News Highlights

Owners. Operators. And Insightful Investors.

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Established in 2007

PORTLAND INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments. May 14, 2018

Owner Operated Companies

Brookfield Asset Management Inc. (BAM) reported net income increased significantly for both the quarter and the last twelve months. The increase reflects improvements at existing operations as well as strong contributions from acquisitions across each of its businesses. The firm also recorded a higher level of valuation gains in its opportunistic real estate portfolio. First quarter funds from operations (FFO) also increased significantly to $1.2 billion, an increase of 74% from the prior year. Fee related earnings continue to increase as a result of the growth in fee bearing capital and higher performance fee income. This was due to fee bearing capital growth generated by both increases in new private fund capital and listed issuers. BAM received a performance fee from Brookfield Business Partners L.P. (BPY) in the quarter as the partnership continues to exceed performance hurdles. Fee bearing capital reached $127 billion, a 12% increase over March 2017. Fee related earnings increased by 56% to over $1.0 billion over the long-term, attributable to new capital raised across multiple fund strategies and stronger market valuations of the company's listed partnerships. BAM reported significant liquidity to deploy for future opportunities. This includes $22 billion of third-party private fund commitments and $10 billion of core liquidity. Asset sales included the sale of a 50% interest in the Bay Adelaide Centre West and East towers located in downtown Toronto for CAD $850 million. Brookfield developed both towers which were completed in 2009 and 2015, respectively, and with the sale has realized net proceeds of $292 million to BPY, and $164 million net to BAM. In April, the company's private equity business completed an IPO of GrafTech International Holdings Inc., selling an approximate 13% interest in the company for gross proceeds of $571 million, and in February, it completed a $1.5 billion refinancing of GrafTech which resulted in a $1.1 billion dividend. Brookfield has now returned 2.1x its invested capital, and still own approximately 87% of GrafTech's equity and a $750 million promissory note.

Energy Sector

Cardinal Energy Ltd. reported first quarter results for 2018, including adjusted funds flow up 75% and adjusted funds flow per share up 21% over the same period in 2017. First quarter 2018 operating costs decreased by 9% per boe over the same period in 2017 despite a number of non-recurring expenses. Net debt to adjusted funds flow ratio was reduced by 15% compared to December 31, 2017 and net debt decreased by 5% over year end 2017 levels. First quarter 2018 crude oil and liquids production increased 3% compared to the fourth quarter of 2017 which included a 9% quarter/quarter increase in light oil production. Operating netback increased by 22% from the first quarter 2017 due to increased light oil and NGL (natural gas liquids) production. The company estimates that approximately $0.42 per boe of its operating costs are attributable to the carbon tax on its electrical usage. It has begun a program to reduce its dependence on the power grid and is developing projects in all of its operating areas to produce its own power through company owned cogeneration facilities. The company's solid low decline production base, which operates at a +- 10% decline, continues to deliver consistent results. The combination of improved realized pricing on hedges, the increase in the price of West Texas Intermediate (WTI) and the reduction of the Western Canadian Select (WCS) differential, along with reduced spending on asset retirement obligations (ARO), environmental and exploration throughout the balance of 2018 is expected to result in significant increases in the company's FCF throughout the year. Cardinal plans to use its funds flow in excess of its dividend and capital program to maintain production, reduce its bank indebtedness and grow production in the back half of 2018. Cardinal expects to complete its final divestment of a small non-core asset in the second quarter of 2018. The proceeds of which are expected to reduce the net bank debt to less than $200 million. With increased commodity prices, Cardinal is in a position to achieve its goal of 1x debt to run rate cash flow organically and no further asset sales are expected.

Royal Dutch Shell PLC has agreed to sell its entire stake in Canadian Natural Resources Limited (CNR) or approximately 98 million shares for pretax proceeds of approximately $3.3 billion with the proceeds to be used towards reducing net debt. The group's net debt and gearing stood at $66.1 billion and 24.7% respectively at the end of Q1 and thus the disposal proceeds represent a reduction in net debt of approximately 5% and gearing of approximately 1.2 percentage points, which will likely flow in to Q2 results as the deal is expected to close on May 9, 2018. On March 9, 2017, Shell sold all of its oil sands assets to CNR for $5.4 billion in cash and approximately 98 million CNR shares, valued at $3.1 billion at the time of the deal. At $3.3 billion, the valuation is $0.2 billion higher than the original value of the shares that Shell received from CNR on March 9, 2017, indicating that the deal has been value accretive for Shell, which is encouraging in our view. We see this as an important step in both the divestment process and simplification of Shell with limited cash flow given up. Importantly, the divestment should further enhance Shell's ability to deliver its commitment of at least $25 billion share buyback over 2018-2020.

TransAlta Renewables Inc. reported Q1 2018 EBITDA of $111.0 million, essentially in line with consensus of $110.9 million. On May

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1, 2018, TransAlta entered into a contract with a leading blockchain company to supply up to 35 megawatts of power and provide space at the Sarnia industrial park. The contract has a five-year term with an extension option for up to an additional five years.

Financial Sector

Royal Bank of Scotland Group PLC (RBS) has agreed a $4.9 billion (£3.6 billion) penalty with U.S. regulators to end a long-running probe into its actions in the lead-up to the financial crisis. RBS boss Ross McEwan said the agreement in principle with the U.S. Justice Department (DoJ) was "a milestone". The probe into RBS's sale of financial products from 2005 to 2007 has been a financial cloud hanging over the bank. The DoJ said further details must be negotiated before a final deal is done. Mr. McEwan said: "Today's announcement is a milestone moment for the bank. Reaching this settlement in principle with the U.S. Department of Justice will, when finalised, allows us to deal with this significant remaining legacy issue and is the price we have to pay for the global ambitions pursued by this bank before the crisis." He said that "removing the uncertainty" would mean that RBS, bailed out by the U.K. taxpayer in 2008, would make the bank much stronger. RBS said about $3.6 billion of the penalty would be covered by money already set aside (Source: BBC). Overall the numbers screen well vs. our expectations - the settlement of $4.9 billion was materially below the approximate $9 billion estimates by some analysts, albeit this equated to a forecast cash payment of $7.2 billion given expected $3.9 billion of consumer relief which we assumed was only 50% cash whereas the proposed settlement appears to have no consumer relief element. Overall the benefit of the penalty being less than expected is equivalent to about 70bps on 2018 estimated CET 1 capital taking it to 16%. This equates to surplus capital vs a 14% CET 1 threshold of 32 pence a share at year end 2018 and we would expect, subject to a final settlement being agreed, that dividends together with some form of buyback program will restart later this year to partially offset the start of a Government sell-down.

Activist Influenced Companies

Activist investing firm ValueAct Capital Partners invested $1.2 billion in Citigroup Inc., citing the U.S. bank's low risk and reliable revenue and not calling for major changes, according to a letter seen by Reuters last Monday. In the letter ValueAct sent to clients, the firm said it built its roughly $1.2 billion Citigroup position over the last four to five months and is adding to it "opportunistically." ValueAct said that the bank could return about $50 billion in cash to shareholders over the next two years, according to the letter. That would be $10 billion more than the $40 billion management has said it intends to return. "We have been having constructive conversations with ValueAct and welcome them as investors," Citigroup said (Source: Reuters).

Nomad Foods Limited reported financial results for its first quarter of 2018, including a 1.5% revenue increase, to €539 million, of which 2.9% was organic revenue growth. Reported profit for the period was €62 million and adjusted EBITDA increased 16% to €103 million. Reported EPS were €0.36 and adjusted EPS increased 40% to €0.35. Nomad raised its 2018 guidance to €355 to €360 million adjusted EBITDA and €1.10 to €1.13 adjusted EPS. Noam Gottesman, Nomad Foods' Co-Chairman and Founder, commented, "It is a good time to be in the frozen food business. The category is growing across Western Europe and, in many cases, is out-pacing other packaged food categories. Our strong first quarter performance and plans for the remainder of 2018 put us on track to deliver another year of impressive financial results." The organic revenue growth of 2.9% was driven by 1.5% growth in volume/mix and 1.4% growth in price. Gross profit increased 10% to €171 million. Gross margin expanded 240bps to 31.8% due to positive mix and improved pricing and promotional efficiency. Adjusted operating expense decreased 2% to €78 million. Advertising and promotion expense increased 1% to €30 million while indirect expense decreased 4% to €48 million.

Dividend Payers

Dufry AG - Organic growth +7.1% with like-for-like sales +4.9% and new concessions +2.2%: Turnover in Q1 2018 was +6.6% to CHF 1.82 billion with organic growth of +7.1% (consensus +6.4%) and foreign exchange -0.5%. Highest organic growth was in Asia/Middle East with +21.1%, followed by Latin America (+9.0%), North America (+8.4%) and Southern EU (+3.7%); only U.K./Central EU was negative (-1.4%) due to Geneva closure. As expected gross margin improved by +30bps to 59.9%, but EBITDA margin was up by +100bp to 10.1% (cons 9.5%) due to lower concession fees (-20bps) but also a decline in other costs as percent of sales (-40bps), reflecting the first impact from its Business Operating Model (BOM) plan, which will last till end of 2018. Due to seasonality, FCF in Q1 was CHF -45 million (Q1 2017 CHF -77 million) with net cash flow from operating activities at CHF 10.6 million (Q1 2017 CHF -5.1 million) and lower capital expenditure (CHF 65 million, Q1 2017 CHF 78 million). Net debt/EBITDA is at 3.1x (fiscal year 2017: 3.6x). Share buyback of CHF 400 million starts on May 11 and will run for 12 months.

Northland Power Inc. reported financial results for the first quarter of 2018, which included sales increase of 34% or $122.3 million to $486.4 million and gross profit increase of 41% or $131.5 million to $454.6 million compared to the same quarter last year primarily due to Nordsee One GmbH reaching full commercial operations in December 2017 and higher wind resources at Gemini, partially offset by the expiry of Kingston's power purchase agreement (PPA) in January 2017. Adjusted EBITDA increased 47% or $92.3 million to $290.4 million. FCF per share increased 250% or $0.60 to $0.84. Net income increased 78% or $77.8 million to $178.0

million. On April 30, 2018, the Bureau of Energy of Taiwan allocated 300 megawatts (180 megawatts net to Northland) to the Hai Long 2 offshore wind project under Taiwan's Feed-in-Tariff (FIT). This is a significant milestone for the project, located approximately 50 km off the coast of Taiwan, as it allocates capacity for Hai Long 2 to connect to Taiwan's grid in 2024, and advances the project's ability to execute a 20-year power contract under Taiwan's FIT program. Northland and its partner Yushan Energy Private Limited. have economic interests of 60% and 40% in Hai Long 2, respectively. Northland continues to expect adjusted EBITDA in 2018 to be in the range of $860 to $930 million and FCF per share in 2018 to be in the range of $1.70 to $2.00.

Pattern Energy Group Inc. (PEGI) – announced financial results for the 2018 first quarter, which included the following highlights: proportional gigawatt hours (GWh) sold of 2,127 GWh, up 4%, net cash provided by operating activities of $27.8 million, cash available for distribution (CAFD) of $43.1 million. Adjusted EBITDA was $104.2 million on revenue of $111.7 million, up 11%. During the period, PEGI acquired 206 megawatts of owned capacity in five Japanese projects which represents the company's entry into Japan, one of the most robust renewables markets in the world and invested $27 million in Pattern Energy Group 2 LP's acquisition of the majority interest in Green Power Investment Group and the Japanese development pipeline from Pattern Energy Group LP. PEGI commenced commercial operations at two projects, the 33 megawatt Ohorayama Wind power facility in Japan and, subsequent to the end of the period, the 143 megawatt Mont Sainte-Marguerite Wind power facility in Quebec which Pattern Energy has agreed to acquire. Pattern Energy is re-confirming its targeted annual CAFD for 2018 within a range of $151 million to $181 million, representing an increase of 14% compared to CAFD in 2017.

RioCan Real Estate Investment Trust - Q1 2018 reported FFO per unit of $0.46, up 6.1% from the year-ago quarter and ahead of consensus of $0.44. The growth is all the more impressive considering the large volume of asset sales, which is dilutive. Same-property net operating income (NOI) growth was 2.6%, and even stronger (3.3%) in urban markets. With RioCan moving quickly to high-grade its portfolio, the performance of the more urban portfolio is highly relevant. Further, management sounded confident that internal growth will reach 3% over the next year. RioCan has made significant progress on its plan to divest approximately 100 properties totaling $2 billion over the next two to three years. As of May 8, 2018, RioCan has either completed or agreed to sell $583.4 million of properties at a weighted average cap rate of 6.14%. Additionally, RioCan has entered into eight conditional agreements to sell 14 properties across Ontario, Quebec and B.C. for total proceeds of $224.8 million. If all these transactions close successfully, RioCan will have sold 40 properties for total proceeds of $808.2 million, or 40% of the real estate investment trust's (REIT) disposition target. Management indicated that the pace of dispositions is ahead of their original target, and that they will likely have completed almost 90% of the dispositions within the next 12 months. RioCan is utilizing a portion of the proceeds from asset sales to repurchase units well below NAV. Since October 2017, the REIT has purchased and canceled 9.8 million units, approximately 3% of units outstanding, for a total cost of $240 million. With approximately $1.4 billion of additional asset sales remaining, we expect the buyback to continue at a steady pace. Utilizing a 5.50% cap rate to value RioCan's portfolio suggests a NAV estimate at about $27.86.

Economic Conditions

Canadian employment fell by 1,000 in April according to the Labour Force survey, much weaker than consensus which was expecting a gain of 20,000. However, thanks to a one-tick drop in the participation rate to 65.4%, the unemployment rate managed to remain unchanged at 5.8%. Job increases in the private sector (+28,000) were offset by declines in both the public sector (-13,600) and self-employment (-15,600). Employment in the goods sector fell 16,000 with declines in construction, manufacturing and resources, more than offsetting gains elsewhere. Services-producing industries increased employment by 15,000 courtesy of gains in professional services, accommodation which offset losses in finance, trade, health care, education. Full time employment jumped 29,000, offsetting declines of 30,000 for part-timers. Hourly earnings were up 3.6% year/year, the highest since 2012. Looking at provinces, Ontario created the most jobs in April (+9,000) and continues to lead the nation on a 12-month average basis. The April employment report is not as bad as it looks on the surface. True, the jobs decline was disappointing, particularly losses in cyclical sectors such as manufacturing and construction. But the soft headline number doesn't necessarily mean Canada's labour market is struggling. A colder-than-usual April may have hurt hiring in some sectors. The weakness was also largely due to declines in self-employment and the public sector. But more importantly, private sector employment rose by the biggest amount since November of last year. The tilt towards full-time jobs is also encouraging and largely explains the uptrend in wage inflation. Also positive, is the further increase in employment of prime-age workers. On a 12-month average basis, total employment creation is running at a healthy 23,000 jobs/month, with more than half of that tally coming from the private sector. All in all, the April jobs report does nothing to change our view that the labour market remains tight and will continue to fuel inflation pressures this year.

Italian politics - Bloomberg reports that 5 Star's Mr. Di Maio and the League's Mr. Salvini may meet with President Mr. Matteralla today to present their plans for a government. As yet no figure has been announced as prime minister. Bloomberg reported comments from Mr. Di Maio on Friday that the two sides had found "many points of

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agreement" on topics ranging from a citizen's income for the poor, a flat tax, and pension reform. It is reported that President Sergio Mattarella has indicated that he doesn't intend to rubber stamp whatever they decide. Reuters reports that an Italian tribunal has lifted a ban on Silvio Berlusconi from holding public office, meaning he could run to be prime minister in the next national election.

Financial Conditions

The **Bank of England**, as expected, left rates unchanged at 0.50% last week. The GBP took a hit as inflation forecasts were marked down on the less-than-expected pass-through to prices from the weaker GBP: Q4 2018 2.16% (was 2.42%); Q4 2019 2.08% (was 2.18%); Q4 2020 2.01% (was 2.11%). The tone from press statement and Minutes seemed a softer in our view but nothing to change our view that another rate hike was likely this year. After all, there was "value" in seeing how the data unfold, to "discern" if Q1's softness will persist or if is temporary, and to "learn" how the economy evolves relative to their forecasts. And, the "costs to waiting……were likely to be modest". So it seems clear the Bank of England is in no rush to raise rates.

The U.S. 2 year/10 year treasury spread is now .44% and the U.K.'s 2 year/10 year treasury spread is .66% - 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.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 4.55% (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 13.19 (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 augurs 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
- Portland Advantage Plus - Everest and McKinley Funds
- 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 http://www.portlandic.com/prices/default.aspx

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.

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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