News Highlights

Owners. Operators. And Insightful Investors.

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PORTLAND INVESTMENT COUNSEL®

Established in 2007

Our views on economic and other events and their expected impact on investments. March 18, 2019

Owner Operated Companies

Brookfield Asset Management Inc. announced it will buy most of Oaktree Capital Management LLC in a roughly $4.8 billion deal, creating an alternative-asset manager that will challenge the likes of industry giant Blackstone Group LP. The decision by Oaktree, led by distressed debt investor Howard Marks, to sell a majority stake of itself comes after a sustained period in which its stock has underperformed the broader market. Oaktree is the second U.S. alternative-asset manager to sell itself in recent years, since Fortress Investment Group LLC agreed to be acquired by Japan's SoftBank Group Corp for about $3.3 billion in 2017. The deal shows how Brookfield, which currently focuses on private equity, real estate, infrastructure and renewable power, is seeing opportunities in investing in debt, which makes up around 70% of Oaktree's assets under management. "This transaction enables us to broaden our product offering to include one of the finest credit platforms in the world, which has a value-driven, contrarian investment style, consistent with ours," Brookfield Chief Executive Bruce Flatt said in a statement. The combined businesses will have about $475 billion of assets under management, including debt. Both companies will continue to operate as independent businesses, while Marks, Oaktree's co-chairman, would join Brookfield's board of directors.

Linamar Corp. announced another record year, 9th consecutive of double-digit earnings growth. Sales increased 10% over the fourth quarter of 2017 to reach $1.7 billion, while operating earnings increased 8.2% over Q4 2017 to reach $171.1 million. Free cash flow continued to bring net debt levels down and the company reported a record year of new business wins, which positions the launch book at nearly $4.4 billion. The industrial segment sales were up 69.7% and operating earnings were up 119.1% thanks to the acquisition of MacDon Industries Ltd. and market share gains at Skyjack Inc. "We are thrilled to deliver another record year at Linamar," said Linamar CEO Linda Hasenfratz. "2018 was our 9th consecutive year of double digit earnings growth, a record we are very proud of! We continue to see record levels of opportunity and market share growth in our transportation business thanks to evolving technologies so well aligned to our capabilities, Skyjack continues to grow through product and geographic expansion, and MacDon is performing strongly as well. We are confident in our ability to continue to drive growth at Linamar as we have so consistently done over the past decade."

Energy Sector

Bonterra Energy Corp. reported its financial and operational results for the year ended Dec. 31, 2018. Through the year, the company continued to focus on sustainability while prudently investing capital at a pace designed to enhance funds flow and grow reserves and production on a per-share basis. In 2018, Bonterra achieved record average annual production of 13,206 boe per day for the year, 3% higher than in 2017, on a capital expenditure budget that was 4% lower than the prior year. This conservative and disciplined strategy, combined with a supportive global oil price environment for the first nine months of the year, enabled the company to generate solid funds flow supported by its oil-weighted asset base. The company generated annual funds flow of $107.3-million ($3.22 per share) compared with $102.4-million ($3.08 per share) in the same period in 2017 due to higher production volumes and stronger realized prices. Bonterra drilled, completed, equipped and tied in 27 gross (26.9 net) operated and seven gross (1.1 net) non-operated horizontal wells in the light oil Pembina Cardium pool, with a 100% drilling success rate, which contributed to strong volumes in 2018. The company invested $78.7 million in net capital expenditures. Bonterra delivered 2% higher cash netbacks in 2018 of $22.24 per boe compared with $21.85 per boe in 2017 and reduced all-in costs (royalties, operating costs, general and administrative, and interest) by 19%, to $21.67 per boe in Q4 compared with $26.87 per boe in Q3. The decrease was primarily in response to extremely low commodity prices as the company decreased maintenance programs. Bonterra paid out $1.11 per share in cash dividends to shareholders in 2018, resulting in a payout ratio of 34% per cent of funds flow. Through the first 10 months of 2018, benchmark prices for crude oil and Natural Gas Liquids (NGLs) strengthened, and in concert with higher production volumes, contributed to the strongest funds flow Bonterra has achieved in the past three years, totalling $107.3 million or $3.22 per share (basic and diluted) in 2018. During the fourth quarter of 2018, an oversupply of Canadian crude oil inventory caused by a lack of pipeline capacity caused the Canadian/United States oil differential to rapidly widen and reach unprecedented levels near US$35 per barrel in December. In an effort to alleviate the severe discount on Canadian crude, the government of Alberta implemented mandatory oil production cuts for operators effective Jan. 1, 2019, with the first 10,000 barrel per day being exempt. Since the company's oil production is below the exemption, the required cuts are expected to have a minimal impact on overall production. Bonterra's 2019 capital budget of $57 million to $77 million is intended to maintain a balance between funds flow and capital spending with any excess cash used to reduce debt. Annual production volumes in 2019 are estimated to be in the range of 12,600 to 13,200 boe per day, of which approximately 69% would

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be sweet crude oil and NGLs, with a forecast exit rate between 13,000 and 14,000 boe per day. With one of the lowest annual production decline rates and one of the largest inventory of economic undrilled locations, the company is well positioned to continue returning capital to shareholders in the form of dividends while focusing on measured per-share growth in cash flow, production and reserves.

Financial Sector

HSBC Holdings Plc is taking aim at the very richest clients in the world's fastest growing region for wealth. The bank is building an ultra-high-net-worth team in Asia for clients with assets of about $30 million or more, according to Tan Siew Meng, Asia Pacific head of global private banking. Hiring for the new business will be part of the bank's plan to add 700 private banking jobs in Asia by 2022. Tan didn't provide staffing details of the team, though HSBC has hired at least two veterans for the new unit. Private banking in Asia is one of HSBC's strategic priorities as Chief Executive Officer John Flint plans to expand in markets from Greater China to Southeast Asia. Global wealth managers are counting on Asia's richest to boost profitability even after they took a hit from the stock market meltdown in late 2018. "If we're going to be able to achieve the ambitious growth plans that we've got, clearly we need to be able to address the ultra-high net worth segment very well," Gabriel Tan said in an interview in Hong Kong. (Source: Bloomberg)

JPMorgan Chase & Co.'s consumer banking unit said it will open up to 90 branches in new U.S. markets, in the face of intensifying competition for loans and deposits among the country's three biggest banks. JPMorgan, Bank of America Corp., and Wells Fargo & Co. are nip and tuck in deposits. Bank of America, in early 2018, had decided to open more than 500 new branches across the United States by 2021. Chase said it will also hire up to 700 employees in the markets, which include Charlotte, North Carolina; Minneapolis, Minnesota; and Pittsburgh, Pennsylvania, from this summer. The company will also open some of these branches in the cities of Philadelphia, Boston and the Greater Washington area in the District of Columbia - markets it recently entered into. (Source: Reuters)

Prudential Plc reported operating profits of £4.8 billion, 5% (or £229 million) above consensus, and equivalent to 3% Year/Year growth. However, the results were helped by £330 million of net one-off items (some of which were in estimates), and the underlying results were likely in-line with estimates. The company benefited from £441 million of longevity releases in the U.K. (Fiscal Year 2017 £204 million – consensus likely around this number), £166 million of insurance recovery in U.K., offset by £194 million negative Deferred Acquisition Cost impact in the U.S. due to lower U.S. markets (Fiscal Year 2017 £83 million benefit). Asia earnings were clean in our view, with earnings increasing 10% on actual exchange rate basis, driven by continued new business growth and shift towards higher margin health and protection business (70% of Asia revenues). Asia now the largest division, reporting operating profits of £1,982. Asia's growth led by Hong Kong (+33%), Singapore (+22%) and China (+20%) and H2 2018 Asia sales increased by 8% (vs. 4% decline in H1 2018). The dividend was increased by 5% to 49.35 pence (in line with their policy of 5% increases and step-ups when justified, but behind consensus), while Solvency 2 Capital Ratio was strong at 232% (Fiscal Year 2017 202%) and U.S. Risk-Based Capital improved to 458% even with headwind from U.S. tax reform.

Activist Influenced Companies

Brookfield Business Partners L.P. (BBU) together with its institutional partners announced an agreement to sell Brookfield Global Integrated Solutions (BGIS), a leading global provider of facilities management services, to CCMP Capital Advisors, LP for approximately $1 billion. Since acquiring control of BGIS in 2015, Brookfield has supported the management team in expanding the size, scale, and geographic footprint of the business, through both organic growth and acquisitions. Under Brookfield's ownership, BGIS has established itself as a leading global facilities management provider, managing more than 320 million square feet of real estate representing more than 30,000 locations across North America, Asia Pacific and Europe. The company has earned a reputation for innovation and numerous awards for the safety and sustainability of its operations. Sale proceeds to Brookfield Business Partners for its 26% ownership interest in BGIS are approximately $180 million, after taxes.

Canada's Aurora Cannabis Inc. tapped billionaire Nelson Peltz as a strategic adviser, betting on the consumer industry-focused veteran to help the recreational marijuana maker chart its expansion into new markets. Shares of the company jumped 10% after it offered Peltz the role and an option to buy nearly 20 million shares at $10.34 a share, a small discount on the stock's close of $10.64 on Tuesday, March 12th. This equates to a nearly 2% stake in the company, which would be vested every quarter over a four-year period, according to reports from the company. Peltz's appointment comes only weeks after Canopy Growth Corp appointed lifestyle guru Martha Stewart to help develop and launch a line of pot-based products. Aurora, the second biggest cannabis producer by market value, has also been looking beyond recreational marijuana to drive sales, especially after the legalization of hemp, which was part of the 2018 U.S. farm bill. Hemp, a cannabis plant with no or extremely low concentrations of "high" inducing compound, can be used in foods, organic body care and clothing, among others. "Canadian licensed producers, and Aurora in particular, are well positioned to lead in the development of the international cannabis industry," Peltz said in a statement. The activist investor, who heads hedge fund Trian Fund Management LP, has invested in several global consumer conglomerates, including Mondelez International Inc. and Procter & Gamble Co.

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Dividend Payers

GEA Group AG has reported Q4 2018 results today, largely in line with its pre-release from Feb 6, 2019. Key incremental points in today's report (preliminary numbers from pre-release in brackets): GEA reported Fiscal Year 2018 order intake of €4,918 million (approximately €4,920 million), revenue of €4,828 million (€4,830 million), and operating EBITDA of €518 million (approx. €515-520 million). The company has proposed a 2018 dividend of €0.85 (Bloomberg consensus: €0.85). 2019 guidance: (1) Operating EBITDA of €450-490 million versus earlier guidance of approx. €440-480 million with the delta being the adoption of IFRS 16 (+€59 million) and inclusion of strategic projects (-€49 million); (2) Revenues to be "moderately lower" than 2018, unchanged from earlier guidance; and (3) new introduced ROCE (return on capital employed) target of 8.5-10.5% for 2019. A new divisional structure will replace the current 2 business area structure (Equipment and Solutions) – this will be finalized and defined by the end of June. A detailed analysis of the portfolio has been commenced; an immediate stop to acquisitions has been imposed. Regarding IT, HR and finance: contracts with the outsourcing service provider are to be renegotiated to achieve satisfactory service levels in all three areas; GEA will recruit approx. 50 new internal IT workers.

Dufry AG – Fiscal Year 2018 results were in line with expectations with Q4 2018 showing a turnaround in organic growth. After a weak Q3 2018 (Brazil, Argentina, Spain), Q4 saw an improvement in organic growth (+1.8%) and therefore full year organic growth was at +2.7% with like-for-like +1.0% and new concessions +1.7%. Latin America (organic -3.6%) and South E.U. (-2.6%) but Asia (+15.1%), North America. (+6.8%) and U.K./Central E.U. (+0.3%). As expected gross margin reached a new record level with 59.8% (+40 basis points), whereas EBITDA margin stayed flat at 12.0%, impacted by higher selling fees (especially Spain). Free cash flow with CHF 371 million, thanks to lower capex. Dividend will be increased from CHF 3.75 to CHF 4.00. Start of the year (January and February 2019) with further improvement in sales growth, also thanks to new concessions. Mid-term guidance for organic growth +3-4% and Free Cash Flow CHF 350-400 million. The Fiscal Year 2018 result is in line with expectations and we consider the improvement in sales growth in Q4 2018 as a positive sign. Strong cash flow allows dividend to increase (yield 4.0%). New mid-term guidance of 3-4% in organic growth is more conservative than past indications.

Economic Conditions

U.K. / Europe - Brexit: Three years after Britain voted to leave the European Union, lawmakers have failed to agree on how to do it. The British Parliament overwhelmingly rejected Prime Minister Theresa May's revised Brexit deal on Tuesday in a vote of 391 to 242 — a loss of 149 ballots and then on Wednesday parliament rejected leaving the E.U. without a deal, further weakening Prime Minister Theresa May and paving the way for a vote that could delay Brexit until at least the end of June. Lawmakers defied the government by voting 321 to 278 in favour of a motion that ruled out a potentially disorderly "no-deal" Brexit under any circumstances. While the approved motion has no legal force and ultimately may not prevent a no-deal exit, it carries considerable political force, especially as it passed thanks to a rebellion by members of May's own Conservative Party and her cabinet. May, who still insists it is not possible to rule out a no-deal Brexit entirely, said lawmakers would need to agree on a way forward before an extension could be obtained. May is still fighting for her deal, with a third attempt to get it through Parliament likely next week. May said if a deal can be agreed to in the next seven days, she would ask the E.U. for a short "technical" extension. If there's no deal by March 20 — the eve of the next summit of European leaders — she said the delay will be much longer. The European Commission repeated that a delay would indeed require a justification - but positive comments from Germany and Ireland suggested that E.U. members at last saw a prospect that a viable deal would be found, and were inclined to help. Italy would accept an extension of article 50 on Britain's exit from the European Union if London requests it, junior foreign minister Guglielmo Picchi said on Wednesday.

The U.K. economy grew by 0.2% in the three months to January 2019, matching the growth of the previous three months. The report from the Office for National Statistics (ONS) showed a pick-up in activity in January 2019 when the economy expanded by 0.5%. The ONS said strength in IT, health services and wholesale trading offset falls in the manufacturing of metals and cars, and construction repair work. The increase in wholesale could indicate stockpiling ahead of Brexit. (Source: BBC)

Greece has entered a period of economic growth that puts it "among the best performers in the eurozone". That rather striking judgement comes from the International Monetary Fund (IMF) in a new report on the Greek economy. A senior IMF official said there were a lot of positive developments to point to. That said, the IMF said the economy remains vulnerable, further reforms are needed and unemployment remains unacceptably high. Greece was where the eurozone financial crisis started back in 2009, and it was the economy hardest hit. It is also the economy that has received most by way of bailout loans, some from the IMF. But most of the money came from the eurozone to total more than a quarter of a trillion euros. (Source: BBC)

Japan - Risks surrounding Japan's economy are heightening but the central bank must take into account the side-effects of its ultra-loose monetary policy, the head of the country's regional bank lobby said this week. "The BOJ (Bank of Japan) said it will achieve 2% inflation in two years. But six years have passed" since the implementation of a radical stimulus programme, Takashige Shibato, head of the Regional Banks Association of Japan, told a news conference. "The policy has provided sufficient benefits to the economy. On the other hand, various side-effects are emerging in areas like financial intermediation and bond market functions," he said. "We hope the BOJ takes these into account." (Source: Reuters)

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Financial Conditions

The U.S. 2 year/10 year treasury spread is now 0.16% and the U.K.'s 2 year/10 year treasury spread is 0.45% - 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. Also, the narrowing gap between yields on the two-year and 10-year Treasuries is of concern given its historical track record that when shorter term rates exceed longer dated ones, such inversion is usually an early warning of an economic slowdown.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 4.41% (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 3.9 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 13.43 (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 bodes 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
- ITM AG Investment 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 www.portlandic.com/prices

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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