News Highlights

Owners. Operators. And Insightful Investors.

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PORTLAND INVESTMENT COUNSEL®

Established in 2007

Our views on economic and other events and their expected impact on investments. April 15, 2019

Owner Operated Companies

BlackRock Inc, the world's largest asset manager, cut total compensation for Chairman and Chief Executive Officer Larry Fink by 4.3% in 2018. Fink was awarded $26.5 million in compensation last year, compared with $27.7 million in 2017. "BlackRock's Board of Directors and I both believe that the performance of our stock price should be a factor in determining the compensation of our senior executives," said Larry Fink. The company's president, Rob Kapito, was paid about $20.8 million in 2018, a decrease of 5.2% from the prior year, according to the calculations based on regulatory guidelines. Kapito and Fink were among BlackRock's founders in 1988. Earlier this month, New York-based BlackRock made changes to its senior leadership ranks aimed at winning more business from top institutional clients and boosting growth of its alternative investing business.

Energy Sector

Cardinal Energy Ltd. announced that, with improved commodity pricing and the security of its oil hedging position, it is increasing its 2019 budget guidance and dividend rate. Using an average oil price of $57.50 WTI and a WCS differential of U.S. $15.50 for the balance of 2019, the company is now forecasting an increase of approximately 20% in adjusted funds flow to $110 to $120 million for 2019. Cardinal Energy expects to use the increase in adjusted funds flow as follows: $5 to $10 million of additional debt repayment resulting in a $30 to $35 million net debt reduction in 2019, a $5 million increase in capital expenditures for drilling and power generation initiatives, and $3.6 million to fund an increase in dividends in 2019. As a result, the company increased its monthly dividend by 50% to $0.015 per month ($0.18 per year) effective for the July dividend payable in August.

Crescent Point Energy Corp. announced that James E. (Jim) Craddock and Jennifer F. Koury will stand for election to its Board of Directors at the company's upcoming Annual General Meeting (AGM). "We're excited about having both Jim and Jennifer stand as new independent nominees," said Bob Heinemann, Chairman of the Board. "Through our search process, it was evident that their extensive backgrounds and industry experience complemented our Board's existing skillset. Jim's strong leadership and broad-based technical knowledge along with Jennifer's significant human resources and governance experience will be invaluable as we continue to execute our transition plan." Mr. Craddock has served on Noble Energy Inc.'s Board of Directors since its merger with Rosetta Resources Inc. in 2015 and served as the Chairman, Chief Executive Officer and President of Rosetta Resources from 2013 to 2015. He holds a Bachelor of Science in Mechanical Engineering from Texas A&M University. Ms. Koury has over 35 years of professional experience, holding various senior executive positions with BHP Billiton Ltd. from 2011 to 2017. Part of her responsibilities included the development of BHP Billiton's total rewards program for executives and employees of the Petroleum World-Wide Business. She holds a Bachelor of Commerce Degree from the University of Alberta and holds the ICD.D directors designation from the University of Toronto. As previously announced, Peter Bannister and Gerald A. Romanzin will be retiring from Crescent Point's Board at its upcoming AGM. Since the announcement of Crescent Point's transition plan in September 2018, the Company's Board renewal process has included the appointment of Bob Heinemann as Chairman, John Dielwart as a new independent director and the nomination of Jim Craddockand Jennifer Koury as additional independent directors. Following the upcoming AGM, the Company will have undergone a complete Board renewal since 2014.

Energy Mergers & Acquisitions – Chevron Corp. announced it will buy oil and gas producer Anadarko Petroleum Corp. for $33 billion in cash and stock. The deal makes Chevron the second-largest major by crude production, behind Exxon Mobil Corp., up from fourth. It expands Chevron's reach in two areas where U.S. energy output is surging - shale from the Permian Basin of west Texas and New Mexico, and liquefied natural gas (LNG) - which have helped make the U.S. one of the world's largest energy exporters. The combined companies are expected to produce more than 1.6 million barrels of oil equivalent per day (boepd) in the United States this year, according to Wood Mackenzie Inc. Chevron plans to sell some $15 billion in assets over time to offset the Anadarko deal. Chevron Chief Executive Mike Wirth said the deal offers a "compelling and unique fit" because the two operate in similar areas, as both have holdings in shale, offshore, and LNG projects. The deal is the oil industry's largest since Royal Dutch Shell PLC bought BG Group in 2016, and it sparked speculation that other shale producers are in play. The $65-per-share offer was structured as 75% stock and 25% cash. The deal includes taking on $15 billion of Anadarko's debt.

Financial Sector

Citigroup Inc.'s Q1 2019 EPS came in above forecast at $1.87 per share, consensus was $1.80—a little bit of everything helped—a little bit more revenue, a little less in expenses, lower than forecast credit costs and a lower tax rate added up to the beat. Return On Equity of 10.2%, Return On Tangible Common Equity of 11.9%; Core Equity Tier 1 of 11.9%--a good way to start the year. (i) Global Commercial Banking revenues flattish year/year on a reported basis; +4% year/year in constant dollars excluding last year's Hilton gain with all regions growing; (ii) International Corporate Group ahead with investment banking and trading better than forecast, the latter driven by Fixed

Income Currency and Commodities, Treasury & Trade Solutions in line; (iii) in North America branded cards—revenue margin and Net Interest Margin expanded/came in better than forecast; loss rate increased/a bit above forecast, in both branded and retail services card; (iv) a bit of organic growth in North America retail banking - average deposits, average loans and investment sales - all up quarter/quarter; (v) operating efficiency in at 57.0%, better than forecast on lower expenses; (vi) aggregate net charge off rate right in line.

Goldman Sachs Group Inc. reported Q1 2019 EPS of $5.71, consensus was $4.96. Results included net provisions for litigation and regulatory proceedings of $37 million ($0.08). Relative to consensus, a lower than expected compensation ratio (it has historically been much more elevated in 1st Half relative to 2nd Half) and tax rate, as well as higher than anticipated investment banking fees, more than offset lower than expected investment management revenues (particularly incentive fees). Trading revenues and Interest & Liabilities results seemed to approximate expectations. Revenues fell 13% year/year and increased 9% sequentially to $8.8 billion. Investment Banking fees rose 1% year/year but declined 11% from the prior quarter (linked quarter) to $1.8 billion. It stated its investment banking transaction backlog decreased compared with the end of 2018, reflecting completion of Mergers & Acquisitions and debt underwriting transactions during the quarter. Institutional Client Services – Trading revenues dropped 18% year/year and increased 49% linked quarter. Investing & Lending revenues were $1.8 billion, down 14% year/year and down 4% from Q4 2018. Equity securities gains were $847 million, down from $994 million last quarter. Investment Management revenues fell 12% year/year and declined 9% linked quarter to $1.6 billion. Assets under supervision increased $57 billion, or 4%, to a record $1.60 trillion, including net inflows of $20 billion in long-term assets under supervision (liquidity products had $22 billion of outflows). Tangible book increased 0.8% to $198.25 (1.05x). Its Return On Equity was 11.1% and Return On Tangible Common Equity was 11.7%. The Standardized Core Equity Tier 1 ratio increased 40 basis points to 13.7%. An increase in retained earnings and lower market Risk Weighted Assets (RWA) more than offset an increase in credit RWAs. Global core liquid assets averaged $234 billion, up $5 billion. It repurchased $1.25 billion shares in Q1 2019, approximating the prior two quarters (now at approximately 75% of $5.0 billion capital adequacy 2018 allowance). Average diluted shares declined by 0.5%. As expected, Goldman Sachs increased its quarterly dividend from $0.80 to $0.85.

JPMorgan Chase & Co reported Q1 2019 EPS of $2.65, consensus was $2.35. Both net interest income and expenses came in better than its initial guidance, while trading was in-line. **Consumer & Community Banking** revenues increased 9% year/year and were little changed linked quarter at $13.8 billion. **Corporate & Investment Bank (CIB)** revenues fell 6% year/year but jumped 36% linked quarter to $9.9 billion. After increasing by $336 million in Q4 2018, CIB non-accrual loans increased another $462 million (+83%) to $1.1 billion (83 basis points) in Q1 2019. **Commercial Banking** revenues increased 8% year/year and rose 1% linked quarter to $2.4 billion. **Asset & Wealth Management** revenues were little changed year/year and rose 1% from the prior quarter to $3.5 billion. A firm-wide legal benefit of $81 million and securities gains of $13 million were basically offset by a $100 million contribution to the JPMorgan Chase Foundation and $9 million net Mortgage Servicing Rights loss. Credit Adjustments & Other was a gain of $136 million, reflecting lower funding spreads on derivatives. It was a $243 million loss last quarter. Results included a $135 million reserve build. Revenues increased 5% year/year and rose 11% linked quarter to a record $29.9 billion. Tangible book increased 2.3% to $57.62 (trading at 1.8x). It posted a 16% Return On Equity, 19% Return On Tangible Common Equity. Core Equity Tier 1 was 12.1% (+10 basis points). It repurchased $5.1 billion of its shares ($4.7 billion net), down from $5.9 billion last quarter ($5.3 billion left on capital adequacy 2018 allowance). Average diluted shares declined by 1.2%. Net interest income grew 1% from Q4 2018 (guided to flat). Average earning assets expanded 2%. Loans (+1%), securities (+6%), and trading (+23%) increased, while deposits with banks declined (-20%). Period-end loans increased 2% year/year but fell 3% linked quarter. Relative to Q4 2018, consumer (-3%), credit card (-4%), and wholesale (-3%) all contracted. Its net interest margin increased 2 basis points to 2.65%. Its yield on average earning assets rose 16 basis points to 3.86% (loans +15 basis points, securities +5 basis points), while its cost of interest-bearing liabilities increased 15 basis points (cost of IBD +8 basis points vs. +11 basis points in Q4 2018). Fee income increased 25% from Q4 2018. Relative to the prior quarter, principal transaction (+$2.6 billion), other (+$218 million), mortgage (+$193 million) and investment banking (+$26 million) increased, while credit card (-$92 million), asset management (-$81 million) and lending/deposit fees (-$56 million) declined. Excluding legal, expenses increased 3% year/year (guided to up mid-single digits year/year) and rose 5% sequentially. Non-performing assets increased 8%, or $426 million, to $5.6 billion.

Standard Chartered PLC has agreed to pay $1.1 billion to U.S. and British authorities for conducting illegal financial transactions that violated sanctions against Iran and other countries, government authorities announced last week. The settlement by the London-based bank is among the most severe imposed for sanctions violations, some of which occurred not long after Standard Chartered settled similar charges in 2012. “The circumstances that led to today’s resolutions are completely unacceptable” and “not representative” of the bank today, Group Chief Executive Bill Winters said in a statement. Last week’s settlement extends by two years a deferred prosecution agreement that Standard Chartered originally entered in 2012 (source: Reuters). The group took a $900 million provision which included these matters in Q4 2018 and will take a further and final charge of $190 million in Q1 2019. The group’s deferred prosecution agreements have been extended to 9 Apr 21. The resolutions include no new compliance monitorships and the monitorships previously imposed were terminated on 31 March 2019.

Wells Fargo & Co. reported Q1 2019 EPS of $1.20. Consensus was $1.10. It booked a $608 million gain on the sale of $1.6 billion of Pick-a-Pay Purchased Credit-Impaired mortgage loans, had a $148 million gain from the sale of Business Payroll Services and recorded net discrete income tax benefits of $297 million. It also booked $821 million of equity gains, up from $21 million last quarter, while net gains on debt securities increased $116 million to $125 million on the sale of non-agency Retail Mortgage Backed Securities. Also net Mortgage Service Rights gains were $71 million, while it added $150 million to its loan loss reserve, compared to a $200 million build last quarter. Total revenues fell 1% year/year but increased 3% linked quarter to $21.6 billion. Tangible book expanded 2.8% to $32.74 (trading at 1.5x). Net unrealized gains on debt securities were $853 million, compared to $2.6 billion loss last quarter, due to lower long-term interest rates and tighter credit spreads. It posted a 15.16% Return on Tangible Common Equity and a 12.71% Return on Equity. Its Core Equity Tier 1 ratio was 11.9% (+20 basis points). In Q1 2019, it repurchased 97.4 million shares, down from 142.7 million last quarter. Average diluted shares declined by 2.5%. Expense increased 4%, or $577 million, to $13.9 billion, predominantly due to $778 million of seasonally higher employee benefits and incentive comp, as well as a $785 million increase in deferred compensation expense (Profit & Loss neutral, largely offset by gains from equity securities). These increases were partially offset by lower core deposit and other intangibles amortization, operating losses, other expense, outside professional services, salaries, and operating lease expense. The cost / income efficiency ratio was 64.4%. It booked a $200 million loan loss reserve release last quarter. Its reserve/loan ratio increased 2 basis points to 1.14%.

Activist Influenced Companies

Brookfield Business Partners LP – North American Palladium Ltd. and the majority shareholder of the company, an affiliate of Brookfield Business Partners LP, a publicly listed business services and industrials company of Brookfield Asset Management Inc. have announced that the previously announced offering of 5,770,000 common shares has closed. As a result of the offering, Brookfield's ownership interest in the company has been reduced from approximately 90.85% prior to the offering to approximately 81.05% (Brookfield now holds 47,689,128 common shares). The Offering was led by BMO Capital Markets Corp. and RBC Capital Markets Inc. as joint bookrunners and BNP Paribas (Canada) Securities Inc., CIBC World Markets Inc, National Bank Financial Inc. and TD Securities Inc. as co-managers.

Dividend Payers

Nothing significant to report.

Economic Conditions

U.S. – U.S. headline inflation, as measured by the changes in the consumer price index (CPI) moved higher by four tenths in March, to 1.9%, ahead of the expectations for a 1,8% annualized rate. The growth was driven chiefly by more expensive fuel and food. The core reading, which excludes those categories, was actually down a notch, to 2.0%, for the month.

Canada – Canadian housing starts jumped 15.8% to 192,500 units annualized rate in March, falling short though of the expected 196,500 units annualized rate. Starts were stronger in the Eastern part of the country, in particular Quebec, and were generally weak in Alberta and B.C. Building permits, meanwhile, dropped 5.7% for the month of February 2019, significantly short of an expected 1.3% improvement.

The global economy is at what the International Monetary Fund (IMF)'s chief economist calls a "delicate moment". Gita Gopinath says that while she does not predict a global recession, "there are many downside risks". The IMF has released its regular assessment of the World Economic Outlook, which forecasts global growth of 3.3% this year and 3.6% in 2020. That would be slower growth than last year - and for 2019, a downgrade compared with the previous forecast. The downward revision of 0.2% for global growth is spread widely. Developed economies affected include the U.S., the U.K. and the Eurozone. The U.K. economy is predicted to grow by 1.2% in 2019, down 0.3% from the IMF forecast in January 2019. Growth in 2020 has also been revised down. The revisions are especially marked for Germany and Italy, which is already in recession. The IMF expects weaker performance in Latin America, as well as in the Middle East and North Africa. For China, there are small revisions, upward for this year and downward for next. The slowdown there, which began at the start of the decade, is expected to continue. (Source: BBC)

China's exports (U.S.D-terms) rebounded strongly from its sharp contraction in February 2019 to register growth of 14.2% year/year in March 2019 (expected: +6.5%, February: -20.7%) though imports unexpectedly contracted further by -7.6% year/year (expected: +0.2%, February: -5.2%) in its fourth straight month of decline. This also led to the recovery in China's trade surplus to U.S. $32.65 billion in March 2019 from US$4.08 billion in February 2019, which is in line with the average monthly trade surplus of U.S. $30.68 billion in 2018. China's trade surplus with the U.S. rose to U.S. $20.50 billion in March 2019 from 2-year low of U.S. $14.72 billion in February 2019. Overall, the rebound in March 2019 exports brought Q1 2019 export (U.S.D-term) to +1.4% year/year growth (Q1 2018: 14.1%) while imports contracted 4.8% year/year in the quarter (Q1 2018: 18.9%).

E.U. leaders have agreed to postpone Brexit until 31 October 2019, with a review at the end of June 2019, to allow U.K. Prime Minister Theresa May more time to try to get the U.K.'s Parliament to approve the country's divorce deal with the bloc. Whilst Theresa May has agreed to the extension, she says she wants the U.K. to leave the E.U. as soon as possible. Under the deal, the U.K. must participate in the European Parliament elections (23-26 May 2019). And if the House of Commons ratifies the Withdrawal Agreement before the Halloween deadline, then the U.K. would be able to leave the E.U. earlier.

Financial Conditions

The European Central Bank (ECB) kept key interest rates unchanged at the April 2019 meeting – the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The accompanying press release was little changed versus the previous one in March 2019. ECB President Mario Draghi was reluctant to provide much details but indicated that the ECB would look at the effect of negative rates on bank profits, implying the potential of introducing a tiered deposit rate. He also warned that data gathered by policymakers in recent weeks had confirmed "slower growth momentum" in the Eurozone. Economic uncertainty relating to geopolitics, protectionism and emerging markets had negatively impacted investor sentiment in the bloc, he added, with risks "tilted toward the downside" over the coming months.

The Reserve Bank of India (RBI) cut its policy repo rate and reverse repo rate by 25 basis points to 6.0% and 5.75%, in line with market consensus. The decision to loosen monetary policy was voted on a 4 – 2 majority. The cut marks the second consecutive cut, which effectively negated the cumulative 50 basis points hikes seen in 2018. The committee cut its inflation and growth outlook, citing that the output gap remains negative. Specifically, the Monetary Policy Committee downgraded its CPI outlook lower to 2.9-3.0% in H1:2019-20 and 3.5-3.8% in H2:2019-20 which brings average inflation to sub-4.0% (versus previous RBI's mid-point 4.0% target). GDP growth for H1: 6.8-7.1% in and H2: 7.3-7.4%, thus bringing full-year Fiscal Year 2020 growth outlook to 7.2% (down from the previous estimate of 7.4%).

The U.S. 2 year/10 year treasury spread is now 0.16% and the U.K.'s 2 year/10 year treasury spread is 43% - 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. Also, the narrowing gap between yields on the two-year and 10-year Treasuries is of concern given its historical track record that when shorter term rates exceed longer dated ones, such inversion is usually an early warning of an economic slowdown.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 4.12% (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 3.9 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 12.32 (compares to a post-recession low of 9.52 achieved in early November) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes 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:

- Bay & Scollard Development Trust
- ITM AG Investment Trust
- Portland Advantage Plus - Everest Fund
- Portland Focused Plus Fund LP
- Portland Focused Plus Fund
- Portland Global Aristocrats Plus Fund
- Portland Global Energy Efficiency and Renewable Energy Fund LP
- Portland Global Sustainable Evergreen Fund
- Portland Global Sustainable Evergreen LP
- Portland Private Growth Fund
- Portland Private Income Fund
- Portland Special Opportunities Fund
- Portland Value Plus Fund

Individual Discretionary Managed Account Models - SMA

Net Asset Value:

The Net Asset Values (NAV) of our investment funds are published on our Portland website at www.portlandic.com/prices

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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Glossary of Terms: 'boe' barrel of oil equivalent, a measurement of a unit of energy, 'boed' refers to barrel of oil equivalent per day, 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'ROE' return on equity, 'ROTE' return on common equity.

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