

News Highlights

Owners. Operators. And Insightful Investors.

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PORTLAND
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Our views on economic and other events and their expected impact on investments.

May 15, 2017

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Owner Operated Companies

Linamar Corporation delivered a solid set of results for the first quarter of 2017, with diluted earnings per share of \$2.20 up 15% over last year's \$1.92 per share and ahead of the expected consensus which was calling for a \$1.98 print for the quarter. It was Linamar's 23rd consecutive quarter of double digit operating earnings growth. Sales increased 9.1% over the first quarter of 2017 to reach \$1.66 billion. Operating earnings increased 11.7% over Q1 2016 to reach \$192.2 million. The company experienced continued business wins and maintained a strong launch book at over \$4.4 billion, including several highly strategic component wins. Powertrain/ Driveline delivered strong results with sales and operating earnings growth despite flat markets, while the Industrial segment delivered excellent sales and operating earnings growth thanks to market share gains for all of its products in North America, Europe and Asia along with solid market growth in all three regions.

Energy Sector

U.S. land rig count increased by 7 rigs to 860 rigs, marking the 17th week of consecutive gains. The rig count was driven by gains in Horizontal Oil (+9) and Vertical Gas (+1), slightly offset by declines in Directional Oil (-1), Horizontal Gas (-1), and Directional Gas (-1), while Vertical Oil remained flat week/week. Total horizontal land rig count is down 46% since the peak in November 2014. The Permian currently makes up 52% of all oil rigs.

U.S. horizontal oil land rigs increased by 9 rigs to 607 as gains in Permian (+10, now up 18 in last two weeks), Williston (+1), Granite Wash (+1), and Woodford (+1), were partially offset by declines in Mississippian (-1) and Utica (-1), while Eagle Ford, DJ-Niobrara, and "Other" remained flat week/week.

Canadian rig count decreased by 2 rigs, but is up 93% from the level this time last year.

U.S. Gulf of Mexico offshore rig count increased by 2 rigs to 20 and is down 63% since June 2014.

Financial Sector

Brookfield Asset Management Inc. – Canada's Brookfield Asset Management has agreed to buy Light SA's stake in Brazilian renewable energy company Renova Energia SA and eventually become controlling shareholder. Brookfield will first acquire a 20.3% stake owned by Light in Renova, worth about 200 million reais (\$64 million) at current market prices. A second step to become controlling

shareholder will involve a capital injection of 800 million reais, diluting current controlling shareholder Centrais Elétricas de Minas Gerais SA (Cemig). Cemig, owned by the cash-strapped state of Minas Gerais, holds 44% of Renova. Brookfield will have management rights in Renova and the terms of the deal are ready for approval in Cemig's board meeting next week. Brookfield also agreed to pay an additional \$120 million to Renova for stock in U.S. renewable energy company TerraForm Global Inc., according to the source. In March, the Canadian asset manager acquired 51% of TerraForm Global for \$787 million.

Royal Bank of Scotland Group PLC's Q1 results showed a good start to the year with underlying Profit Before Tax of £1,371 million showing progress across Income, costs and impairment. The shares trade on 0.9x 2017 estimate Tangible Net Asset Value - not demanding in our view for a bank offering increasing visibility on a sustainable 11% Return on Tangible Equity. Chief Executive Ross McEwan said the bank is in talks to settle one of the two major U.S. investigations into allegations it mis-sold mortgage-backed securities that it needs to overcome before the British government can sell its shares in the bailed-out bank. McEwan has been trying to clean up RBS's balance sheet and end a string of legal cases against the bank. This would open the way for the government to sell its more than 70% stake in RBS held since it had to step in with a more than £45 billion (\$57.83 billion) bailout during the financial crisis. The CEO said the bank could settle a multibillion-dollar lawsuit by the U.S. Federal Housing Finance Agency separately from an investigation by the Department of Justice, which has stalled because of changes in the U.S. government since the election of President Donald Trump. (Source: Reuters)

Six of Canada's largest banks had credit ratings downgraded by Moody's Investors Service on concern that over-indebted consumers and high housing prices have left lenders vulnerable to potential losses on assets. The Toronto-Dominion Bank, Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada and Royal Bank of Canada had their long-term debt and deposit ratings lowered one level, Moody's said last Wednesday in a statement. It also cut its counterparty risk assessment for the firms, excluding Toronto-Dominion. "Expanding levels of private-sector debt could weaken asset quality in the future," David Beattie, a Moody's senior vice president, said in the statement. "Continued growth in Canadian consumer debt and elevated housing prices leaves consumers, and Canadian banks, more vulnerable to downside risks facing the Canadian economy than in the past." In its statement, Moody's pointed to ballooning private-sector debt that amounted to 185% of Canada's gross domestic product at the end of last year. House prices have climbed despite efforts by policy

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makers, it said. And business credit has grown as well. The ratings company said Wednesday that it still has a negative outlook on all six. The move left Toronto-Dominion Bank with a long-term debt rating of Aa2. Moody's lowered the other five to A1.

Activist Influenced Companies

Nomad Foods Limited – With sales in its core business growing after six years of declines and €600 million at its disposal, Nomad Foods is finally in a good position to make acquisitions, its chief executive told Reuters on Friday. The company was formed in 2014 as a vehicle to consolidate Europe's slow-growth €25 billion frozen food market. Its anchor deal, Iglo, closed in June 2015 and the follow-on acquisition of Findus Group's European business closed in November 2015. Since then, the group has focused on turning around declining sales of its brands, which include Iglo, Birds Eye and Findus. "The first two years were fully dedicated to making sure our fundamentals were sound. We're starting to get there," CEO Stefan Descheemaeker said in an interview. "That was the key." Nomad's sales trends have improved sequentially, helped by its focus on "must-win battles" and Descheemaeker said like-for-like sales in the first quarter had finally grown. The overall European frozen food market has grown by about 1% for the past five years. "When you're getting out of a turnaround, it's initially difficult to see where you're going to be. So we're starting to discover this interesting world of positive growth," said Descheemaeker, who used to oversee mergers and acquisitions at the predecessor to brewer Anheuser-Busch InBev. He reiterated the view that like-for-like sales will be positive for the full year. Nomad, formed by serial dealmakers Martin Franklin and Noam Gottesman, is Europe's leading seller of frozen fish, vegetables, poultry and prepared meals. Its first priority for acquisitions is within European frozen food, where there remain pockets of room to grow, such as frozen poultry in Norway, Sweden and Finland. But Descheemaeker pointed out that there are other areas of frozen food, such as pizza and desserts. After that, the company might look at European non-frozen foods or non-European foods. Descheemaeker, who also served as CFO of one of the predecessor companies of Ahold Delhaize, said Nomad could afford mid-sized acquisitions of up to €600 million. "For the categories we're in, that's fine. We don't need more than that," Descheemaeker said. "When you want to venture outside the mid-sized deals then you will need something bigger, you will have to go to your shareholders. But we're not there yet." He said Nomad was not interested in buying Picard, the French frozen food retailer that could be sold by Lion Capital and Aryszt AG and that he could not comment on the food business being sold by Reckitt Benckiser, which sources estimate could be worth several billion pounds.

Canadian Dividend Payers

Nothing new to report.

Global Dividend Payers

Nothing new to report.

Economic Conditions

U.S. Retail sales rose 0.4% in April, less than the consensus estimate, though the prior month was revised to a slight gain from a decline. Outside of building materials (which continue to ride the housing bandwagon) and a rebound in autos, there was little to get excited about—continued double-digit annual gains in e-commerce receipts is now the norm. The latter, of course, is at the expense of department stores, in particular, and general merchandise stores, in general, which continue to post declines on a year-over-year basis. "Core" retail sales (excluding food services, autos, gasoline and building materials) rose a light 0.2%, albeit after an upwardly-revised 0.7% jump in March (from 0.5%).

U.S. Consumer prices rose 0.2% in April, as the consensus expected, paring the yearly rate to 2.2% from 2.4%. The main story was continued weakness in core prices, which merely reversed a 0.1% decline the prior month (in the past 60 years, core prices have fallen 0.1% or more on only eight occasions, or about 1% of the time). The 0.1% increase in April trimmed the yearly rate further to 1.9%. Clothing and vehicle prices continue to decline, the former because of intense earnings pressure on bricks-and-mortar department stores (as witnessed by several earnings releases this week); the latter because of bloated auto inventories. As well, after declining a record amount in March, wireless phone service charges slid further in April as major players are adopting unlimited data plans. Medical care costs also fell in April, as doctor fees plunged the most on record after declining in March. Even rents are cooling down (up just 0.2% m/m instead of the usual 0.3%), as more millennials shift toward ownership and raising families.

Canada - Prime Minister, Justin Trudeau is setting up his new infrastructure bank in Toronto. Infrastructure Minister Amarjeet Sohi announced the location Monday as he launched a search for a chairperson, board and chief executive officer of the bank, which will be financed with C\$35 billion (\$25.6 billion) in government funds. The "goal" is to have the bank in operation late this year. The bank's objective is to attract private capital to build new projects, particularly those with revenue streams that can generate a return for investors. Finance Minister Bill Morneau has said government will look for five or six dollars of private money for everyone from government. The bank will "build more infrastructure for Canadians that will create growth and equip our communities for a more sustainable and productive future," Sohi said in a statement. (Source: Bloomberg)

The U.K. Report on Jobs, a survey of recruitment consultants, for April shows growth in permanent placements softened for the second

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month in succession, while temporary billings accelerated to the highest rate this year. One of the most eye-catching aspects of this month's report is a marked decline in candidate availability. The pace of decline in availability of both permanent and temporary candidates was the quickest in 16 months. This is being attributed to people in work being hesitant about moving job due to Brexit uncertainty and EU nationals being reluctant to take up roles in the U.K. due to the weakness of the pound and a lack of clarity on future immigration rules. Overall, the UK jobs market remains solid with demand for staff growing, even if the rate of growth for permanent roles has weakened. (Source: Barclays)



Financial Conditions

The Bank of England, decided to keep its Bank Rate at 0.25% and voted unanimously to keep Gilt purchases at £435 billion and corporate bond purchases at £10 billion, adopting a more upbeat, or somewhat optimistic tone, opening the possibility in our view of a raise in rates early next year. The wildcard remains Brexit. The Bank's forecast is based on the assumption of a smooth Brexit, and that an agreement will be made about future trading arrangements.

The U.S. 2 year/10 year treasury spread is now 1.04% and the U.K.'s 2 year/10 year treasury spread is 1.00% - 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 their costs of capital.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 4.05 (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 3.6 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 10.55 (compares to a post-recession low of 10.7 achieved in early June) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs 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:

- [Portland Focused Plus Fund LP](#)
- [Portland Focused Plus Fund](#)
- [Portland Private Income Fund](#)
- [Portland Global Energy Efficiency and Renewable Energy Fund LP](#)
- [Portland Advantage Plus Funds](#)
- [Portland Private Growth Fund](#)
- [Portland Global Aristocrats Plus Fund](#)

Individual Discretionary Managed Account Models - [SMA](#)

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