



# PORTLAND ADVANTAGE PLUS - MCKINLEY FUND



**PORTLAND**  
INVESTMENT COUNSEL®

OWNERS. OPERATORS. AND INVESTORS.

(as at July 31, 2017)

	Net Asset Value Per Unit (as at July 31, 2017)	Annual Distribution Rate <sup>1</sup> (as at July 31, 2017)	PERFORMANCE (as at July 31, 2017)					
			1 Month	3 Months	6 Months	1 Year	3 Year <sup>†</sup>	Since Inception <sup>†</sup>
Portland Advantage Plus - McKinley Fund - Series A (CAD)	\$8.5354	7.1%	1.0%	(19.4%)	(22.2%)	(28.3%)	(40.1%)	(36.7%)
Portland Advantage Plus - McKinley Fund - Series F (CAD)	\$8.5233	8.2%	1.1%	(19.2%)	(21.7%)	(27.5%)	(39.4%)	(36.0%)
S&P/TSX Composite Total Return Index	-	-	(0.1%)	(2.1%)	(0.2%)	6.8%	2.6%	4.0%

## FUND FACTS

Fund Net Assets	\$3.4 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

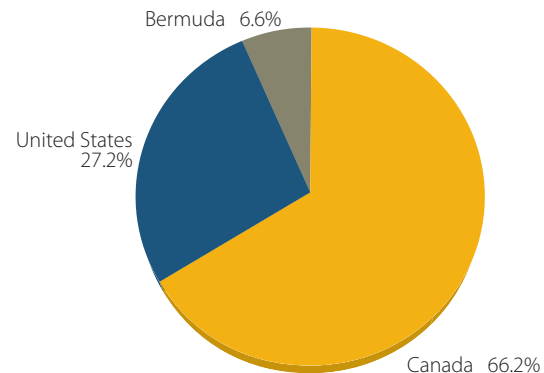
- Focused portfolio of select companies domiciled in long-term growth industries
- Emphasis on relatively higher dividend yielding securities
- Multiple sectors

## PORTFOLIO MANAGER

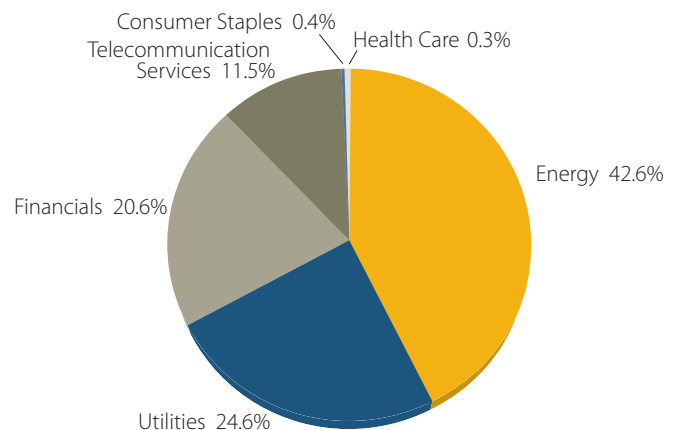
**Michael Lee-Chin**, B.Eng., LL.D (Honorary)  
Executive Chairman, Chief Executive Officer  
and Portfolio Manager

**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	301.4%
Other Net Assets (Liabilities) <sup>2</sup>	(1.0%)
Cash	(200.4%)

Leverage Ratio <sup>3</sup>	63.2%
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Top Holdings	Percentage of Total Assets	Dividend Yield <sup>4</sup>
Crescent Point Energy Corp.	16.4%	3.7%
Pattern Energy Group Inc.	11.4%	6.7%
Cardinal Energy Ltd.	8.3%	9.0%
Ares Capital Corporation	8.0%	9.3%
Whitecap Resources, Inc.	7.8%	3.0%
AT&T Inc.	7.1%	5.0%
Baytex Energy Corp.	6.5%	0.0%
IGM Financial Inc.	6.2%	5.4%
TransAlta Renewables Inc.	5.9%	6.4%
Northland Power Inc.	4.5%	4.7%
BCE Inc.	4.4%	4.9%
Brookfield Property Partners L.P.	3.8%	4.9%
Veresen Inc.	3.6%	5.5%
Brookfield Infrastructure Partners L.P.	2.8%	4.3%
The Bank of Nova Scotia	2.6%	3.9%
The Procter & Gamble Company	0.4%	3.0%
Johnson & Johnson	0.3%	2.5%

## FUND COMMENTARY (as at June 30, 2017)

For the period since March 31, 2017, to June 30, 2017, the Fund's benchmark, the S&P/TSX Composite Total Return Index had a return of (1.6%). For the same period, the Fund's Series F units had a return of (23.3%). 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) holdings negative relative contribution, offset by the positive relative contribution of the Fund being overweight in the utilities sector. The Fund's leverage amplified the underperformance.

The Fund's net asset value at June 30, 2017, was \$3.4 million.

The Fund has preserved its significant exposure to energy holdings, which, as at June 30, 2017, constituted 40.1% (of which 36.7% in the oil and gas production and exploration space) of the portfolio's assets.

During the period crude oil prices globally continued to be affected by concerns around the supply and demand imbalance. Prices retrenched in the earlier part of the quarter as U.S. crude oil inventories were late to revert to drawdowns from inventory builds, likely driven by a faster than expected production recovery in the U.S. shale basins, most notably Permian, Texas. Technological advances (longer horizontal wells, more fracks per well, increased pressure and quantity of proppant, better drilling chemicals) and geological features of

the Permian basin (stacked layers of oil bearing rock) allowed for significant improvements in well deliverability (initial oil production) and attracted significant investor interest over the past couple of years. Production growth limits in the Permian are likely to be tested by cost increases (costs were up roughly 15% in 2016) and full cycle economics (including the cost of land and infrastructure) are becoming challenged at current crude oil levels. Crude oil prices rallied ahead of OPEC's May 25 meeting, when the organization, alongside a number of non-OPEC nations, most notably Russia, decided to extend the current production cap into the end of first quarter of 2018. Absent a deepening of the production cuts and still stubbornly high levels of crude oil and refined product inventories in the U.S., crude oil markets slid once again, also driven by record levels of short-selling in the crude oil and refined product contracts. The quarter ended with a short-covering rally, with the North American benchmark, the WTI (West Texas Intermediate) closing at \$46.04, down 9% over the period.

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 continue to believe that the current oil prices are unsustainable, as evidenced by the more than 20% back-to-back drops in global oil industry capex in 2015 and 2016 adding up to some \$1 trillion in overall spending cuts towards finding and developing reserves by 2020. Capex cuts of such magnitude are unprecedented and are sowing the seeds of future supply shortfall as demand continues to grow. In other words, the longer lower oil prices stay low, the higher the eventual rebound.

Energy companies held in the Fund have responded to the protracted low price environment and uncertain near-term outlook by further curtailing capital expenditures, extending financing facilities, raising capital to strengthen balance sheets and continuing their broad hedging programs, while maintaining robust production levels. They have been and are likely to continue to benefit from significant cost reductions and improvements in production efficiency compared to 2014.

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/barrel could signify potential liquidity and solvency issues for many operators, with the associated drops in valuations, while levels in the \$50 to \$60/barrel range are more indicative of cash flow positive operations and significant uplift in valuations.

Outside of the energy space, the holdings had performed well, in particular Veresen Inc., which close the quarter up 26.6%, as its acquisition by Pembina Pipeline Corporation was announced



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earlier in the quarter, and Pattern Energy Group Inc., up 20.4% over the quarter. Veresen Inc became the subject of a friendly takeover offer from Pembina Pipeline, which valued the company at \$9.7 billion, including debt. The combined company will have a strong position in the Western Canadian Sedimentary Basin, home to the world's third largest crude reserves. The Fund started building its position in Veresen at the beginning of August 2016 and we are pleased that the offer price represents a significant premium to our acquisition cost, materially contributing to the Fund's performance. In addition, Veresen has been a major contributor of dividend income.

As at June 30, 2017, based on the Fund's total assets, the top 5 sector exposure was constituted by energy 40.1%, utilities 26.2%, financials 21.2%, telecommunication services 11.8% and consumer staples 0.4%. 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 within the Fund was, as of June 30, 2017, 69.0% of the portfolio. As of the same date, the Fund's underlying portfolio's dividend yield was 5.2%, which, upon the application of leverage, translates into a gross 16.9% 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 June 30, 2017, the Fund provides a 8.3%<sup>5</sup> distribution yield for investors in the Series F units.

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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## FUNDSEV 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.
5. The annual distribution rate was changed effective as at the end of July, 2017. The annual distribution yield displayed is the new annual distribution rate divided by the net asset value per unit for June 30, 2017.

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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