



PORTLAND ADVANTAGE PLUS - MCKINLEY FUND



PORTLAND
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OWNERS. OPERATORS. AND INVESTORS.

(as at February 28, 2018)

| | Net Asset Value Per Unit (as at February 28, 2018) | Annual Distribution Rate ¹ (as at February 28, 2018) | PERFORMANCE (as at February 28, 2018) | | | | | |
|--|--|---|---------------------------------------|----------|----------|---------|---------------------|------------------------------|
| | | | 1 Month | 3 Months | 6 Months | 1 Year | 3 Year [†] | Since Inception [†] |
| Portland Advantage Plus - McKinley Fund - Series A (CAD) | \$6.0184 | 10.0% | (20.4%) | (27.5%) | (14.9%) | (42.9%) | (35.5%) | (37.1%) |
| Portland Advantage Plus - McKinley Fund - Series F (CAD) | \$6.0258 | 11.6% | (20.3%) | (27.3%) | (14.5%) | (42.3%) | (34.8%) | (36.4%) |
| S&P/TSX Composite Total Return Index | - | - | (3.0%) | (3.2%) | 2.9% | 3.2% | 3.5% | 4.4% |

FUND FACTS

| | |
|-------------------------------|---|
| Fund Net Assets | \$2.5 million CAD |
| Inception Date | April 30, 2014 |
| 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 limited number of quality equity securities with an emphasis towards: large capitalization, high liquidity, relatively high dividend yields and long-term growth industries
- Leverage by purchasing securities on margin, ordinarily expected to be up to 50% of the Portfolio (market value of securities)

KEY REASONS TO INVEST

- Income through targeting fully funded monthly distributions
- Above average return over the long term through a focused portfolio of quality equities, ordinarily selected from liquid, large cap, dividend-paying stocks at what we believe are attractive valuations
- Use of leverage to enhance the power of dividends
- Embedded product leverage is non-recourse to individual investors

PORTFOLIO COMPOSITION

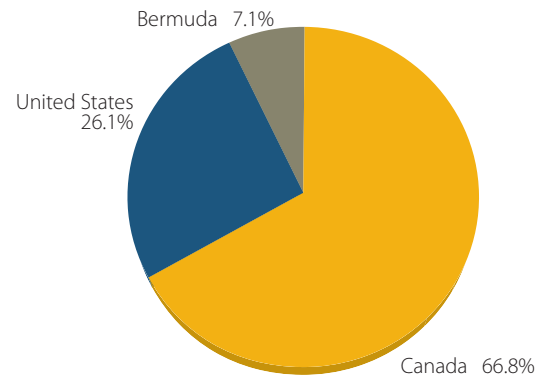
- Focused portfolio of select companies domiciled in long-term growth industries
- Emphasis on relatively higher dividend yielding securities
- Multiple sectors

PORTFOLIO MANAGER

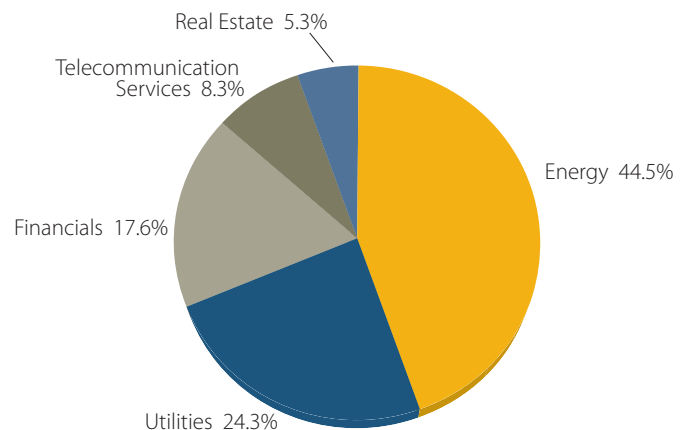
Michael Lee-Chin, B.Eng., LL.D (Honorary)
Executive Chairman, Chief Executive Officer
and Portfolio Manager

Dragos Berbecel, BComm., MBA, CFA
Portfolio Manager

Geographic Mix (as a % of total assets)



Sector Mix (as a % of total assets)



Asset Mix (as a % of net asset value)

| | |
|---|---------|
| Equities | 321.0% |
| Other Net Assets (Liabilities) ² | -1.3% |
| Cash | -219.7% |

| | |
|-----------------------------|-------|
| Leverage Ratio ³ | 68.7% |
|-----------------------------|-------|



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| Top Holdings | Percentage of Total Assets | Dividend Yield ⁴ |
|---|----------------------------|-----------------------------|
| Crescent Point Energy Corp. | 19.9% | 3.9% |
| Pattern Energy Group Inc. | 12.2% | 9.1% |
| Ares Capital Corporation | 9.6% | 9.6% |
| Cardinal Energy Ltd. | 9.3% | 10.1% |
| Whitecap Resources, Inc. | 7.7% | 4.1% |
| Baytex Energy Corp. | 7.6% | 0.0% |
| TransAlta Renewables Inc. | 6.9% | 8.1% |
| IGM Financial Inc. | 5.7% | 5.7% |
| Brookfield Property Partners L.P. | 5.3% | 6.3% |
| AT&T Inc. | 4.3% | 5.5% |
| BCE Inc. | 4.0% | 5.4% |
| Northland Power Inc. | 3.4% | 5.4% |
| The Bank of Nova Scotia | 2.3% | 4.1% |
| Brookfield Infrastructure Partners L.P. | 1.8% | 4.7% |

FUND COMMENTARY (as at December 31, 2017)

For the period of September 30, 2017, to December 31, 2017, the Fund's benchmark, the S&P/TSX Composite Total Return Index had a return of 4.5%. For the same period, the Fund's Series F units had a return of -3.0%. Unlike the Index, the Fund's return is after the deduction of its fees and expenses. The Fund's underperformance was due to the Fund's energy sector (overweight) and utilities (overweight) holdings negative relative contribution. The Fund's leverage amplified the underperformance.

The Fund's net asset value at December 31, 2017, was \$3.4 million.

The Fund has preserved its significant exposure to energy holdings, which, as at December 31, 2017, constituted 42.1% of the portfolio's assets.

Over the course of the past quarter the energy markets have continued their journey towards recovery, meaningfully supported by the Organization of Petroleum Exporting Countries (OPEC) and certain non-OPEC countries' (most notably Russia) decision to extend the currently agreed production cuts until the end of 2018, but also by unforeseen production disruption, such as the repairs to the Forties pipeline in the North Sea or civil unrest in the key producing countries of Iran, Venezuela and Libya. During the reporting period, the West Texas Intermediate (WTI), the North American crude oil price benchmark, advanced from \$51.67/barrel (bbl) to \$60.42/bbl, a roughly 17% improvement over the period. Crude oil inventory drawdowns, which had accelerated over the summer months across the OECD countries and in the U.S., but also in

important Asian markets such as China, continued well into the fourth quarter and, as we write this note, are still ongoing. U.S. crude oil inventories, for instance, reached 424 million barrels at the end of December, down more than 100 million since their peak of 536 million at the end of March, and are now lower than both end of 2016 and end of 2015 levels. Winter months tend however to be volatile ones for the crude oil as travel and demand for gasoline slows down and refinery runs are interrupted by maintenance. In addition, as mentioned in our previous notes, the debate continues around the potential production growth in the U.S., notably the Eagle Ford and Permian basins, with signs that earlier growth estimates may be exaggerated.

The Manager continues to believe that the fundamental operations of our energy holdings remain robust, even in this challenging environment. As such, we have continued to maintain elevated levels of exposure to the energy sector, through our oil and gas exploration and production holdings, and plan on doing so until we see a substantial recovery in the energy space. We've said many times in the past that low oil prices are unsustainable, and the significant curtailment in oil and gas capital expenditures, amounting to some \$1 trillion in overall spending cuts towards finding and developing reserves by 2020, has created the conditions for demand to catch up with supply. Global demand growth has accelerated over the 2015 to 2018 time horizon, at an average pace of over 1.6 million bbl/d per annum. This compares to the 2012 to 2014 period, when demand grew at a 1.2 million. Prices are steadily moving higher to adjust to the new demand and supply fundamentals, admittedly helped by the OPEC/Russia action, though also preserving upside risk, given the reduced inventory levels and spare production capacity.

It needs to be emphasized, we believe, that the recovery in the market values of oil and gas exploration and production (E&P) companies is not a linear function of the crude oil prices, but rather a combination of the prices, operating leverage and balance sheet leverage. As such, there are likely a couple of inflection points in the performance of E&P companies. In broad terms, a WTI level in the low \$30/bbl could signify potential liquidity and solvency issues for many operators, with the associated drops in valuations, while levels in the \$50 to \$60/bbl range are more indicative of cash flow positive operations and significant uplift in valuations.

As per abovementioned reasoning, coupled with a softening of the prices available to Canadian producers due to transportation capacity availability (driven chiefly by the Keystone pipeline leak and subsequent as well as Enbridge Inc's capacity restrictions and rail reduced availability), the performance of our energy holdings was mixed during the quarter, but overall fell short of the WTI's rate of improvement. As some of the marketing restrictions are being addressed and as subsequent reports confirm significantly improved profitability in the improved commodity environment, we expect our holdings to re-rate towards more normalized levels.

During the quarter, Whitecap Resources, Inc. announced and



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closed the acquisition of key low decline light oil producing assets from Cenovus Energy Inc., as the latter company was pressured to reduce the size of its balance sheet. Whitecap also made good to its earlier promise and raised its dividend twice during the period, by a combined 10%. Baytex Energy Corp., Cardinal Energy Ltd. and Crescent Point Energy Corp., all reported third quarter results which were either in line or slightly ahead of the expectations and used excess funds flow from operations to pay down debt or increase their capital programs. Crescent Point initiated and intends to continue the streamlining of its operations by divesting non-core assets.

Outside of the energy space, the performance was broadly positive. Our interest sensitive holdings, including utilities and property, suffered somewhat in the quarter as it became apparent as the pace of the policy tightening might accelerate near term. In addition, concerns around the U.S. tax reform (which turned out to have been exaggerated) temporarily affected our U.S. exposed utilities. At the beginning of the quarter, Pembina Pipeline Corporation closed its acquisition of Veresen Inc. and we received shares and cash. We disposed of our Pembina shares shortly thereafter. Also during the quarter, we exited our position in Johnson & Johnson and The Procter and Gamble Company, as the positions became sub-sized and are providing a reduced income spread in the current environment.

As at December 31, 2017, based on the Fund's total assets, the top 5 sector exposure was constituted by energy 42.1%, utilities 24.8%, financials 16.8%, telecommunication services 11.5% and real estate 4.8%. The Fund makes use of low-cost leverage to invest in a portfolio with a dividend yield that currently provides a substantial spread over the cost of borrowing. Based on settlement date activity, leverage was, as of December 31, 2017, 65.7%. As of the same date, the underlying portfolio's dividend yield was 5.4%, which, upon the application of leverage, translates into a gross 15.7% yield to the equity. The Manager believes that the stream of dividends generated by the underlying investments provide an attractive entry point for investors looking for equity based high yield. As of December 31, 2017, the Fund provides an 8.4% distribution yield for investors in the Series F units of the Fund.

Going forward, we believe that the Fund is well-positioned to meet its investment objectives which are to provide income and achieve, over the long-term, an above average return by combining a leveraged investment strategy with focused investment, primarily in a limited number of long securities positions.

RISK MANAGEMENT STRATEGY

The Manager relies on the following risk mitigation measures:

- Portfolio construction
- Buffers against margin calls
- Companies with relatively higher dividend yields, lower volatility and diversified by sector
- Intending to preserve excess margin or 'buffer'
- Reduce the impact of rising interest rates through emphasis on investments that are positively correlated with economic growth
- Value discipline

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, interest rate changes, dividend yields, 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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FUNDSERV CODES

| Fund Name | SERIES A | SERIES F† | SERIES N |
|---|----------|-----------|----------|
| Portland Advantage Plus - McKinley Fund - CDN\$ | PTL940 | PTL935 | PTL930 |
| Portland Advantage Plus - McKinley Fund - USD\$ | PTL840 | PTL835 | PTL830 |

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

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† Annualized.

1. Distribution yields are based on the net asset value per unit divided by a full month distribution rate.
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.
4. Dividend Yield – Annual dividends divided by the share price.

Additional Sources: Bloomberg, Thomson Reuters

The Portland Advantage Plus – McKinley 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 all 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. The portfolio is expected to generate income from dividends, interest and option writing income, which after deduction of expenses, will be distributed by the Fund to unitholders. Assuming the expected level of income is received, the portfolio would not be required to appreciate. If the level of income is less than the amount necessary to meet the target distribution, the Manager may either pay out a lower distribution or supplement the amount needed through net realized capital gains from the portfolio or may return a portion of the capital of the Fund to unitholders in which case the distribution would not have been fully funded as the net asset value would be reduced. Distributions are reinvested automatically in additional units of the Fund. No commissions are payable upon automatic reinvestment of distributions.

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