

News Highlights

Owners. Operators. And Insightful Investors.

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



PORTLAND
INVESTMENT COUNSEL®

Established in 2007

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

July 9, 2018

The views of the Portfolio Management Team contained in this report are as of July 9, 2018 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

Berkshire Hathaway Inc. – Clayton Properties Group, a division of Clayton Homes, Inc. and a Berkshire Hathaway company, acquired Arbor Homes LLC, Indianapolis' home builder. Founded in 1994 by President Curtis Rector, Arbor takes pride in being the largest locally-owned and operated home builder in Indianapolis, known for their high-quality, entry-level homes. In 2004, Arbor founded its sister company, Silverthorne Homes, to offer a luxurious, custom-built home line with high-end features as an alternative option for home buyers. Arbor and Silverthorne Homes have built over 13,000 homes in 36 communities, combined, in the greater Indianapolis area. Arbor Homes' President is Curtis Rector. The transaction allows Clayton Properties to enhance its portfolio of home builders.

Fortive Corporation announced that it has entered into a definitive agreement with Warburg Pincus LLC to acquire The Gordian Group, Inc., a privately held, provider of construction cost data, software and service. The purchase price for the acquisition is \$775 million and the transaction is expected to close in the third quarter of 2018. Upon closing, Gordian will become part of Fortive's Field Solutions platform (comprising Fluke, Qualitrol, and Industrial Scientific) within Fortive's Professional Instrumentation segment. The acquisition will be subject to customary closing conditions, including regulatory approvals, and will be financed with available cash. Credit Suisse Group AG acting as financial advisor to Fortive. Wilmer Cutler Pickering Hale and Dorr LLP acting as legal counsel to Fortive. The transaction will allow Fortive to advance its portfolio enhancement strategy to invest in software enabled workflows to increase its growth profile while reducing cyclicalities.

Energy Sector

Baytex Energy Corp. – Subsequent to the announcement of the Baytex Energy Corp.'s plans to merge with Raging River Exploration Inc. in an all-stock deal, insiders have reportedly added to their investments, as the initial market reaction was markedly negative for both stocks. Reports point out that Baytex Energy has seen \$623,602 worth of public-market insider buying since the merger news. One of the buyers was CEO Edward LahFehr. He picked up 23,500 shares on June 22 at \$4.27. This is evidence, we believe, of the management's confidence in the company's prospects, either as a combined entity or standalone.

Royal Dutch Shell PLC - To deliver on its quest to be a world-class investment case on a multi-year basis, Royal Dutch Shell needs, in our view, to deliver growth in FCF and use this to improve cash returns to shareholders, almost regardless of the oil price. Its

estimated the combination of FCF in both Integrated Gas and the Downstream alone could reach \$25 billion per year by 2025. This far exceeds the \$15 billion annual dividend requirement and increases the likelihood that a \$10 billion per annum share repurchase scheme can continue well into the next decade, going a long way to offsetting the dilution associated with the BG Group Ltd. deal and scrip programme, in our view. We believe the scale of the opportunity that still exists in the retail business is in particular underestimated by the market. Shell is one of the largest retailers in the world with more outlets than Starbucks, serving over 30 million customers a day with 1 million sausage rolls sold in the U.K. alone annually. The Integrated Gas business for Shell is set to generate \$8-10 billion of FCF by 2020 and it is estimated this could rise to \$15 billion by 2025 reflecting growing volumes into a tightening market. Should confidence grow in cash flow over coming quarters, we expect the 8% dividend and buyback yield that the shares offer to become increasingly attractive. For us the stock remains clearly undervalued.

Financial Sector

Barclays PLC hosted an event last week looking at their retail bank digital strategy. In the words of Arsene Wenger, "everyone thinks their own wife is the prettiest" but came away with increasing confidence that whilst it may have fallen below the Group radar, much of Barclays' historic digital prowess continues in the Retail business. Apparent progress has been made re-engineering the back-office to deliver real-time, straight-through processing capability. This must position Barclays well for the future - certainly against incumbent peers.

HSBC Holdings PLC has become the last of Britain's big four banks to launch its ring-fenced U.K. bank, as it steps up aggressive growth plans for its domestic market. The U.K. business has been carved out of HSBC to comply with state rules designed to prevent a re-run of the last financial crisis. It has 14 million customers and will be based in new offices in Birmingham. (Source: The Telegraph)

The Bank of Nova Scotia reported last week that following approvals by the regulatory entities in Chile and Canada, the closing of its acquisition of the 68.19% interest in Banco Bilbao Vizcaya Argentaria, Chile (BBVA Chile) owned by Banco Bilbao Vizcaya Argentaria, S.A. As part of its strategy to increase its presence in the Chilean market and in the Pacific Alliance countries, this transaction will double Scotiabank's presence in Chile to approximately 14% market share in total loans, making it one of the largest private banks in the country. With the closing of the transaction, the Bank is ready to initiate the integration efforts led by local resources within Chile.

News Highlights

Owners. Operators. And Insightful Investors.

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



PORTLAND
INVESTMENT COUNSEL®

Established in 2007

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

July 9, 2018

The next milestone in this process is the merger of BBVA Chile into Scotiabank Chile, which is pending approval from the Superintendent of Banks and Financial Institutions (SBIF) in Chile. Scotiabank also announced that it has reached an agreement with the Said family to remain invested in BBVA Chile and to participate in the merger of the two banks. The Said family will have a participation of close to 25% in the merged bank. In addition, Scotia announced that the accounting for provisions for credit losses on the transaction would result in a charge of between \$150 and \$200 million in the third quarter and that it expects its capital ratio to be 10.7% by the fourth quarter on completion of its recent series of acquisitions.

Activist Influenced Companies

Brookfield Business Partners L.P. – Teekay Offshore Partners L.P. announced that Brookfield Business Partners L.P. together with its institutional partners (Brookfield), has exercised its option to acquire an additional 2% ownership interest in Teekay Offshore's general partner (Teekay Offshore GP LLC) from Teekay Corporation. As a result, Brookfield now holds a 51% interest in Teekay Offshore GP and has the right to appoint a majority of the members of its board of directors (the Board). "We look forward to continuing the pursuit of our near- and long-term objectives with the ongoing support of our sponsors," commented Ingvild Sather, President and CEO of Teekay Offshore Group Ltd. "Teekay Corporation's strong operational history in the marine and offshore space and Brookfield's strategic vision and reputation as a world class alternative asset manager positions the Partnership for long term success."

Nestlé SA - has hit back at activist criticism from Third Point over its profitability, saying it was offloading non-strategic businesses (like U.S. confectionary) while acquiring brands that offer it good value (like coffee acquisitions). Nestlé has said it is on track to meet its newly set margin targets and had returned capital to shareholders. Nestlé's outside hire of new CEO Mark Schneider last year was initially greeted but as time moves on activist enthusiasm appears to have waned.

Dividend Payers

Brookfield Infrastructure Partners L.P. / Enbridge Inc. announced that Enbridge entered into definitive agreements to sell its Canadian natural gas gathering and processing business in the Montney, Peace River Arch, Horn River and Liard basins in British Columbia and Alberta (the "G&P Business") to Brookfield Infrastructure and its institutional partners for a cash purchase price of \$4.31 billion, subject to customary closing adjustments and receipt of regulatory approvals. The G&P Business includes 19 natural gas processing plants and liquids handling facilities, with a total operating capacity of 3.3 billion cubic feet per day and 3,550 km of natural gas gathering pipelines. "When combined with asset monetizations announced in

May, the sale of our Canadian G&P Business significantly advances our strategic priority of moving to a pure play regulated pipeline and utility business model." said Al Monaco, President and Chief Executive Officer of Enbridge. It also demonstrates our focus on prudent capital allocation and ensuring the continued strength of our balance sheet and funding flexibility. With a total of roughly \$7.5 billion in asset monetizations announced in 2018, we have more than doubled our initial target of \$3 billion." Enbridge will continue to hold its highly strategic long haul regulated natural gas transmission assets, which include the Westcoast transmission system in British Columbia and the Alliance pipeline that carries natural gas from western Canada to the Chicago market. Brookfield intends to maintain the Canadian G&P workforce and anticipates that they will remain with the G&P Business upon transaction close.

Economic Conditions

Canada's labour force expanded by 75,600 in June, the biggest one-month increase in six years, Statistics Canada reported. With less than half of new job seekers finding work, the labour force increase boosted the unemployment rate to an eight-month high of 6%. Employment jumped by 31,800 last month. "A higher unemployment rate coinciding with a strong jobs gain in June is the best of possible worlds for Canada, with more of us working, but perhaps a bit more room for that to continue without triggering an inflation spike," stated Avery Shenfeld, chief economist at CIBC Capital Markets.

U.S. nonfarm payroll report was better than expected. The headline gain of 213,000 beat expectations of a sub-200,000 figure, while the prior two months were revised higher (May's 223,000 increase was revised higher to 244,000, and April's 159,000 increase is now 175,000). The **jobless rate** ticked up for the first time in nearly one year, up 0.2 percentage points to 4.0% (still very low) but that was due to a 601,000 surge in the labor force (the 2nd largest gain in over 15 years). Indeed, the tight labor market is drawing people in from nearly all walks of life. The all-in jobless rate (U6) also ticked up to 7.8%. Hiring was broad-based across nearly all sectors, although retail fell 21,600 (mostly from general merchandise stores). Areas where businesses have the biggest issues when it comes to finding workers—transportation, construction—continued to pick up more workers.

U.S. ISM non-manufacturing index in June underlines the current strength of domestic U.S. demand. Taken together with the increase in the manufacturing index a weighted average of the two points, we believe, to GDP growth of over 5% annualized. The rise in the headline index, to 59.1 from 58.6, was better than the consensus expectation of a small fall, and was driven by increases in the new orders and business activity indices. The increase in the latter took it to a fresh 13-year high. It wasn't all positive, however, with the employment index dropping back, to 53.6 from 54.1. Finally, as with the manufacturing report, there was plenty of anecdotal evidence that

News Highlights

Owners. Operators. And Insightful Investors.

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



PORTLAND
INVESTMENT COUNSEL®

Established in 2007

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

July 9, 2018

tariffs were beginning to have an impact, but with the prices balance falling in June and new export orders rising, there is little sign that this is affecting the economy yet in our view.

U.K. – U.K. Prime Minister, Theresa May looks to have avoided a leadership challenge and was able to get the cabinet to agree to maintain close economic ties with the European Union vis a vis Brexit but at the cost of the resignation of David Davies, the Chief Brexit negotiator. It remains to be seen if there will be any further fallout this week on her new softer Brexit plan.

The U.K. Report on Jobs, a survey of recruitment consultants, for June indicates a continuation of recent trends, with demand for staff remaining robust and pay pressures at historically high levels, despite growth slowing over the month. Growth in permanent placements remains high but was the least marked since October last year. The rate of growth in temporary billings, though still high, eased to a three-month low. At the same time, there was a steep reduction in availability of permanent staff and this is continuing to drive wage inflation. Starting salary inflation for permanent jobs remains at high levels and is among the sharpest since 2015 despite it slowing slightly from May's three-year record. Growth in pay for temporary staff also slowed slightly over the month but remains close to the two-year record seen in April. The report's Vacancy Index, a measure of demand for staff, saw continued growth in June, above the long-run trend, with demand continuing to be higher in the private sector than the public sector. The robust backdrop described in the Report on Jobs has not been consistent for some time with the growth rates we are seeing at Hays and PageGroup, both of which are seeing fees flat or in slight decline.



Financial Conditions

The U.S. 2 year/10 year treasury spread is now .29% and the U.K.'s 2 year/10 year treasury spread is .54% - 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.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 4.52% (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 4.0 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 13.20 (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 augurs well for quality equities.

And Finally...#FootballsComingHome! It continues to be a beautiful game.

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](#)
- [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.

News Highlights

Owners. Operators. And Insightful Investors.

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

Established in 2007



PORTLAND
INVESTMENT COUNSEL®

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

July 9, 2018

 **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, 'ROE' return on equity, 'ROTE' return on common equity.

This research and information, including any opinion, is compiled from 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 the security. The securities discussed in the Newsletter may not be eligible for sale in some jurisdictions. Certain statements included in this document constitute forward-looking statements, including those identified by the expressions "anticipate," "believe," "plan," "estimate," "expect," "intend" and similar expressions to the extent they relate to an investment fund. The forward-looking statements are not historical facts, but reflect the Portfolio Management team's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Portfolio Management team has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise. 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 material should be considered for background information only and should not be construed as investment or financial advice. The information presented in the Newsletter should not be considered personal investment 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 registered 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

PIC18-045-E(07/18)