



# PORTLAND VALUE FUND



**PORTLAND**  
INVESTMENT COUNSEL®

OWNERS. OPERATORS. AND INVESTORS.

(as at September 30, 2017)

	Series Start Date	MER (after absorptions as at March 31, 2017) <sup>4</sup>	Net Asset Value Per Unit (as at September 30, 2017)	PERFORMANCE (as at September 30, 2017)					
				1 Month	3 Months	6 Months	Calendar Year-to-Date	1 Year	Since Inception <sup>4</sup>
Portland Value Fund - Series A	May 19, 2015	2.84%	\$7.9799	2.2%	3.9%	(2.2%)	(6.8%)	(8.7%)	(8.8%)
Portland Value Fund - Series F	May 19, 2015	1.69%	\$8.0914	2.3%	4.2%	(1.6%)	(6.0%)	(7.7%)	(7.8%)
MSCI World Total Return Index	-	-	-	1.9%	0.7%	2.3%	7.7%	12.5%	7.5%

## FUND FACTS

Fund Net Assets	\$0.6 million
CIFSC* Asset Class	Global Equity
Risk Tolerance	Medium

## HOW THE FUND IS MANAGED

- Focused investing in a limited number of globally domiciled quality equity securities with an emphasis towards large capitalization, high liquidity and, what we believe are, undervalued securities.
- Investing in companies which have the potential of increased returns due to activist investor campaigns.

## KEY REASONS TO INVEST

- Experienced portfolio manager has practiced focused value investing for more than 25 years.
- Growth potential.
- Co-invest alongside eminent capital allocators.
- Diversification benefits (alternative strategy).

## PORTFOLIO COMPOSITION

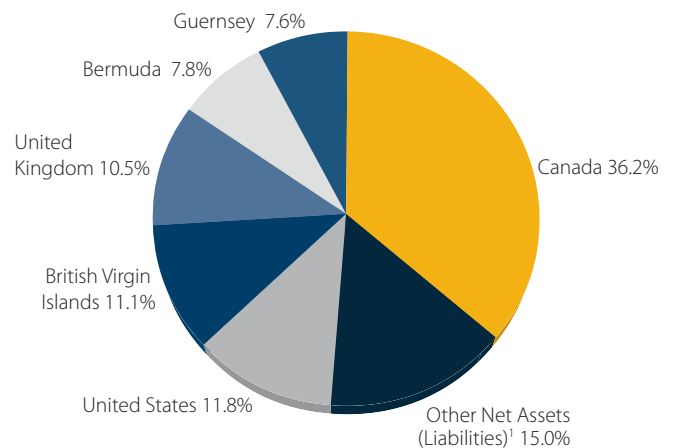
- Businesses led by eminent capital allocators.
- Businesses being transformed by eminent capital allocators (activist investors).
- Opportunities that prevail now.

## PORTFOLIO MANAGERS

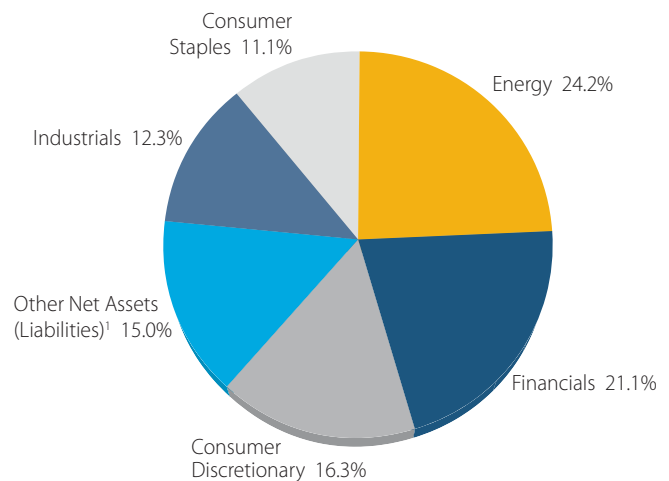
**Michael Lee-Chin**, B.Eng., LL.D (Honorary)  
Executive Chairman, Chief Executive Officer  
and Portfolio Manager

**Dragos Berbecel**, BComm., MBA, CFA  
Portfolio Manager

## Geographic Mix



## Sector Mix



(as at September 30, 2017)

## Top Holdings<sup>2</sup>

Nomad Foods Limited	11.1%
Liberty Global PLC LiLAC	10.5%
Whitecap Resources, Inc.	9.6%
Cash	9.1%
Brookfield Business Partners L.P.	7.8%
Pershing Square Holdings, Ltd.	7.6%
Crescent Point Energy Corp.	7.4%
Berkshire Hathaway Inc.	7.3%
Baytex Energy Corp.	7.2%
Brookfield Asset Management Inc.	6.2%
Linamar Corporation	5.8%
Hertz Global Holdings, Inc.	4.5%

## FUND COMMENTARY (As at September 30, 2017)

For the quarter ended September 30, 2017, the Fund's benchmark, the MSCI World Total Return Index had a return of 0.7%. For the same period, the Fund's Series F units had a return of 4.2%. Unlike the Index, the Fund's return is after the deduction of its fees and expenses. The Fund's key relative performance contributors during the period were Hertz Global Holdings, Inc., Baytex Energy Corp. and Linamar Corporation, while the Fund's relative performance detractors were Pershing Square Holdings, Ltd., Nomad Foods Limited and Restaurant Brands International Inc.

The Fund's net asset value at September 30, 2017 was \$0.6 million.

The Fund aims to provide positive long-term total returns by investing in a focused portfolio (generally no more than 15 names) of quality equities, selected from global companies domiciled in long-term growth industries and which are trading at a discount to their intrinsic value and/or have the potential of increased returns due to activist investor actions.

Activist investors are value investors with a push. They are looking for opportunities to demand a change in a company's strategy in order to unlock shareholder value. Activist investors achieve their goals by cooperating with other institutional investors, acquiring board representation and/or changing the management of the target company.

During the period and in large part driven by what it is perceived

as largely reflationary economic policies from the new Donald Trump-led U.S. administration, the U.S. Fed has accelerated the pace of its previously tentative monetary tightening. With three Fed Funds rate raises since last September and expectations for one more before the end of the year, the excessive liquidity available to the capital markets is, albeit gradually, mopped up. Such a development, we believe, is likely to favour value based investment strategies, which have otherwise underperformed growth strategies since the beginning of the current market cycle, some eight years earlier. With valuations getting ahead of the fundamentals in certain areas of the market, the Manager believes that companies influenced by eminent capital allocators and activist investors have the ability to stand out by adapting quicker to market forces and improving their profitability through both operational changes and balance sheet optimization.

As expected, given the Fund's value focused mandate, the performance was mainly driven by company specific developments, the most important of which are detailed below.

Hertz Global Holdings has continued to make progress on a number of its turnaround initiatives since the appointment of its new CEO, Kathy Marinello, including strengthening its fleet management, enhancing its operational efficiencies and upgrading its operating platforms, including its e-commerce site. During the summer, the company went through a resizing and rebalancing of the U.S. rental car fleet and has experienced positive pricing momentum. Nonetheless the next couple of quarters will be critical to the company's turnaround plan and we are watching cautiously how the new management deals with the industry challenges.

As one of the companies with the most leverage to a recovery in the levels of crude oil pricing, Baytex Energy advanced strongly during the quarter as the oil markets fundamentals showed signs of improvement.

Linamar Corp continued its strong performance during the quarter as its most recent results met and slightly exceeded the expectations. Sales in the quarter were up roughly 7% compared to the prior comparative period, including a 2.8% advance in the company's main powertrain/driveline unit, despite a 3% reduction in vehicle markets in North America and Europe (and 0.5% lower globally). Of note, the company announced its first major electric axle contract win, for which the annual production volume is expected to peak in 2022 at 500,000 units. This update should help assuage the market's fears that the advent of electric vehicles would significantly adversely affect Linamar's business model. Linamar maintained its guidance for mid to high single digit sales and earnings growth and net income margins of 8% to 8.5%. For 2018, Linamar expects accelerated double digit top and bottom line growth, though net income margin is likely to moderate. Subsequent to the quarter end, a very strong print for the U.S. vehicle sale provided further scope for share price appreciation.

As Bill Ackman launched a new activist action at ADP, LLC. (Automatic Data Processing Inc.) the net asset value of Pershing Square slid by just under 4%, however, the price of the listed



fund dropped by nearly 14%. We opportunistically added to our investment in Pershing Square during the quarter. The action at ADP is focused on cost cuts, streamlining operations and investing in technology upgrades. Pershing Square Capital Management owns 8.3% of the \$50 billion company and Ackman is asking for board seats for himself plus two independent directors and is considering pushing the board to make leadership changes.

Restaurant Brands International (RBI) saw weakening same store sales growth during the period as the number of restaurants continued to grow. Just before the end of the reporting period, we sold our entire holding in RBI on valuation concerns and potential for increased headwinds; in particular a loss of the “wealth effect” with the increase in interest rates, which may affect discretionary spending, a potentially costly international expansion and/or M&A action, as well as a simmering fight with some of its long time franchisees.

The Fund has a material exposure to energy holdings, which we believe have currently depressed valuations and which, as at September 30, 2017, constituted 24.2% of the portfolio's assets. The performance of our energy holdings was positive during the period and contributed to the performance of the Fund.

Over the course of the past quarter the energy markets have continued their journey towards recovery, meandering around news related to the Organization of Petroleum Exporting Countries (OPEC). Russia agreed production caps, production related developments in the U.S. shale (in the particular the Permian basin) and weekly crude oil and refined product U.S. inventory levels. During the reporting period, the West Texas Intermediate (WTI), the North American crude oil price benchmark, advanced from \$46.04/barrel (bbl) to \$51.67/bbl, a roughly 12% improvement over the period. Considerable uncertainty still hangs over the levels of supply, notably having to do with production projections for Nigeria, Libya, and Venezuela.

During the summer months crude oil inventories have seen significant drawdowns across the Organization for economic Co-operation and Development (OECD) countries and in the U.S., though averages are still somewhat above the five year average. Nonetheless, evidence of coordinated action and broad based inventories reduction provided support for a more robust recovery in the price of crude oil. Most recently the debate has shifted around the potential production growth in the U.S., notably the Eagle Ford and Permian basins. Industry insiders dispute the Energy Information Administration (EIA) projections, which could be overestimating U.S. production by as much as 400,000/bbl per day, having just been adjusted 130,000/bbl per day in September.

As at September 30, 2017, the top 5 sector exposure was constituted by energy 24.2%, financials 21.1%, consumer discretionary 16.3%, industrials 12.3% and consumer staples 11.1%.

## POTENTIAL RISKS

The Manager believes the following risks may impact the performance of the Fund: active management risk, concentration risk, currency risk, equity risk, derivatives risk and credit risk. Please read the “Risk Factors” section in the Simplified Prospectus for a more detailed description of all the relevant risks.



# PORTLAND VALUE FUND

(as at September 30, 2017)



**PORTLAND**  
INVESTMENT COUNSEL®

OWNERS. OPERATORS. AND INVESTORS.

## FUNDSERV CODES

Fund Name	SERIES A			SERIES F <sup>3</sup>
	Code - Initial Sales Charge	Code - DSC	Code - LL	
Portland Value Fund	PTL270	PTL275	PTL280	PTL011

 [Portland Investment Counsel Inc.](#)

 [portlandinvestmentcounsel](#)

 [Portland Investment Counsel Inc.](#)

 [@PortlandCounsel](#)

\* Canadian Investment Funds Standards Committee

1. Other Net Assets (Liabilities) refers to all other assets and liabilities in the Fund excluding portfolio investments.

2. Where the Fund holds less than 25 holdings, all investments have been disclosed. There may be other assets and liabilities which are not included, and therefore the summary does not add up to 100%.

3. Generally available through dealers who have entered into a Portland Series F Dealer Agreement.

4. Annualized.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions [dividends] and does not take into account sales, redemptions, distributions or optional charges or income taxes payable by any securityholder in respect of a participating fund that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Risk tolerance measures the degree of uncertainty that an investor can handle regarding fluctuations in the value of their portfolio. The amount of risk associated with any particular investment depends largely on your own personal circumstances including your time horizon, liquidity needs, portfolio size, income, investment knowledge and attitude toward price fluctuations. Investors should consult their Financial Advisor before making a decision as to whether this Fund is a suitable investment for them.

Information presented in this material should be considered for background information only and should not be construed as investment or financial advice. Please consult a Financial Advisor. Every effort has been made to ensure the utmost accuracy of the information provided. Information provided is believed to be reliable when posted. All information is subject to modification from time to time without notice. Consent is required for any reproduction, in whole or in part, of this piece and/or of its images and concepts. Please read the Prospectus before investing. PORTLAND, PORTLAND INVESTMENT COUNSEL and the Clock Tower Design are registered trademarks of Portland Holdings Inc. Used under licence by Portland Investment Counsel Inc.

Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel: 1-888-710-4242 • Fax: 1-866-722-4242 • [www.portlandic.com](http://www.portlandic.com) • [info@portlandic.com](mailto:info@portlandic.com)

PIC2324-E(10/17)