



PORTLAND ADVANTAGE PLUS - MCKINLEY FUND



PORTLAND
INVESTMENT COUNSEL®

OWNERS. OPERATORS. AND INVESTORS.

(as at April 30, 2018)

	Net Asset Value Per Unit (as at April 30, 2018)	Annual Distribution Rate ¹ (as at April 30, 2018)	PERFORMANCE (as at April 30, 2018)					
			1 Month	3 Months	6 Months	1 Year	3 Year [†]	Since Inception [†]
Portland Advantage Plus - McKinley Fund - Series A (CAD)	\$8.7066	6.9%	46.1%	16.8%	3.8%	(11.6%)	(28.8%)	(29.5%)
Portland Advantage Plus - McKinley Fund - Series F (CAD)	\$8.7135	8.0%	46.2%	17.1%	4.4%	(10.6%)	(28.0%)	(28.6%)
S&P/TSX Composite Total Return Index	-	-	2.2%	(1.1%)	(0.8%)	3.5%	4.0%	4.7%

FUND FACTS

Fund Net Assets	\$3.6 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

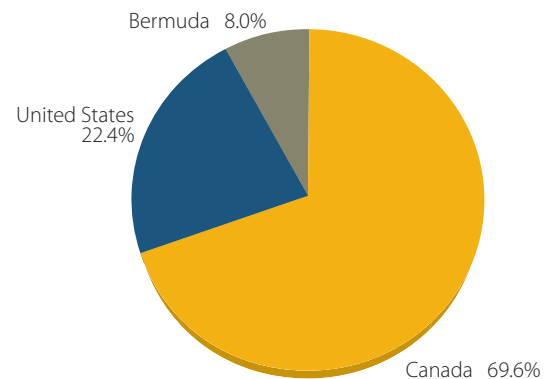
- Focused portfolio of select companies domiciled in long-term growth industries
- Emphasis on relatively higher dividend yielding securities
- Multiple sectors

PORTFOLIO MANAGER

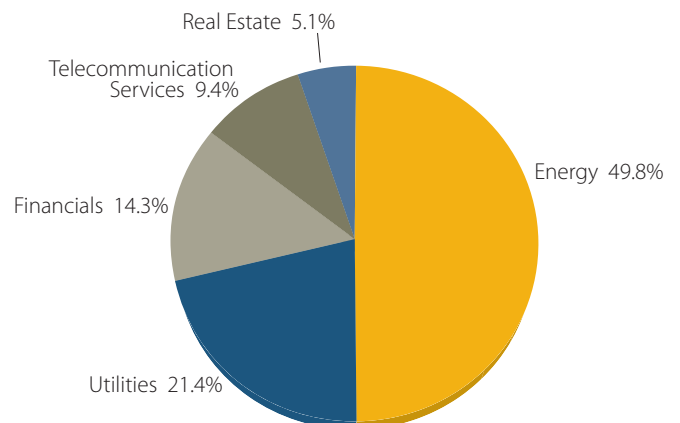
Michael Lee-Chin, B.Eng., LL.D (Honorary)
Executive Chairman, Chief Executive Officer
and Portfolio Manager

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	262.6%
Other Net Assets (Liabilities) ²	(1.1%)
Cash	(161.5%)

Leverage Ratio ³	61.7%
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Top Holdings	Percentage of Total Assets	Dividend Yield ⁴
Crescent Point Energy Corp.	20.7%	3.2%
Baytex Energy Corp.	11.3%	0.0%
Pattern Energy Group Inc.	10.0%	9.3%
Cardinal Energy Ltd.	9.8%	8.1%
Ares Capital Corporation	8.0%	9.5%
Whitecap Resources, Inc.	8.0%	3.3%
TransAlta Renewables Inc.	5.7%	8.2%
Brookfield Property Partners L.P.	5.1%	6.5%
BCE Inc.	5.0%	5.5%
IGM Financial Inc.	4.4%	5.7%
AT&T Inc.	4.4%	6.1%
Brookfield Infrastructure Partners L.P.	2.9%	4.6%
Northland Power Inc.	2.8%	5.2%
The Bank of Nova Scotia	1.9%	4.2%

FUND COMMENTARY (as at March 31, 2018)

For the period of December 31, 2017, to March 31, 2018, 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 -25.6%. 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, partly offset by the positive relative contribution of the Fund being overweight and the selection effect in the telecommunications and financials sectors. The Fund's leverage amplified the underperformance.

The Fund's net asset value at March 31, 2018 was \$2.5 million.

The Fund has preserved its significant exposure to energy holdings, which, as at March 31, 2018, constituted 46.5% of the portfolio's assets.

Over the course of the past three months, 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 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 \$60.42/barrel (bbl) to \$64.94/bbl, a roughly 7% 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.

The combination of synchronized global economic expansion

and lower oil prices led to a surge in crude oil demand, which is expected to continue through 2018, with the EIA (Energy Information Administration) estimating a further 1.8 million barrels per day (bbl/d) increase. Strong global demand and compliance with production targets by OPEC and non-OPEC partners (most notably Russia) led to consistent global inventory levels reduction throughout the period, trending towards the five-year averages. At the same time, it should be noted, the five-year averages likely underestimate the needed inventory levels given the very strong demand since 2013. Similarly, strong demand growth in the U.S., the market that seems to set the tone in global crude oil trading, caused the inventories to drop further during the period; despite record production growth, which was driven chiefly by shale operations. As we're writing these comments, the U.S. crude oil inventories have just dipped below the five-year average level, whereas certain refined products, such as middle distillates (mostly diesel), have been trending below the five-year average levels for months.

At the end of last November, OPEC and Russia agreed to extend their previous production curtailment agreement to the end of 2018, which provided price support during the traditionally softer winter months. Winter months tend to be volatile for crude oil as travel and demand for gasoline slows down and refinery runs are interrupted by maintenance. In addition, as mentioned in our previous fund commentary, 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. 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. However, 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. During the period, crude oil prices reacted to the broader market sell-off, but recovered to close the first quarter at just about \$65/bbl WTI.

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 pace. Prices are



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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 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 sustained prices in the \$50 to \$60/bbl range are more indicative of cash flow positive operations and significant uplift in valuations.

A softening of the prices available to Canadian producers due to transportation capacity availability (driven chiefly by the Keystone pipeline leak and subsequent capacity restrictions as well as Enbridge Inc.'s own capacity limitations and reduced rail availability) led to the performance of our energy holdings being decidedly negative during the quarter, falling short of the WTI's rate of improvement. The underperformance was worsened by the relative attractiveness of the U.S. oil and gas operators, which have been benefiting from a significantly more pro-business government stance as well as dramatic tax reductions. As we're writing, some of the marketing restrictions are being addressed with crude by rail ramping up, but also increased local refining and gradual progress on volume through the Keystone pipeline. Coupled with a more disciplined approach by the oil sands producers, the recent developments led to an improvement in the level of the Western Canadian Select (WCS) differential to just above US\$17.50/bbl from levels as high as US\$31/bbl in late January. As upcoming quarterly reporting may reveal significantly improved profitability in the improved commodity environment, we expect our holdings to re-rate towards more normalized levels.

The Fund's energy holdings reported fourth quarter and full-year 2017 results which largely surprised on the upside on most metrics, including production per share and funds flow from operations. Our energy holdings also reported strong reserve additions with production replacement rates well in excess of 100%. Crescent Point Energy Corp. has continued its program of divesting non-core assets, raising \$320 million during 2017. Subsequent to the quarter end, the company announced a major land acquisition at very favourable prices in the light-oil area of Duvernay. Whitecap Resources, Inc. increased shareholder returns by also initiating a share buy-back program, a testament of the confidence in its prospects. The share buy-back will also support another year of double-digit production per share growth in 2018. Baytex Energy Corp. beat expectations by a wide margin, as some analysts overlooked

the fact that its Eagle Ford production is priced off Louisiana Light Sweet (LLS) crude oil benchmark, at a premium to WTI. As egress challenges are dealt with in Western Canada, we expect Baytex's heavy crude operations to also become contributors to the company's profitability. Baytex has long embraced crude-by-rail as an alternative transportation in a bottlenecked market and is likely to expand the program in the current environment. Cardinal Energy Ltd. continues to benefit from one of the lowest production decline rates on its asset base and helped by recent acquisitions, has increased the share of its light-oil production (which is more favourably priced).

Outside of the energy space, the performance was mixed with positive relative performance by our financials and telecom holdings offset by negative relative performance by our real estate and utilities holdings. Our interest sensitive holdings, including utilities and property, suffered during the quarter as the pace of the policy tightening seemed likely to continue at a sustained pace, albeit subject to review by the central banks and overall inflation trends. Subsequent to the quarter end, softer economic data opened the door for a less aggressive stance by the U.S. Fed, which afforded some recovery in the affected sectors. Towards the end of the quarter, Brookfield Property Partners L.P. (BPY) tabled an improved offer for 66% of GGP Inc.'s shares it doesn't already own. Markets reacted negatively immediately subsequent to the announcement, which allowed us to increase our holding on, what we believe, was very attractive basis, at a yield of nearly 7%. As it became increasingly apparent that the BPY unitholders are likely to get the better deal, the stock recovered somewhat since.

As at March 31, 2018, based on the Fund's total assets, the top 5 sector exposure was constituted by energy 46.5%, utilities 24.5%, financials 16.3%, telecommunication services 6.4% and real estate 6.3%. 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 March 31, 2018, 68.0%. As of the same date, the underlying portfolio's dividend yield was 6.1%, which, upon the application of leverage, translates into a gross 19.0% 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 March 31, 2018, the Fund provides an 11.7% 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.



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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.

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



† 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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Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel: 1-888-710-4242 • Fax: 1-866-722-4242 • www.portlandic.com • info@portlandic.com