



# PORTLAND VALUE PLUS FUND



**PORTLAND**  
INVESTMENT COUNSEL®

OWNERS. OPERATORS. AND INVESTORS.

(as at September 30, 2018)

	Net Asset Value Per Unit (as at September 30, 2018)	PERFORMANCE (as at September 30, 2018)					
		1 Month	3 Months	6 Months	1 Year	3 Years <sup>1</sup>	Since Inception <sup>1</sup>
Portland Value Plus Fund - Series A (CAD)	\$25.8511	2.0%	6.5%	20.4%	8.1%	3.1%	(15.4%)
Portland Value Plus Fund - Series F (CAD)	\$25.1668	2.1%	6.8%	21.1%	9.3%	4.3%	(14.5%)
MSCI World Total Return Index	-	(0.4%)	3.3%	7.2%	15.3%	12.2%	10.1%

## FUND FACTS

Fund Net Assets	\$1.0 million CAD
Inception Date	Jan. 30, 2015
Fund Type	Alternative Strategies
Offer Document	Offering Memorandum
Eligible for PAC Plans	Yes, monthly minimum of \$500
Eligible for Registered Plans	Yes
Purchases and Redemptions	Monthly with no minimum investment term or redemption fee

## HOW THE FUND IS MANAGED

- Focused investing in a number of quality equities, ordinarily selected from liquid, large cap stocks, domiciled in long-term growth industries, which we believe are undervalued and/or have the potential of increased returns due to activist investor campaigns.
- Leverage by purchasing securities on margin; leverage will initially be lower than 60% and ordinarily is not expected to exceed 70% of the portfolio (market value of securities).

## KEY REASONS TO INVEST

- Experienced portfolio manager has practiced focused value investing for more than 25 years.
- Leveraged growth potential.
- Access to attractive borrowing terms by benefitting from Portland Holdings' financial strength and reputation.
- Embedded product leverage is non-recourse to individual investors versus recourse when using traditional margin accounts.
- Diversification benefits (alternative strategy, e.g. for asset-rich cash-poor investors).

## PORTFOLIO COMPOSITION

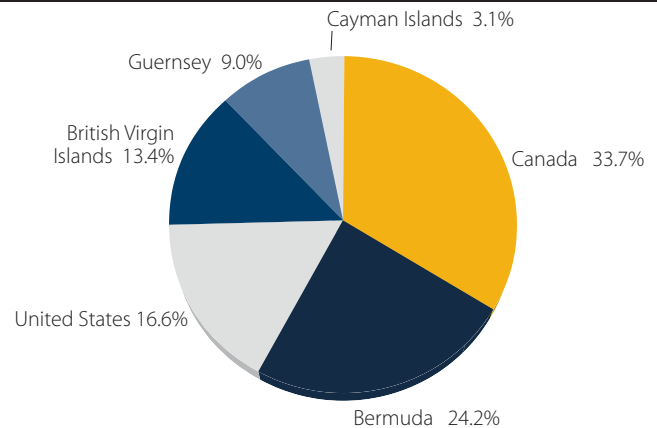
- Businesses led by eminent capital allocators.
- Businesses being transformed by eminent capital allocators (activist investors).
- Opportunities that prevail now.

## PORTFOLIO MANAGER

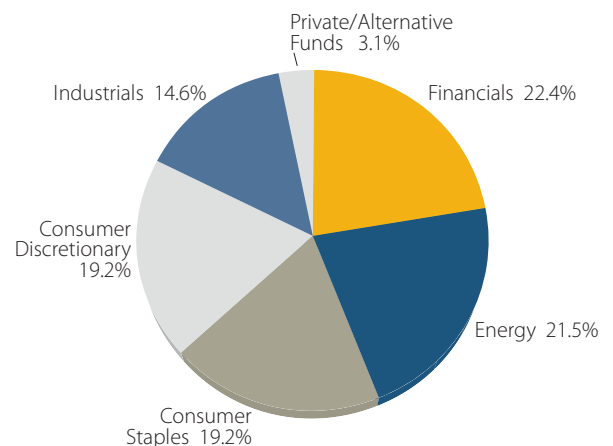
**Michael Lee-Chin**, B.Eng., LLD (Honorary)  
Executive Chairman, Chief Executive Officer  
and Portfolio Manager

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

## Geographic Mix (as a % of total assets)



## Sector Mix (as a % of total assets)



## Asset Mix (as a % of net asset value)

Equities	222.2%
Other Net Assets (Liabilities) <sup>2</sup>	(0.4%)
Cash	(121.6%)

Leverage Ratio <sup>3</sup>	54.8%
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Top Holdings	Percentage of Total Assets
Nomad Foods Limited	13.4%
Liberty Latin America Ltd.	12.4%
Brookfield Business Partners L.P.	11.8%
Pershing Square Holdings, Ltd.	9.0%
Berkshire Hathaway Inc.	8.0%
Whitecap Resources, Inc.	7.4%
Baytex Energy Corp.	7.4%
Linamar Corporation	6.8%
Crescent Point Energy Corp.	6.7%
Walgreens Boots Alliance, Inc.	5.8%
Brookfield Asset Management Inc.	5.4%
EnTrustPermal Special Opportunities Fund IV Ltd.	3.1%
Hertz Global Holdings, Inc.	2.8%

## FUND COMMENTARY (as at September 30, 2018)

For the period of June 30, 2018, to September 30, 2018, the Fund's benchmark, the MSCI World Total Return Index had a return of 3.3%. For the same period, the Fund's Series F units had a return of 6.8%. 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 Brookfield Business Partners L.P., Walgreens Boots Alliance Inc. and Berkshire Hathaway Inc., while the Fund's relative performance detractors were Crescent Point Energy Corp., Baytex Energy Corp. and Whitecap Resources, Inc. The Fund's leverage amplified the outperformance.

The Fund's net asset value at September 30, 2018, was \$1.0 million.

The Fund aims to provide positive long-term total return by investing in a focused portfolio (generally no more than 15 names) of 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, while using leverage to enhance long-term capital appreciation.

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.

From a macro-economic perspective, even though the exceptionally accommodative conditions are subsiding, bound by an accelerating economy and record tight labour markets, we are still in uncharted territory. The U.S. unemployment rate has dropped to levels not seen since the 1960s and wage growth has finally picked up, more recently to a 2.9% pace. Coupled with a more than 50% price increase in crude oil and

its related derivatives, but also an increase in prices of some of the core goods and services, and, possibly, the imposition of tariffs, the ingredients for a more buoyant inflation environment are in place. As the U.S. Fed feels compelled to continue on its tightening path and as the policy rates are approaching their current or longer-run equilibrium levels, the chance for a miscalculation increases. The fallout from a monetary policy misstep is unlikely to be significant in such a robust economic environment, however, when coupled with other potential policy errors, perhaps around trade tariffs; it could trigger more serious economic consequences. Improving economic prospects and a pick-up in the inflation pace has boosted our outlook for U.S. equity returns in nominal terms, though the risk factors mentioned earlier, in particular trade related developments and the pace of monetary tightening, could materially affect the ultimate outcome.

Canada affords a somewhat different perspective. At more than 170% of disposable income, Canadian household credit continues to be stubbornly high, with the recently announced normative measures just about managing to put a dent into Canadian's propensity for accessing credit. The household credit growth slowed down at the end of 2017 and into 2018. On this background, recent retail sales growth has slowed down in Canada, and it is unlikely to recover, unless the diminished "wealth effect" from housing cooling down is replaced by either recovery in the resources space and/or acceleration of activity in manufacturing and services outside of the white-hot residential investment (housing) sector. Canada has seen significant losses in relative competitiveness as the U.S. administration implemented drastic pro-business measures, not the least of which being massive tax cuts and deregulation. During the period U.S., Canada and Mexico have negotiated a new trade agreement, the U.S.-Mexico-Canada Agreement (USMCA), which still needs to be ratified by the legislatures. The new agreement's provisions do not seem to be a significant departure from NAFTA. Canada is significantly more dependent on favourable trade terms with the U.S. and Mexico due to foreign trade's larger contribution in the creation of GDP, but also because of its reduced relative competitiveness, slower economic growth and self-inflicted infrastructure shortcomings (chiefly lack of pipeline capacity). The country's abundant natural resources are presently severely restricted from reaching the fast growing Asian markets. Subsequent to the quarter-end, a consortium led by Royal Dutch Shell PLC announced a final investment decision for LNG Canada, a major liquefied natural gas export project which will help debottleneck the prolific Montney gas basin. Though not fully functional until about 2025, it is a ray of hope. The pick-up in inflation has marginally increased our outlook for nominal returns in Canadian equities, assuming the key risk factors, including further trade negotiations, buildout of key infrastructure projects, the state of the housing market and the pace of monetary tightening, remain balanced.

Nonetheless, the excessive liquidity available to the capital markets is being removed, albeit gradually. Such a development, we believe, is likely to favour value-based investment strategies, which have otherwise underperformed growth strategies since



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the beginning of the current market cycle, some nine 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.

Brookfield Business Partners (BBU) had a busy quarter, announcing a number of transactions. It acquired the extra 2% of Teekay Offshore Partners L.P. to obtain control (51% of the outstanding shares) of the offshore operator. It entered an agreement to acquire a 55% controlling interest in Ouro Verde Locacao E Sevicos SA, a leading Brazilian heavy equipment and light vehicle fleet management company. Together with its institutional partners, BBU agreed to sell Quadrant Energy to Santos Ltd. for USD \$2.15 billion. BBU reported earnings attributable to unitholders of USD \$119 million on revenue of USD \$8.77 billion in fiscal Q2 2018. The company reported funds from operations (FFO) of USD \$177 million in the quarter. Company FFO in the quarter benefited from significantly improved results in the industrials segment and a gain, net of taxes, of \$46 million realized in the business services segment. Net income attributable to unitholders for the quarter was \$119 million compared with a net loss of \$6-million in 2017. Net income per unit was \$0.60. BBU appointed Jaspreet Dehl as CFO, who has been a senior member of the company's finance team since she joined Brookfield in 2011 and is well known to many of its investors.

Walgreens enjoyed a strong recovery in the quarter after markets overreacted, we believe, to the announcement of Amazon.com Inc. seeking to enter the drug distribution business. Over the past three months investors seem to have realized the likely impact Amazon may have on the industry is not expected to affect Walgreens as much as previously believed, as the company is still likely to be the go to place for an elderly population used to buy their medicine from their favourite corner store. During the period, Walgreens announced a pilot program with The Kroger Co., partnering in a new store format which would combine Kroger's expertise in grocery with Walgreens' health and beauty focus.

Berkshire Hathaway bought back its own stock for the first time since 2012 and added to its already huge stake in Apple Inc. during the quarter. Absent any major acquisitions recently, the buy-back program offers, we believe, a sensible way of deploying a part of the over \$110 billion of cash sitting on the company's balance sheet.

Over the course of the past three months, 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 particular the Permian

basin) and weekly crude oil and refined product U.S. inventory levels. Unfortunately, the performance of our energy holdings has lagged during the period, as has the Canadian oil and gas producing sector as a whole. The Western Canadian producers continue to grapple with serious market access issues (lack of transportation infrastructure, in particular pipelines) which have caused crude oil price differential between the WTI and Western Canadian Select, for heavy crude, and Edmonton Par, for light crude, to expand dramatically. To this point, as we write this, a Canadian Heavy producer is only receiving about 40% of the WTI price for its crude. The causes for such a discrepancy are numerous, with some more transitory, but substantially related to the lack of regulatory and governmental support for new pipelines. During the period, the Trans Mountain expansion project, which the Canadian federal government acquired for roughly CAD \$5 billion from Kinder Morgan Canada Ltd., was stopped in its tracks by a court ruling. Other factors impacting the differential were an increase in the heavy oil production from some of Suncor Energy Inc.'s properties, a key refinery temporary shut-down, maintenance work at refineries and lower than expected shipments of crude by rail.

During the period, Baytex finalized its acquisition of Raging River Exploration Inc., which changed its production profile to the point to which heavy crude is a considerable lower proportion of its revenues. Crescent Point appointed a new CEO in the person of Craig Bryksa, an internal candidate with a long track record of overseeing the company's operations, and presented a revamped strategy for addressing investor concerns around capital discipline and production per share growth. Whitecap Resources Inc. continued to deliver strong operational performance and cash flow, which has been supporting its very rational buy-back program.

As at September 30, 2018, based on total assets, the top 5 sector exposure was constituted by financials 22.4%, energy 21.5%, consumer staples 19.2%, consumer discretionary 19.2% and industrials 14.6%. The Fund makes use of low-cost leverage to augment its long-term returns. Leverage within the Fund was at inception, lower than 60% and ordinarily is not expected to exceed 70% of the portfolio (market value of securities). As at September 30, 2018, leverage in the Fund was 55.0% of the portfolio.



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## RISK MANAGEMENT STRATEGY

The Manager relies on the following risk mitigation measures:

- Value discipline
- Portfolio construction
- Intending to preserve excess margin or 'buffer'

## POTENTIAL RISKS

While the Manager exercises prudence and due diligence throughout the investment process, no guarantees can be given to offset a risk of loss and investors should consult with their Financial Advisor prior to investing in the Fund.

The Manager believes the following risks are key to the Fund's performance: leverage, highly volatile markets and equity risk. Please read the "Risk Factors" section in the Offering Memorandum for a more detailed description of all the relevant risks.

## FUNDSEV CODES

Fund Name	Series A	Series F*	Series N
Portland Value Plus Fund	PTL970	PTL980	PTL966
Portland Value Plus Fund USD	PTL870	PTL880	PTL866

*\*Generally only available through dealers who have entered into a Portland Series F Dealer Agreement*



The Portland Value Plus Fund was formerly known as the Portland Advantage Plus - Value Fund.

1. Annualized.
2. Other Net Assets (Liabilities) refers to all other assets and liabilities in the Fund excluding portfolio investments and cash.
3. Leverage ratio is calculated as the total borrowing divided by the fair value of securities and does not take into account other Net Assets (Liabilities) as defined above.

Additional Sources: Bloomberg, Thomson Reuters

The Portland Value Plus Fund (the "Fund") is not publicly offered. It is only available under prospectus exemptions and other exemptions available to investors who meet certain eligibility or minimum or maximum purchase requirements. Currently these exemptions include the accredited investor exemption and the \$150,000 minimum purchase exemption for institutional investors. Information herein is pertaining to the Fund solely for the purpose of providing information and is not to be construed as a public offering in any jurisdiction of Canada. The offering of Units of the Fund is made pursuant to an Offering Memorandum and the information contained herein is a summary only and is qualified by the more detailed information in the Offering Memorandum. If there are any discrepancies between this document and the Offering Memorandum, the Offering Memorandum is deemed correct. Commissions, trailing commissions, management fees and expenses may be associated with investments. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions 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. Funds are not guaranteed, their values change frequently and past performance may not be repeated.

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