News Highlights

Owners. Operators. And Insightful Investors.

Phone: 1-888-710-4242
Web: www.portlandic.com
Email: info@portlandic.com

Established in 2007

Our views on economic and other events and their expected impact on investments. November 7, 2019

The views of the Portfolio Management Team contained in this report are as of November 7, 2019 and this report is not intended to provide legal, accounting, tax or specific investment advice. Views, portfolio holdings and allocations may have changed subsequent to this date. This research and information, including any opinion, is compiled from various sources believed to be reliable but it cannot be guaranteed to be current, accurate or complete. It is for information only, and is subject to change without notice. The contents of this Newsletter reflect the different assumptions, views and analytical methods of the analysts who prepared them.

Owner Operated Companies

Linamar Corporation - Consolidated adjusted EBIT came in around 3% above consensus -- results in Transportation were quite resilient, especially in the context of lower industry production volumes and the impact of the GM strike, while Industrial performance will likely remain near-term challenged -- recall, Linamar provided 'a mid-quarter update (on October 2nd, 2019) that pointed to weaker-than-previously-expected results.

Nomad Foods Ltd. just reported Q3 2019 operating EPS of €0.25, €0.01 above consensus (€0.24). Overall, net sales were up 1.8% year/year. Organic sales increased 2.5% year/year based on a 1.5% decrease year/year volume/mix and 4.0% year/year increase in price. Gross margin was up 110 bps year/year, while relative SG&A decreased 10 bps year/year. All-in, EBIT was €79.1 million (an 11% year/year increase) and EBITDA was €96 million. Nomad narrowed its 2019 guidance EBITDA and EPS ranges to the high end. Specifically, Nomad now looks for EPS in a €1.20-€1.22 range (vs. €1.18-€1.22 previously), which compares to current consensus of €1.22. This is now based on EBITDA in a €425-€430 million range (vs. €420-€430 million previously), which brackets current Consensus of €428 million. Meanwhile, Nomad continues to look for solid year/year organic sales growth. In its press release Nomad Chairman and Co-Founder Noam Gottesman commented that Nomad has "been evaluating a handful of acquisition opportunities in recent months and look[s] forward to providing updates in due course." While Nomad's M&A firepower is well understood (€700 million of cash and 2.8x leverage), we find the company's language today more forthright.

Energy Sector

Nothing significant to report.

Financial Sector

Brookfield Property Partners LP (BPY) reported Funds from Operations (FFO) per unit for Q3 2019 of US$0.34, down from US$0.38 in the year-ago period. Excluding realized gains, FFO per unit was up 6% year/year, from $0.32 in Q3 2018. Internal growth was largely flat year/year for both the office (same-property Net Operating Income growth of 0.6%, or 2.5% excluding the impact of foreign exchange) and retail portfolio, while acquisitions were generally offset by asset sales and units issued to fund the acquisition of the remainder of GGP Inc. The drop in FFO was mainly due to lower realized gains, as BPY's Limited Partner segment generated FFO of $74 million in the quarter as compared to $127 million in the year-ago period, which was boosted by a sizable gain on sale. As BPY's units currently trade at a 22% discount to NAV, we view buying back units as a compelling use of capital. Management noted on the conference call that continued progress has been made on the buyback throughout the quarter, and it is considering a substantial issuer bid in 2020. In Q3 2019, BPY repurchased 2.0 million units at an average price of US$19.10, for a total investment of US$39.1 million. Additionally, subsequent to quarter-end, BPY purchased an additional 1.0 million units at an average price of US$19.14, for a further investment of US$19.9 million. Management recently renewed the normal course issuer bid and intends to remain active in buying back units. BPY remains extremely focused on divesting mature assets and reinvesting in new acquisitions and its active development projects. In the quarter, US$1.4 billion of gross assets were sold, generating net proceeds of US$723 million, at values 4% above IFRS. Selling assets at a premium to IFRS is significant in that it validates the intrinsic value of the assets. BPY owns an extremely high-quality portfolio of properties, and we believe that it is well positioned to create meaningful value over the long term through the completion of its current active development and redevelopment projects. Going forward, we expect steady same-property Net Operating Income growth from the office portfolio and relatively flat operating results from the retail portfolio. Growth should be boosted by development completions and improved operating performance from BPY's 'opportunistic' investments.

Citigroup Inc. is planning to offer a high-interest online savings account early next year to users of its American Airlines co-branded credit card. The savings account, Citi Miles Ahead savings account, will offer up to 50,000 miles as a sign-on bonus and a 25% boost on miles earned through the card, the bank said in a statement. The digital service will only be available in areas where the bank does not have physical branches.

RioCan Real Estate Investment Trust reported Q3 2019 FFO per diluted unit of $0.47, stable from the prior-year period and just above consensus of $0.46. The REIT has been able to offset the large volume of asset sales through buying back units at lower prices and solid same-property Net Operating Income (NOI) growth. A $14.7 million year/year decline in gains on marketable securities in Q3 2019 was mostly offset by residential inventory gains of $12.3 million, as condo projects were completed. As of Q3 2019, committed occupancy reached 97.2%, up 20 bps year/year, and up 10 bps sequentially. There was greater improvement in the office portfolio, where occupancy was up 40 bps as compared to Q2 2019. At Q3 2019, RioCan's average net rent per occupied square foot was up 6.4% year/year to $19.49, driven by a combination of new leasing and a 7.7%

Phone: 1-888-710-4242
Web: www.portlandic.com
Email: info@portlandic.com

positive spread on renewals. Overall, RioCan's same-property NOI was up 2.1% in Q3 2019 as compared to Q3 2018, and up 2.0% for the nine-month period. Organic growth was stronger in the REIT's core portfolio (Canada's six largest markets) with same-property NOI growth of 2.3% in the quarter, as compared to a 0.1% increase in secondary markets. Management is guiding to internal growth 'in excess of 3.0%' for 2020. The stronger growth, which we believe is achievable, is supported by the greater exposure to larger markets, which has been a clear focus over the past few years. Currently, 89% of revenue is derived from the REIT's core markets, and almost 50% from the GTA.

The Royal Bank of Scotland Group Public Limited Company (RBS) is months behind schedule in satisfying a scheme designed by regulators to reduce its dominance of business banking, as the UK lender's customers continue to ignore incentives to move to rivals. RBS is likely to need an extension to the so-called incentivized switching scheme, which was agreed in 2017 to fulfil a key condition of the lender's bailout more than a decade ago. The UK government and the EU made the bank pour £350 million into a specialized fund, which rival lenders can use to provide special offers for small and midsized businesses to switch their accounts.

Nothing significant to report.

Barrick Gold Corporation reported adjusted EPS of 15 cents, in line with consensus of 12 cents. Q3 2019 reported adjusted EBITDA of $1,214 million, which was 3% above estimates. Barrick's strong operating margin, partially offset by (moderately) higher-than-expected G&A and exploration costs, drove this 45% quarter/quarter increase in EBITDA. EPS was helped along further by lower-than-expected taxes, partially offset by higher-than-expected stock-based compensation. Barrick had pre-announced attributable Q3 2019 gold production of 1.31 million ounces (sales of 1.32 million ounces) and copper production of 111 million pounds (sales of 64 million pounds). Gold cash costs of $710/ounce were broadly in line with estimates (Q2 2019 $651/ounce). Copper cash costs of $1.62/pound were also in line with estimates (Q2 2019 $1.59/ pound). Barrick reiterated its 2019 gold production guidance of 5.1-5.6 million ounces at cash costs of $650-$700/ounce reiterating that production should be near the high end of the guided range with costs at the low end. Copper production guidance of 375-430 million pounds at cash costs of $1.70-$2.00/ pound and all-in sustaining cost (AISC) of $2.40-2.90 was also reiterated. The mid-point of copper guidance implies Q4 2019 production of 89 million pounds (about 20% quarter/quarter) at cash costs of $2.65/pound (up 63% quarter/quarter) and AISC of $3.37/ pound (up 38% quarter/quarter). Barrick continues to expect five-year gold production will be maintained between 5.1-5.6 thousand ounces at cash costs of $650-$700/ounce. Barrick increased its quarterly dividend to $0.05 per share (yield of 1.2%), from $0.04 per share previously. It is estimated the dividend equates to a 15% payout ratio of 2020 sustaining FCF at $1,500/ounce and 20% at $1,300/ounce.

Dufry AG - Organic growth in Q3 2019 increased 4.1% with like-for like sales growth of 1.3%. In the first 9 months of 2019, Dufry posted organic growth of 2.9% (Consensus 2.4%) with like-for like sales growth of 0.1% and new concession growth of 2.8%; the growth acceleration from first half of 2019 was driven by an improvement in like-for like sales growth (first half 2019 - 0.6%, Q3 2019 +1.3%). Europe grew by 5.3% in the first 9 months of 2019 (+7.2% in Q3 2019) with improvement in Spain; Asia continued its double-digit growth (+13.4% in first 9 months of 2019, +12.5% in Q3 2019); Latin America declined 8.4% after first 9 months of 2019 but Q3 2019 was better (-3.8%) due to easier comps; North America was weaker (+2.1% in 9 month period, -0.6% in 9 month period) due to duty-free segment. As already seen in the first half of 2019, gross margin increased by 40 bps (to 60.3%). Adjusted cash flow was CHF 805 million (+6%) with Equity FCF reaching CHF 407 million (-5%) with Q3 2019 CHF 266 million (+28%). Organic growth in October 2019 increased around 3% (+1.8% in Q4 2018 compared to -0.7% in Q3 2018), therefore confirming the trend from Q3 2019. Mid-term target for organic growth of 3 to 4% per annum and FCF of CHF 350 to 400 million is confirmed. Estimates are for an organic growth of 3% for fiscal year 2019, which now should be reachable. In 2020, Brazil will be doubling its duty-free allowance, giving a boost to this important country. Dufry announced it had issued senior notes of EUR 750 million (due 2027) which will refinance the existing EUR 700 million senior notes due 2023. Dufry's Net Debt is at its lowest level since 2016. After the first 9 months in 2019, Net Debt was at CHF 3.07 billion, which results in a Net Debt/Adjusted Operating Cash Flow of 3.29x, clearly below its covenant of 4.5x. The refinancing of a senior notes leads to an extension of the maturity and its FCF will reach CHF 350-400 million in fiscal year 2019, which was above the dividend payment (CHF 200 million) and resulted in lower debts.

South32 Limited has agreed to binding conditional terms with Seriti Resources for the sale of SA Energy Coal. The terms include a ZAR100 million upfront cash payment and then 49% of FCF from completion (likely in 9-12 months) to March 2024 with payment capped at ZAR1.5 billion each year, effectively capping the payment at aroundZAR5.35 billion (US$360 million) with precise amount depending on the completion date. Based on forecast asset level FCFs that implies a total payment of US$93 million, assuming US$68/tonne Richards Bay export coal price over the period (vs. spot $69/ tonne). Adding $1/ tonne to the coal price adds $17 million to the total earn-out price. We would need to assume US$75/tonne coal to deliver US$200 million total earn-out. There will be no tax payable. Completion is conditional on SA regulatory approvals – competition, Eskom, governmental and DMR. This removes one of the more volatile operational assets from the

News Highlights

Owners. Operators. And Insightful Investors.

Phone: 1-888-710-4242
Web: www.portlandic.com
Email: info@portlandic.com

Established in 2007

Our views on economic and other events and their expected impact on investments. November 7, 2019

portfolio. There are tertiary benefits from reduced exposure to thermal coal and South Africa, both of which are likely to reduce the discount rate applied to S32, in analysts' views.

Economic Conditions

The U.S. nonmanufacturing ISM came in better than expected in October, rising 2.1 points to a 2-month high of 54.7; and an improvement in each of the main components of the index is good news and suggests that, although the trade war has reached out and touched all sectors of the economy, at least the nonmanufacturing sector (which accounts for 80% of the private sector activity) fared a little better. After big 6-point plus dives in the prior month, new orders and business activity rose nearly 2 points each, and at 55.6 and 57.0 respectively, are still comfortably above the expansionary 50 zone. The employment component also rose from over 5-year lows, backing up what we saw already in the nonfarm jobs report last week. Of the 18 industries in the survey, for the third time in the past four months, 13 reported growth. Similar to the last report, trade uncertainty is the over-arching theme, while the complaint about labor shortages shifted over to the accommodation & food services industry, instead of construction.

New Zealand's seasonally-adjusted unemployment rate climbed to 4.2% in Q3 2019, up from Q2 2019's 11-year low of 3.9%. Employment growth was also slower than expected, at a sluggish 0.2% quarter/quarter from the previous three months and 0.9% year/year from a year earlier, making this the slowest annual pace since 2013. Average hourly earnings growth dropped to 0.6% quarter/quarter, down from 1.1% quarter/quarter previously and missing consensus expectations of 1.0% quarter/quarter. The moderation in hourly earnings growth could signal further slack in the labor market as pressure to compete for workers normally lifts wages.

Financial Conditions

Bank of England left rates unchanged at 0.75% but the markets were a little surprised that two members dissented (Michael Saunders and Jonathan Haskel) and voted for a cut. Both cited heightened global risks, Brexit and the soft labour market. GDP forecasts for 2020 were down to 1.2% and 2021 growth forecasts fell to 1.8% from 2.3%. Bank of England Chairman Carney in his press conference warned that the global risks surrounded the world economies slipping into "a low growth, low inflation rut". He cautioned that the world economy is now expanding at its slowest rate since 2009 and that a broad-based expansion has turned into a widespread slowdown, and trade tensions are a significant cause.

The Reserve Bank of Australia (RBA) kept its official cash rate (OCR) at 0.75%. The accompanying statement stuck very much to recent themes, before concluding that "The easing of monetary policy since June is supporting employment and income growth in Australia and a return of inflation to the medium-term target range. Given global developments and the evidence of the spare capacity in the Australian economy, it is reasonable to expect that an extended period of low interest rates will be required in Australia to reach full employment and achieve the inflation target. The Board will continue to monitor developments, including in the labour market, and is prepared to ease monetary policy further if needed to support sustainable growth in the economy, full employment and the achievement of the inflation target over time".

The U.S. 2 year/10 year treasury spread is now 0.24% and the U.K.'s 2 year/10 year treasury spread is 0.23% - 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 2 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 3.69% (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 6.4 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 12.53 (compares to a post-recession low of 18.00 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.

AND FINALLY

We are taking a short break before publishing our next newsletter; we should be back with our news by Monday, November 25th.

Portland Investment Counsel Inc. currently offers Mutual Funds & Private/Alternative Products - visit www.portlandic.com

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.

Portland Investment Counsel Inc. portlandinvestmentcounsel Portland Investment Counsel Inc. @PortlandCounsel

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, 'GDP' gross domestic product, 'netback' is a measure of oil and gas sales revenues net of royalties, production and transportation expenses and is used to compare performance in the oil and gas industry, 'ROE' return on equity, 'ROTE' return on tangible equity, 'ROTCE' return on tangible common equity.

This research and information, including any opinion, is based on various sources including corporate press releases,annual reports, public news articles and broker research reports and is believed to be reliable but it cannot be guaranteed to be current accurate or complete. It is for information only, and is subject to change without notice. This Newsletter is not an offer to sell or a solicitation of an offer to buy any security nor is it necessarily an indication of how the portfolio of any Portland Fund is invested. The securities discussed in the Newsletter may not be eligible for sale in some jurisdictions. The views expressed by any external links and subsequent media, including but not limited to videos, are not necessarily those of Portland Investment Counsel Inc. and are provided for general information purposes only. Portland Investment Counsel Inc. assumes no responsibility for the information provided by external sources.

Information presented in this Newsletter should be considered for background information only and should not be construed as investment or financial advice. As each individual's situation is different, you should consult with your own professional investment, accounting, legal and/or tax advisers prior to acting on the basis of the material in the Newsletter. Commissions, management fees and expenses may be associated with investment funds. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. Please read the prospectus or offering document before investing.

Consent is required for any reproduction, in whole or in part, of this piece and/or of its images and concepts. PORTLAND, PORTLAND INVESTMENT COUNSEL and the Clock Tower design are trademarks of Portland Holdings Inc. Used under licence by Portland Investment Counsel Inc.

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

PIC19-068-E(11/19)