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Our views on economic and other events and their expected impact on investments. October 22, 2018

Owner Operated Companies

BlackRock Capital Investment Corporation - Investors pulled money from BlackRock's institutional stock index funds, while putting more into what is perceived as lower-risk bond funds and continuing to flock to its booming iShares exchange-traded funds (ETFs) business as a low-cost way to access the market. "It was a tough quarter for the entire industry," BlackRock Chief Executive Officer Larry Fink told Reuters. Overall, the company's closely-watched EPS figure continues to grow, helped by lower taxes and beating analyst forecasts. Investors pulled $30.8 billion from BlackRock's institutional equity index accounts, which BlackRock attributed to investors cutting risk. Revenue of $3.6 billion at BlackRock was nearly 2% short of analyst forecasts, and EBIT of $1.4 billion fell about 5% short. BlackRock's total net flows were down $3.1 billion and "long-term" flows, excluding accounts where investors hold cash, were up by $10.6 billion, the lowest figure in nine quarters. The results reflected increased investor preference for low-cost ETFs that own broad swathes of the market and make it easier to move in and out of the market. That ETF business is one in which BlackRock is, along with a very small group of competitors, dominant. The company makes most of its money by charging a percentage of the value of the assets it manages. The company's iShares-brand ETFs took in $33.67 billion in new money, down from $52.31 billion, a year earlier. Meanwhile, revenue from technology services, a growing area of emphasis for the company, grew 18% year/year. Net income attributable to the company rose to $1.22 billion in the third quarter ended Sept. 30 from $944 million a year earlier. On a per share basis and excluding nonrecurring items, charges that do not affect the company's book value and tax items that do not impact cash flow, BlackRock earned $7.54, compared with $5.76 a year earlier.

Danaher Corporation announced results for the third quarter 2018. For the quarter ended September 28, 2018, net earnings were $663.7 million, or $0.93 per diluted share which represents a 15.0% year/year increase. Non-GAAP adjusted diluted net EPS for the third quarter was $1.10. This represents a 10.0% increase over the comparable 2017 period. For the third quarter 2018, revenues increased 7.0% year/year to $4.9 billion, with non-GAAP core revenue growth of 6.5%. For the fourth quarter 2018, the Company anticipates that diluted net EPS will be in the range of $1.04 to $1.07 and non-GAAP adjusted diluted net EPS will be in the range of $1.25 to $1.28. For the full year 2018, the Company is increasing its diluted net EPS guidance to a range of $3.72 to $3.75 versus previous guidance of $3.64 to $3.71. The Company is increasing its 2018 non-GAAP adjusted diluted net EPS guidance to a range of $4.49 to $4.52 versus previous guidance of $4.43 to $4.50. Thomas P. Joyce, Jr., President and Chief Executive Officer, stated, "We are very pleased with our performance in the third quarter, as the team maintained strong momentum and delivered outstanding results. We achieved 6.5% core revenue growth, solid operating margin expansion and double-digit adjusted earnings per share growth. Four of our five platforms delivered mid-single digit or better core revenue growth, and we believe our investments in innovation and commercial execution are driving market share gains in many of our businesses." Joyce continued, "Our recent performance is a testament to the team's execution and drive for continuous improvement. We believe the strength and differentiation of our portfolio - combined with the power of the Danaher Business System - provides us with the foundation to deliver sustainable, long-term shareholder value."

Energy Sector

Royal Dutch Shell PLC has announced the sale of its upstream business in Denmark to Norwegian Energy Company ASA (Noreco) for $1.9 billion, which is estimated reduces gearing by 0.7%. The assets produced 67k boed in 2017, or approximately 2% of Shell's production. Noreco are to finance the transaction through a reserves-based lending facility, convertible bond and private placement, and the effective date will be January 1st 2017. This transaction takes Shell beyond $30 billion of completed and announced transactions and reflects the strategy to simplify the business post the BG acquisition. For Shell, the focus remains on its ability to generate material FCF in the current environment with Q3 having greater-than-average importance following three quarters of disappointing cash flow from operations numbers.

Financial Sector

Barclays PLC is launching a U.S. current account that will put Barclays in competition with The Goldman Sachs Group Inc.'s Marcus for customers who want the low costs of a digital-only bank and the security of dealing with a major financial institution. Barry Rodrigues, head of cards and payments at Barclays International, said the bank would "leverage Barclays' U.K. knowledge and expertise" to create a current, or checking, account for its U.S. online bank, which already offers credit cards, savings and loans to 13 million customers. (Source: Financial Times).

Goldman Sachs reported Q3 2018 EPS of $6.28. Consensus was $5.41. A gain on debt retirement was mostly offset by legal charges ($0.05 net benefit). During the quarter, it retired $4.1 billion in principal of unsecured debt, which resulted in a gain of $160 million ($0.32; included in net revenues within Institutional Client

Services (ICS) and Investment & Lending (I&L)). Net provisions for litigation and regulatory proceedings were $136 million. Relative to consensus, investment banking fees (underwriting better, advisory worse), I&L, IM and equities trading were better than expected, while Fixed Income, Currency and Commodities (FICC) revenue was light in our view. Results also benefited from a lower than forecasted tax rate and a lower than anticipated compensation ratio (38% YTD vs. 40% YTD in Q3 2017). Group revenues increased 4% year/year, but fell 8% linked quarter, to $8.65 billion. Revenues from the Americas and Europe, Middle East & Africa (EMEA) each increased 7% year/year, while Asia declined 13%. Tangible book increased 1.5% to $186.62 (1.2x). It posted a ROE of 13.1% and ROTE of 13.8%. Its CET 1 ratio was 12.4%, up 90bps, as Risk Weighted Assets dropped $37 billion, or 6%. During the quarter, it repurchased 5.3 million shares for $1.24 billion. Average diluted shares declined 0.5%.

HSBC Holdings PLC - On track to become the first foreign company to trade on a Chinese bourse under plans by a new stock exchange link between London and Shanghai.

Morgan Stanley reported Q3 2018 EPS of $1.17. Consensus was $1.02. Results included a gain from the disposition of a business related investment. Relative to consensus, FICC, investment banking fees (Equity Capital Markets and Debt Capital Markets better than expected, M&A worse) and Wealth Management were ahead of expectations, while Investment Management was below. In addition, expenses were controlled, while its tax rate and share count were in-line. Group revenues increased 7% year/year, but declined 7% linked quarter amid seasonality, to $9.9 billion. Relative to Q3 2017, Asia (+12%), Americas (+8%) and EMEA (+2%) all increased. Tangible book grew 0.9% to $35.50 (trading at 1.2x). It posted an 11.5% ROE and 13.2% ROTE. Its CET 1 ratio increased 90bps to 16.7% as standardized Risk Weighted Assets dropped $17.1 billion, or 4.4%. Consolidated loans and lending commitments declined 7%. During the quarter, it repurchased $1.2 billion (24 million) shares and its average diluted shares declined 1.2%.

State Street Corporation reported Q3 2018 EPS of $1.87. Consensus was $1.90. Despite a lower than expected tax rate, EPS fell short, owing primarily to lower than expected fee income (servicing, trading services, securities finance all light). Its effective tax rate was 11.8%, down from 15.1% last quarter (reduction added $0.08). In addition, period-end deposits dropped 10% or $18.5 billion, with non-interest bearing down 20% or $10.4 billion. Still, announced asset servicing mandates and its uninstalled backlog increased, while asset management experienced net inflows. Operating revenues increased 4.7% year/year and declined 2.2% linked quarter to $2.95 billion. Operating expenses increased 4.6% year/year and decreased 0.1% from Q2 2018. It posted a ROE of 14.0% and ROTE of 19.4%. Its CET 1 ratio was 12.9%, up from 11.3%. Average diluted shares increased by 2.4%. State Street reiterated it intend to resume its share repurchase in Q1 2019 and plans to repurchase up to $600 million in the first half of 2019. Assets Under Custody/Administration increased 0.4% to $34.0 trillion as growth from market appreciation was offset by client outflows and Blackrock transition. Assets Under Management increased 3.2% to $2.8 trillion with growth from market appreciation, ETF inflows and institutional wins, partially offset by cash outflows. In asset management, it experienced net inflows of $8 billion (was $14 billion of outflows in Q2 2018) driven by net institutional and ETF flows, partially offset by cash outflows. Fee income rose 3% year/year and declined 3% linked quarter. Net interest income increased 2%. Average earning assets declined 1.5% or $2.8 billion. Its net interest margin increased 2bps to 1.48% driven by higher U.S. interest rates, "disciplined liability pricing" and a smaller interest earning balance sheet. Its yield on average earning assets increased 2bps to 2.01% as its securities yield was unchanged.

Several of the world's largest banks plan to build a digital platform that aims to grab an unaddressed $1.5 trillion gap in the coverage of global trade finance. ANZ Bank New Zealand Limited, Banco Santander, S.A., **BNP Paribas S.A., Citigroup Inc.**, Deutsche Bank AG, **HSBC** and **Standard Chartered PLC** will co-operate on the project, the Trade Information Network, by the end of the year. The project would give access to all banks and corporations to directly exchange and verify trade information in the hopes of lowering the risks — and the cost — of financing smaller companies currently ignored by large banks. "What this platform will do is allow our clients to connect and provide information on to that network, and make it much cheaper and effective to deal with our own clients," said Michael Vrontamitis, head of trade in Europe and the Americas at Standard Chartered, adding that it would also enable the banks to take on new customers. The project, originally known as Wilson, comes as a number of banks and governments around the world roll out digital or blockchain-based trade finance platforms in an attempt to upgrade the $9 trillion global trade finance industry. (Source: Financial Times).

Activist Influenced Companies

Liberty Latin America Ltd. (LLA) has acquired the remaining 40% stake in Liberty Cablevision of Puerto Rico from funds affiliated with Searchlight Capital Partners, L.P. in exchange for 9,500,000 LLA Class C shares. Following the acquisition, LLA owns 100% of Liberty Cablevision of Puerto Rico. The transaction is expected to be accretive on a FCF per share basis for LLA shareholders. Balan Nair, President and CEO of LLA, commented, " We are pleased to announce this transaction, which reflects the confidence in our Puerto Rican management team and affirms our commitment to Puerto Rico as our business there recovers strongly following a difficult period for the island. At the same time, this further cements our strong relationship with Searchlight and I look forward to continuing to work alongside Eric as a member of our board. " Eric Zinterhofer, Founding Partner of Searchlight, said, " I want to thank

CEO Naji Khoury and the entire team at Liberty Puerto Rico for their dedication in transforming the company from a regional cable operator to the island-wide provider of market-leading broadband, pay TV and voice services in Puerto Rico. We are proud of the team's tireless effort and leadership in rebuilding Liberty Puerto Rico's network after Hurricane Maria devastated the island. We feel privileged to have been Liberty's partner in Puerto Rico, and we look forward to being a long-term shareholder of Liberty Latin America."

Dividend Payers

Nestlé SA reported 9 months organic sales growth of 2.8% (2.9% in Q3) of which 0.5% is price. Consensus was looking for 2.8%. Changes in scope (Atrium and Starbucks slightly outweighing the absence of U.S. confectionery) and a 0.9% FX headwind resulted in a 2.0% increase in reported sales to SFr 66.42 billion. Developed markets organic sales growth was 1.4% with Q3 impacted by a tough comparative (Nescafe in Europe) and the hot summer in Europe (which we estimate to have been a net negative notwithstanding a solid performance in Waters). Organic sales growth of 4.5% in Emerging Markets, with Q3 benefitting from pipeline refilling in Brazil and mid-single digit growth in China (strong infant formula performance). By category, the warm weather categories (particularly waters in Europe, which we estimate grew high single digit) offset sequential declines in confectionery and coffee. Nutrition and pet food growth accelerated slightly in Q3. The company reiterated 2018 guidance; organic sales growth of "around 3%" and underlying trading operating margin improvement in line with 2020 target. Consensus is looking for organic sales growth of 3.1% (Q4 offers a soft comparative) and margins of 17.0% (+50bp).

Novartis AG reported solid headline results in Q2 2018 in our view. Group sales grew 6% and were just 1% off expectations while Core EPS grew 6% and came in 2% ahead of consensus. On sales, Pharma and Alcon were in line, while Sandoz missed by 3%. Core operating profit was as expected (+1%) as a beat in Pharma and Sandoz of 3% and 5%, respectively, was offset by lower Alcon profits (-11% vs consensus) and higher Corporate expenses ($184 million vs consensus $122 million). Core EPS came in 2% ahead of forecasts. **Full Year 2018 guidance on sales** revised upwards due to positive Pharma performance, core operating income confirmed. Novartis also announced the acquisition of Endocyte, Inc. for $2.1 billion. The $24 per share offer price represents a 54% premium to the closing price the night before the announcement. The acquisition adds a new Phase 3 asset to Novartis' radiopharmaceuticals platform acquired with Advanced Accelerator Applications in October 2017. Endocyte's lead asset is Lu-PSMA-617 for metastatic prostate cancer. PSMA-617 binds to prostate membrane specific antigen (PSMA), a protein highly expressed on the cell surface in 80% of metastatic castration-resistant prostate cancers. The radioactive-linked payload then kills the cancer cells. We see the deal as a strong strategic fit given Novartis' strong position in oncology and existing radiopharmaceutical platform. The acquisition is funded from existing cash flow.

Roche Holding AG reported strong Q3 Group sales up +7% constant currencies (cc) year/year, approximately 2% ahead of consensus. The beat was driven by Pharma sales (7%cc year/year), which came in +2% above consensus **due to higher sales from older core brands compared to expectations.** Avastin, Rituxan and Herceptin sales were all 4-5% ahead of consensus expectations. A number of growth products slightly missed expectations. Perjeta sales were 2-3% below consensus expectations. U.S. and Europe/International sales were all in line to slightly ahead as the roll out of APHINITY continues well, with the miss driven by lower than expected sales in Japan. Diagnostics sales were in line with consensus (+6%cc year/year). The division continues to be driven by Centralised and Point of Care Solutions (+7% year/year) led by growth of the immunodiagnostics business (+10%).

South32 Limited delivered a reasonably good set of Q1 production numbers, in our view, with slightly soft alumina and energy coal offset by strong performance in manganese. The legacy problem assets Illawarra and Cannington both had a decent Q1 with coal production +39% quarter/quarter (annualized run-rate at 7.6 million tons per annum vs 6.1 million tons fiscal year (FY) 2019 guidance) and silver production, while down 25% quarter/quarter, is tracking comfortably to reach 2019 guidance. Production guidance for 2019 for all assets was reiterated. The net cash balance at the end of the period stood at $679 million ($2,041 million at June 2018) reflecting $1,457 million outflow for the acquisition of Arizona Mining and Eagle Downs, and share buy-back of $225 million in Q1 2019 ($254m during FY 2018), with $155 million of the buy-back remaining. This implies reasonable FCF of approximately $320 million (9% yield) reflecting a build-up of cash in equity accounted Samancor (the company expects to receive these in dividends in December quarter) and a sizeable royalty payment for the Australian manganese business for the prior 6-month period.

Economic Conditions

Canada's consumer price index fell 0.4% (not seasonally adjusted) in September, taking the year/year inflation rate down to 2.2% (from 2.8%), well-below consensus calling for 2.7%. In seasonally adjusted terms, CPI dropped 0.1% as declines in recreation/reading, transportation and healthcare more than offset increases in the five other categories.

Canadian retail sales declined 0.1% in August, disappointing consensus who were looking for a +0.3% print. Sales were down in 7 of the 11 subsectors with a 2.0% decline for gasoline stations acting as a sizeable drag on overall sales. On the flip side, gains at motor vehicles & parts dealers were up 0.8%. Excluding the latter, sales fell

0.4%. Overall, declines for sellers of gasoline, clothing, miscellaneous items, furniture, electronics, building materials and food/beverages were more than enough to offset increases for autos/parts, health/personal care products, sporting goods and general merchandise

U.S. industrial production came in as expected, up 0.3% in September, the fourth increase in a row albeit the smallest although that's 5.1% above a year ago, the fastest clip since December 2010. Of the three industry groups, the big one, manufacturing, which has a 75.5% weight, edged up 0.2%, also the fourth consecutive gain. Within that component, machinery jumped 0.9%. Mining rose for the eighth month in a row, up 0.5% while utilities were unchanged.

U.S. housing starts fell 5.3% in September, on the heels of a downwardly revised August and an upwardly revised July (on net, a wash). At 1.201 million units annualized, that erases some, but not all of, the prior month's 7.1% increase. There was less ground broken for singles (-0.9%) and multis (-15.2%). And, despite a pickup in the West and the Northeast, the South and the Midwest took a hit, with Hurricane Florence a likely factor in the South. And, there may not be a bounce-back in October, as Hurricane Michael has taken a toll. Building permits surprisingly slipped for the second month in a row, down 0.6% in September to 1.241 million units, or 1% below a year ago. Although the number of permits is still higher than starts, pointing to more activity in coming months, the overall trend in housing has clearly slowed/plateaued/leveled off in our view.

The Australia economy created only 5,600 jobs in September, less than the previous month of 44,600. However, the unemployment rate declined to 5.0% in September, from 5.3% previously. This is positive in our view, given that the participation rate has also been relatively steady at 65.4% in September.

China has reported its slowest quarterly growth rate since the global financial crisis. The growth figure for the July to September quarter was 6.5% from a year earlier, the National Bureau of Statistics said. Policymakers have moved to support the cooling economy in recent months. China faces rising economic challenges including high debt levels and an intensifying trade battle with the U.S. The impact of the trade dispute with the U.S. is expected to weigh on growth figures in the coming months. Friday's growth figure was the slowest quarterly expansion since the first quarter of 2009 - the height of the global financial crisis. The result was also a drop from the 6.7% rate in the prior quarter, but remains in line with the government's full-year target of about 6.5%. While China watchers advise caution with Beijing's official GDP numbers, the data is seen as a useful indicator on the country's growth trajectory. (Source: BBC)

Financial Conditions

Italy - On Friday evening Moody's downgraded Italy's ratings to Baa3, with stable outlook. Baa3 is only one notch above the non-investment grade level. In our view this downgrade was already priced in.

The U.S. 2 year/10 year treasury spread is now 0.28% and the U.K.'s 2 year/10 year treasury spread is 0.76% - 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 4.85% (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 19.02 (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.

And Finally ... we were delighted last week to receive three awards at the 2018 Canadian Hedge Fund Awards, the highest honour in Canada's hedge fund industry.* The Annual Canadian Hedge Fund Awards celebrate the talent and accomplishments of Canada's hedge fund industry and help investors identify the most exceptional hedge funds, recognizing winners in five categories. 207 Canadian hedge funds participated in the 2018 Canadian Hedge Fund Awards program and Portland funds were winners in three categories:

Private Debt: Best 5 Year Return - 1st place **Portland Private Income Fund**

Private Debt: Best 5 Year Sharpe Ratio – 1st place **Portland Private Income Fund**

Equity Focused: Best 5 Year Return – 3rd place **Portland Focused Plus Fund LP**

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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.

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*The awards are based solely on quantitative performance data of 207 Canadian hedge funds to June 30th, 2018 with Fundata Canada managing the collection and tabulation of the data to determine the winners. There is no nomination process or subjective assessment in identifying the winning hedge funds. The sharpe ratio is a measure for calculating risk-adjusted returns. The sharpe ratio is the portfolio return in excess of the risk-free rate divided by the volatility of the portfolio.

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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