# PORTLAND VALUE PLUS FUND

PORTLAND INVESTMENT COUNSEL®
OWNERS. OPERATORS. AND INVESTORS.

(as at October 31, 2017)

| | Net Asset Value Per Unit (as at October 31, 2017) | PERFORMANCE (as at October 31, 2017) | | | | | |
|---|---|---|---|---|---|---|---|
| | | 1 Month | 3 Months | 6 Months | 1 Year | 2 Years[1] | Since Inception[1] |
| Portland Value Plus Fund - Series A (CAD) | $24.6945 | 1.4% | 10.3% | 6.6% | (6.7%) | (8.6%) | (21.8%) |
| Portland Value Plus Fund - Series F (CAD) | $24.3242 | 1.5% | 10.6% | 7.3% | (5.6%) | (7.6%) | (21.0%) |
| MSCI World Total Return Index | - | 5.3% | 7.7% | 3.4% | 18.1% | 10.7% | 10.0% |

## FUND FACTS

| | |
|---|---|
| Fund Net Assets | $0.9 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

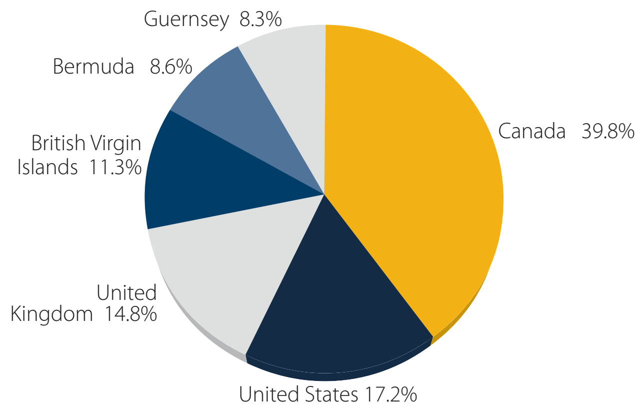
- Businesses led by eminent capital allocators.
- Businesses being transformed by eminent capital allocators (activist investors).
- Opportunities that prevail now.

## PORTFOLIO MANAGER

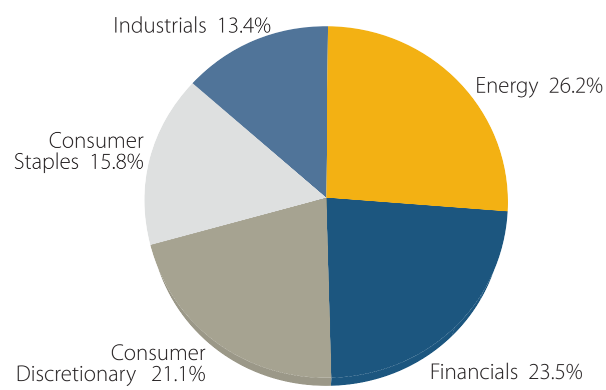
**Michael Lee-Chin**, B.Eng., LLD (Honorary)
Executive Chairman, Chief Executive Officer and Portfolio Manager

**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 | 233.8% |
| Other Net Assets (Liabilities)[2] | (0.3%) |
| Cash | (133.5%) |

| | |
|---|---|
| Leverage Ratio[3] | 57.1% |

| Top Holdings | Percentage of Total Assets |
|---|---|
| Liberty Global PLC LiLAC | 14.8% |
| Nomad Foods Limited | 11.3% |
| Whitecap Resources, Inc. | 9.9% |
| Brookfield Business Partners L.P. | 8.6% |
| Crescent Point Energy Corp. | 8.4% |
| Pershing Square Holdings, Ltd. | 8.3% |
| Berkshire Hathaway Inc. | 7.9% |
| Baytex Energy Corp. | 7.9% |
| Brookfield Asset Management Inc. | 7.3% |
| Linamar Corporation | 6.3% |
| Hertz Global Holdings, Inc. | 4.8% |
| Walgreens Boots Alliance, 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 15.9%. 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., Restaurant Brands International Inc. and Nomad Foods Limited. The Fund's leverage amplified the outperformance.

The Fund's net asset value at September 30, 2017 was $0.8 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, 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.

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 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 28.5% 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, based on total assets, the top 5 sector exposure was constituted by energy 28.5%, financials 23.7%, consumer discretionary 23.1%, industrials 13.4% and consumer staples 11.3%.

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, 2017, leverage in the Fund was 54.9% of the portfolio.

## 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.

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(as at October 31, 2017)

## FUNDSERV 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*

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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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