingly, the latest reading of the Canadian new housing price index, jumped 0.4% in February, exceeding both the consensus expectations calling for a 0.2% advance and January's 0.1% improvement.

Financial Conditions

The U.S. 2 year/10 year treasury spread is now 1.04% and the U.K.'s 2 year/10 year treasury spread is .93% - 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 4.08% (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 3.6 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 15.73 (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 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.

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