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PORTLAND ADVANTAGE FUND  
**ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

SEPTEMBER 30, 2014

PORTFOLIO  
MANAGEMENT TEAM

**Michael Lee-Chin**  
Executive Chairman, Chief Executive  
Officer, Chief Investment Officer and  
Portfolio Manager

**Robert Almeida**  
Senior Vice President and Portfolio Manager

## Management Discussion of Fund Performance Portland Advantage Fund

This annual management report of fund performance contains financial highlights, but does not contain either interim or annual financial statements of the investment fund. You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling 1-888-710-4242, by writing to us at 1375 Kerns Road, Suite 100, Burlington, ON L7P 4V7 or visiting our website at [www.portlandic.com](http://www.portlandic.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

The views of the portfolio management team contained in this report are as of September 30, 2014 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. For current information please contact us using the above methods. All references to performance relate to Series F units. The performance of other units may be different than that of the Series F units due to differing fees.

### INVESTMENT OBJECTIVE AND STRATEGIES

The investment objective of the Portland Advantage Fund (the "Fund") remains as discussed in the prospectus. The Fund's objective is to provide positive long-term total returns by investing primarily in a portfolio of Canadian equities. The Fund seeks to provide capital growth and income while moderating the volatility of equities by investing in a portfolio of equities/ADRs, and which may include exchange traded funds. A current strategy of the Fund is to invest in the financial services sector including insurance, securities brokering, banking and wealth management. The Fund may invest up to 49% in foreign securities in a manner consistent with its investment objective.

### RISK

The overall risk level has not changed for the Fund and remains as discussed in the Prospectus. Investors should be able to accept a medium to high level of risk and plan to hold for the medium to long term.

### RESULTS OF OPERATIONS

For the twelve month period from October 1, 2013 to September 30, 2014, the Fund's benchmark, the S&P/TSX Composite Total Return Index, had a return of 20.4%. Over the same period, the Fund's F class units had a return of 9.8%. The net asset value per unit increased from \$11.41 at September 30, 2013 to \$12.54 at September 30, 2014. Unlike the Index, the Fund's return is after the deduction of its fees and expenses.

The Fund's net asset value as at September 30, 2014 was \$4.7 million. On a cumulative basis since its inception, the Fund has experienced both positive net sales and positive investment performance.

The 5 holdings that contributed most to Fund performance were:

- Invesco Limited, Franklin Resources Inc., and Brookfield Asset Management Inc., all of which are wealth management businesses; and

- The Toronto-Dominion Bank and The Bank of Nova Scotia, leading Canadian headquartered banks with substantial US and International operations, respectively.

While the Fund's holdings of financial companies contributed positively to performance, relative to the benchmark, the Fund was underweighted in banks and this detracted from relative performance. We believe that wealth management businesses currently provide better value.

The main detractors from Fund performance were holdings of oil and gas companies and cash. While the share prices of the oil company holdings have declined along with oil prices, they have maintained their dividends with the result being increased dividend yields. We believe that oil prices have declined about as far as they will go and look for a rebound in the future. In the interim, we are comfortable earning what we perceive as attractive dividend yields. Cash held in the portfolio to provide downside protection as well as to enable opportunistic buying also detracted from performance during this period of overall market appreciation.

On a per unit basis during the period, the Fund's F class units generated \$0.41 of revenue, \$0.01 of realized gains (losses) and (\$0.26) of unrealized gains (losses).

During the 12 month period ending September 30, 2014, the following holdings were added to the Fund:

- Brookfield Property Partners Limited Partnership, a global commercial property company that owns, operates and invests in best-in-class office, retail, multifamily and industrial assets;
- BCE Inc., a leading telecommunications company in Canada;
- Northland Power Inc., a developer, owner and operator of clean and green power generation projects, mainly in the provinces of Ontario, Quebec and Saskatchewan;
- Baytex Energy Corporation, a conventional oil and gas corporation engaged in the acquisition, development and production of oil and natural gas;
- Canadian Oil Sands Limited which holds a major interest in the Syncrude oil sands project in Western Canada;
- Crescent Point Energy Corporation, a conventional oil and gas producer; and
- TransAlta Renewables Inc., a member of the TransAlta group of companies and was formed to own a portfolio of renewable power generation facilities.

We believe that these holdings add to the diversification of the Fund and will contribute positively to the risk-adjusted return performance of the Fund.

While Brookfield Property Partners LP was added to the Fund, DREAM Unlimited Corporation was eliminated. Both are real estate investments but Brookfield Property Partners LP provides additional diversification through its global operations and we believe provides better value.

The Fund's percentage weighting of cash and cash equivalents declined in the period but, at September 30, 2014, was 14.1%. While these cash holdings detract from short term performance, we believe that the position is consistent with our perspective on market valuations and provides the Fund with downside protection and the opportunity to buy into market corrections. The Fund's foreign currency denominated holdings were reduced in the period as the depreciating Canadian dollar made US dollar denominated securities relatively more expensive.

At September 30, 2014, by asset class the Fund's net asset value was invested 85.8% in 27 equity securities, with an emphasis on holdings of wealth management businesses and 14.2% in cash and other assets and liabilities. By geography, the Fund's net assets were invested 71.7% in cash and securities of issuers based in Canada. We believe that the Fund is well positioned to continue to meet its investment objectives as outlined above.

## RECENT DEVELOPMENTS

Other than the investments in the fund as discussed above, there have been no recent changes to the strategic position of the investment fund. The fund has a 19.7% exposure to the Oil and Gas Exploration and Production and Integrated Oil and Gas sectors. Oil prices have been declining recently and the future price of oil is uncertain. We are of the opinion that the price of oil is unlikely to decline much further and that, over the medium to longer term, it is more likely that oil prices will rise substantially.

## RELATED PARTY TRANSACTIONS

The Fund's manager is Portland Investment Counsel Inc. (the "Manager"). The Manager is responsible for the day-to-day operation of and for providing investment management services to the Fund. The Manager receives a fee for providing these services. This is calculated daily based on the net asset value of the Fund and paid monthly. During the period ended September 30, 2014, the Manager received \$41,383 in management fees from the Fund compared to \$9,906 for the period ended September 30, 2013.

Any administrative services paid for or provided by the Manager are charged to the Fund and are grouped and presented by expense type in the statements of operations. Depending on their nature, some

expenditures are allocated to the Fund based upon the net asset value or actual costs incurred. During the period ended September 30, 2014, the Manager was reimbursed \$12,169 for operating expenses incurred on behalf of the Fund, including amounts paid to affiliates. This compares to \$2,610 for period ended September 30, 2013.

Affiliates of the Manager provide administrative services associated with the day-to-day operations of the Fund. These affiliates of the Manager were reimbursed \$2,826 during the period ended September 30, 2014 by the Fund for such services, compared to \$1,385 during the period ended September 30, 2013.

The Board of Directors of the manager is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities.

As at September 30, 2014, the Manager did not hold any units of the Fund (12,500 Series A units and 2,500 Series F units of the Fund as at December 31, 2013).

## Notes

*Certain statements included in this Management Discussion of Fund Performance constitute forward-looking statements, including those identified by the expressions "anticipate," "believe," "plan," "estimate," "expect," "intend" and similar expressions to the extent they relate to the Fund. These forward-looking statements are not historical facts, but reflect the current expectations of the portfolio management team regarding future results or events of the Fund. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The portfolio management team has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, except as required by securities legislation.*

*Certain research and information about specific holdings in the Fund, including any opinion, is based upon 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.*

## Summary of Investment Portfolio as at September 30, 2014

## Top 25 Investments\*

|                                                        | % of Net Asset Value |
|--------------------------------------------------------|----------------------|
| Cash and Cash Equivalents                              | 14.1%                |
| IGM Financial Inc.                                     | 5.9%                 |
| Brookfield Asset Management Inc. 'A'                   | 5.0%                 |
| Invesco Limited                                        | 5.0%                 |
| Crescent Point Energy Corporation                      | 4.8%                 |
| Canadian Oil Sands Limited                             | 4.5%                 |
| Suncor Energy Inc.                                     | 4.5%                 |
| Baytex Energy Corporation                              | 4.2%                 |
| BCE Inc.                                               | 4.2%                 |
| Brookfield Infrastructure Partners Limited Partnership | 3.9%                 |
| The Bank of Nova Scotia                                | 3.9%                 |
| Franklin Resources Inc.                                | 3.8%                 |
| The Toronto-Dominion Bank                              | 3.6%                 |
| CI Financial Corporation                               | 3.3%                 |
| Northland Power Inc.                                   | 3.3%                 |
| Brookfield Property Partners Limited Partnership       | 3.2%                 |
| Cheung Kong Holdings Limited                           | 3.1%                 |
| TransAlta Renewables Inc.                              | 3.0%                 |
| Element Financial Corporation                          | 2.9%                 |
| Affiliated Managers Group Inc.                         | 2.8%                 |
| Dundee Corporation 'A'                                 | 2.8%                 |
| Berkshire Hathaway Inc. 'B'                            | 2.3%                 |
| Copa Holdings SA 'A'                                   | 1.7%                 |
| Pacific Rubiales Energy Corporation                    | 1.7%                 |
| iShares India 50 ETF                                   | 0.8%                 |
| <b>Grand Total</b>                                     | <b>98.3%</b>         |

**Total net asset value** **\$4,688,034**

\* 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%.

The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available within 60 days of each quarter end by visiting [www.portlandic.com](http://www.portlandic.com) or contacting us at 1-888-710-4242.

## Portfolio Composition

## Sector

|                                        |       |
|----------------------------------------|-------|
| Asset Management and Custody Banks     | 23.6% |
| Cash and Other Assets                  | 14.2% |
| Oil and Gas Exploration and Production | 11.0% |
| Integrated Oil and Gas                 | 8.7%  |
| Diversified Banks                      | 8.6%  |
| Real Estate Development                | 7.0%  |
| Diversified Real Estate Activity       | 5.0%  |
| Telecom Carriers                       | 4.2%  |
| Regulated Power Generation             | 3.3%  |
| Real Estate Operating Companies        | 3.2%  |
| Renewable Energy                       | 3.0%  |
| Consumer Finance                       | 2.9%  |
| Property and Casual Insurance          | 2.3%  |
| Air Freight Transportation             | 1.7%  |
| Exchange Traded Fund                   | 0.8%  |
| Multi-Sector Holdings                  | 0.5%  |

## Geographic Region

|                       |       |
|-----------------------|-------|
| Canada                | 57.6% |
| Cash and Other Assets | 14.2% |
| Bermuda               | 12.1% |
| United States         | 9.7%  |
| Hong Kong             | 3.1%  |
| Panama                | 1.7%  |
| Colombia              | 1.6%  |

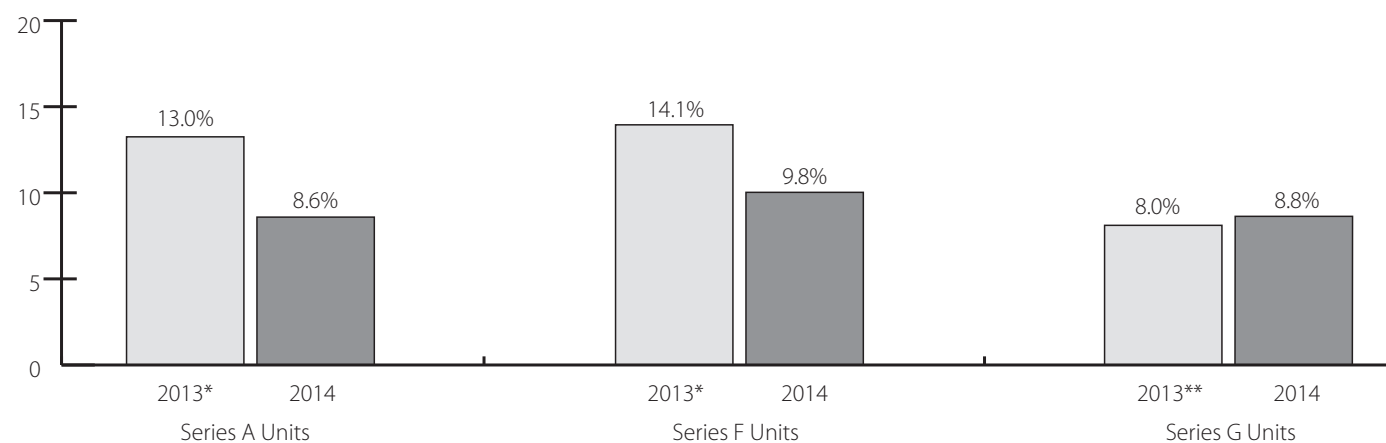
Cash and Other Assets refers to cash on hand plus all other assets and liabilities in the Fund excluding portfolio investments.

## Past Performance

The past performance information shown in this section is calculated using the net asset value per unit and assumes that all distributions made by the investment fund in the periods shown were reinvested in additional securities of the investment fund. The past performance information does not take into account sales, redemptions, distribution or other optional charges or income taxes payable by the unitholder that would have reduced returns or performance. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

## Year-By-Year Returns

The graphs show the annual historical returns of the applicable series of units, which change each year. Annual return is the percentage change in the value of an investment from October 1 to September 30 (unless otherwise stated).



\*Return for 2013 represents a partial year starting October 31, 2012 to September 30, 2013.

\*\*Return for 2013 represents a partial year starting March 14, 2013 to September 30, 2013.

## Annual Compound Returns

The table below shows the historical compound returns of the applicable series of units and the S&P/TSX Composite Total Return Index (the "Index"). The Index comprises approximately 95% of the Canadian equities market and is the primary gauge for Canadian-based, Toronto Stock Exchange listed companies.

| Series of Units | Inception Date   | Since Inception | One Year | Three Year | Five Year | Ten Year |
|-----------------|------------------|-----------------|----------|------------|-----------|----------|
| Series A        | October 31, 2012 | 11.3%           | 8.6%     | -          | -         | -        |
| Index           |                  | 13.7%           | 20.4%    | -          | -         | -        |
| Series F        | October 31, 2012 | 12.5%           | 9.8%     | -          | -         | -        |
| Index           |                  | 13.7%           | 20.4%    | -          | -         | -        |
| Series G        | March 14, 2013   | 8.5%            | 8.8%     | -          | -         | -        |
| Index           |                  | 14.5%           | 20.4%    | -          | -         | -        |

Comparison to the Index: During the year ended September 30, 2014, the Fund experienced a return below that of the Index. Performance will vary by class largely due to the extent that fees and expenses may differ between classes. Since the Fund does not necessarily invest in the same securities as the Index or in the same proportion, the performance of the Fund is not expected to equal that of its benchmark.

## Management Fees

The Manager is responsible for the day-to-day management and administration of the Fund. The Manager monitors and evaluates the performance of the Fund, pays for the investment management services of the investment adviser and arranges for the administrative services required to be provided to the Fund. As compensation for its service, the Manager is entitled to receive a fee, payable monthly, calculated based on the daily net asset value of the Fund.

| Series of Units | Management Fee (%) | Expenses Paid Out of the Management Fee (%) |                                                      |                   |
|-----------------|--------------------|---------------------------------------------|------------------------------------------------------|-------------------|
|                 |                    | Dealer compensation                         | General administration, investment advice and profit | Absorbed expenses |
| Series A        | 2.00%              | 100%                                        | -                                                    | -                 |
| Series F        | 1.00%              | -                                           | -                                                    | 100%              |
| Series G        | 2.00%              | 50%                                         | -                                                    | 50%               |

## Financial Highlights

The following tables show selected key financial information about the Fund and is intended to help you understand the Fund's financial performance for the past 5 periods or, if shorter, the periods since inception of the Fund. The information in the table below is for the period from October 1 to September 30, or inception date to September 30 in the inception period.

### Series A Units - Net Assets per unit<sup>(a)</sup>

| For the periods ended                                  | 2014    | 2013                   |
|--------------------------------------------------------|---------|------------------------|
| Net assets, beginning of the period                    | \$11.29 | \$10.00 <sup>(b)</sup> |
| Increase (decrease) from operations:                   |         |                        |
| Total revenue                                          | 0.36    | 0.24                   |
| Total expenses                                         | (0.35)  | (0.28)                 |
| Realized gains (losses)                                | 0.03    | (0.02)                 |
| Unrealized gains (losses)                              | 0.53    | 1.10                   |
| Total increase (decrease) from operations <sup>2</sup> | 0.57    | 1.04                   |
| Distributions to unitholders:                          |         |                        |
| From income                                            | -       | -                      |
| From dividends                                         | -       | -                      |
| From capital gains                                     | -       | -                      |
| Return of capital                                      | -       | -                      |
| Total annual distributions <sup>3</sup>                | -       | -                      |
| Net assets, end of period <sup>4</sup>                 | \$12.26 | \$11.29                |

### Series A Units - Ratios/Supplemental Data

| For the periods ended                                  | 2014        | 2013      |
|--------------------------------------------------------|-------------|-----------|
| Total net asset value                                  | \$2,658,899 | \$948,044 |
| Number of units outstanding                            | 216,622     | 83,890    |
| Management expense ratio <sup>5</sup>                  | 2.83%       | 2.79% *   |
| Management expense ratio before waivers or absorptions | 7.41%       | 26.73% *  |
| Trading expense ratio <sup>6</sup>                     | 0.04%       | 0.05% *   |
| Portfolio turnover rate <sup>7</sup>                   | 1.48%       | 3.61%     |
| Net asset value per unit                               | \$12.27     | \$11.30   |

### Series F Units - Net Assets per unit<sup>(a)</sup>

| For the periods ended                                  | 2014    | 2013                   |
|--------------------------------------------------------|---------|------------------------|
| Net assets, beginning of the period                    | \$11.40 | \$10.00 <sup>(b)</sup> |
| Increase (decrease) from operations:                   |         |                        |
| Total revenue                                          | 0.41    | 0.26                   |
| Total expenses                                         | (0.20)  | (0.21)                 |
| Realized gains (losses)                                | 0.01    | (0.02)                 |
| Unrealized gains (losses)                              | (0.26)  | 1.12                   |
| Total increase (decrease) from operations <sup>2</sup> | (0.04)  | 1.15                   |
| Distributions to unitholders:                          |         |                        |
| From income                                            | -       | -                      |
| From dividends                                         | -       | -                      |
| From capital gains                                     | -       | -                      |
| Return of capital                                      | -       | -                      |
| Total annual distributions <sup>3</sup>                | -       | -                      |
| Net assets, end of period <sup>4</sup>                 | \$12.53 | \$11.40                |

### Series F Units - Ratios/Supplemental Data

| For the periods ended                                  | 2014        | 2013      |
|--------------------------------------------------------|-------------|-----------|
| Total net asset value                                  | \$2,022,327 | \$151,658 |
| Number of units outstanding                            | 161,307     | 13,288    |
| Management expense ratio <sup>5</sup>                  | 1.69%       | 1.65% *   |
| Management expense ratio before waivers or absorptions | 5.39%       | 49.36% *  |
| Trading expense ratio <sup>6</sup>                     | 0.04%       | 0.05% *   |
| Portfolio turnover rate <sup>7</sup>                   | 1.48%       | 3.61%     |
| Net asset value per unit                               | \$12.54     | \$11.41   |

Series G Units - Net Assets per unit<sup>1(a)</sup>

| For the periods ended                                  | 2014    | 2013                    |
|--------------------------------------------------------|---------|-------------------------|
| Net assets, beginning of the period                    | \$10.42 | \$10.00 <sup>†(b)</sup> |
| Increase (decrease) from operations:                   |         |                         |
| Total revenue                                          | 0.30    | 0.14                    |
| Total expenses                                         | (0.32)  | (0.14)                  |
| Realized gains (losses)                                | 0.04    | (0.02)                  |
| Unrealized gains (losses)                              | 0.90    | 0.44                    |
| Total increase (decrease) from operations <sup>2</sup> | 0.92    | 0.42                    |
| Distributions to unitholders:                          |         |                         |
| From income                                            | -       | -                       |
| From dividends                                         | -       | -                       |
| From capital gains                                     | -       | -                       |
| Return of capital                                      | -       | -                       |
| Total annual distributions <sup>3</sup>                | -       | -                       |
| Net assets, end of period <sup>4</sup>                 | \$11.34 | \$10.42                 |

## Series G Units - Ratios/Supplemental Data

| For the periods ended                                  | 2014    | 2013     |
|--------------------------------------------------------|---------|----------|
| Total net asset value                                  | \$6,808 | \$6,257  |
| Number of units outstanding                            | 600     | 600      |
| Management expense ratio <sup>5</sup>                  | 2.64%   | 2.59% *  |
| Management expense ratio before waivers or absorptions | 7.96%   | 23.29% * |
| Trading expense ratio <sup>6</sup>                     | 0.04%   | 0.05% *  |
| Portfolio turnover rate <sup>7</sup>                   | 1.48%   | 3.61%    |
| Net asset value per unit                               | \$11.35 | \$10.43  |

<sup>†</sup> Initial offering price

\* Annualized

## Explanatory Notes

- a) This information is derived from the Fund's audited annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

b) The following series of the Fund commenced operations on the following dates, which represents the date upon which securities of a series were first purchased by investors.

|                |                  |
|----------------|------------------|
| Series A Units | October 31, 2012 |
| Series F Units | October 31, 2012 |
| Series G Units | March 14, 2013   |
- Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted daily average number of units outstanding over the financial period.
- Distributions are paid out in cash/reinvested in additional shares of the Fund, or both.
- This is not a reconciliation of the beginning and ending net assets per unit.

- The management expense ratio ("MER") is based on total expenses (excluding commission and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. The Manager may absorb certain expenses otherwise payable by the Fund. The amount of expenses absorbed is determined annually at the discretion of the Manager.
- The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of the daily average net asset value during the period.
- The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Portfolio turnover rate is calculated based on the lesser of the cumulative cost of purchases or cumulative proceeds of sales divided by the average market value of the portfolio, excluding short-term investments.



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Historical annual compounded total returns as at September 30, 2014 include changes in unit value and distributions reinvested and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Commissions, service fees, management fees and expenses may be associated with investment funds. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. Please read the prospectus before investing. PORTLAND, PORTLAND INVESTMENT COUNSEL and the Clock Tower Design are trademarks of Portland Holdings Inc. used under licence by Portland Investment Counsel Inc.

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