

News Highlights

Owners. Operators. And Insightful Investors.

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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.

November 20, 2017

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Owner Operated Companies

Nothing significant to report.

Energy Sector

U.S. land rig count increased by 5 rigs week/week to 893, which is the second consecutive week of gains. The rig count was driven by increases in Directional Gas (+4), Vertical Oil (+3), Horizontal Gas (+1), and Vertical Gas (+1) partially offset by declines in Directional Oil (-3) and Horizontal Oil (-1). Total horizontal land rig count is down 4% since the peak in August 2017 (see Fig. 1). The Permian currently makes up 54% of all oil rigs.

U.S. horizontal oil land rigs decreased by 1 rig week/week to 636, as declines in "Other" (-4) and DJ-Niobrara (-1) were partially offset by increases in Permian (+2), Utica (+1), and Woodford (+1) as Williston, Eagle Ford, Granite Wash, and Mississippian remained flat week/week.

Canadian rig count increased by 6 rigs week/week to 207, and is up 13% from the level this time last year.

U.S. Gulf of Mexico offshore rig count increased by 3 rigs week/week to 21 rigs and is down 61% since June 2014.

Whitecap Resources, Inc. acquired Cenovus Energy Inc.'s Weyburn light oil assets in southeast Saskatchewan for cash consideration of \$940 million. The acquisition includes a 62.1% operated working interest in the Weyburn unit (14,600 boed) and 200 boed of production from minor assets in southeast Saskatchewan. The Weyburn unit is a world class carbon dioxide (CO2) enhanced oil recovery (EOR) development with a low base decline rate of less than 5%, high operating netback of \$31.86/boe, and significant short and long term development and expansion opportunities. The acquisition will be funded with a \$92.5 million non-brokered private placement and a concurrent \$332.5 million bought deal equity financing and by the company's credit facilities, which are anticipated to increase to \$1.7 billion upon closing of the acquisition. Whitecap estimates that, over the next five years, the base assets have the potential to grow to approximately 17,700 boed and generate cumulative free funds flow of \$459 million using a flat operating netback of \$31.86/boe. The significant free funds flow from the assets in combination with those generated by the company's other core asset areas allowed Whitecap to also announce an additional increase to its monthly dividend of 5% to \$0.0257 per share (\$0.3084 per share annualized) from \$0.0245 per share (\$0.2940 per share annualized) effective for the January 2018 dividend. This represents a cumulative 10% dividend increase including the previously announced increase on November 1, 2017.

Financial Sector

The Goldman Sachs Group Inc. can hit \$13 billion in new consumer loans in the next three years through its Marcus online lending business, Chief Financial Officer Marty Chavez said last Tuesday. The bank has already lent out over \$2 billion through Marcus, said Chavez, speaking at the Bank of America Merrill Lynch financials conference in New York. Marcus can achieve a return on equity of mid-to-high teens, Chavez added. Goldman launched Marcus in October 2016 as a way to court Main Street borrowers saddled with credit card debt. The platform offers loans from \$3,500 to \$30,000 and targets credit card borrowers who can benefit from consolidating debt into a single loan with a lower interest rate. Goldman's head of digital finance, Harit Talwar, addressed concerns that the bank may be entering the consumer lending business at a time when consumer credit conditions could be weakening. (Source: Reuters)

Royal Bank of Canada is set to launch its own robo-advisory service, making it the second Canadian bank to offer an automated online portfolio platform for investors. The platform, RBC InvestEase, is a new and separate business for Canada's largest bank. The platform will offer automated investment advice and discretionary portfolio management, delivered through a digital platform and supported by accredited portfolio advisers. The online platform rolled out last week for a pilot test phase to a small group of Ontario-based RBC employees, Ms. Kent said (a wider launch date for the general public has not been set). (Source: Globe & Mail)

Activist Influenced Companies

Nothing significant to report.

Dividend Payers

AusNet Services: last Wednesday announced a net profit of AUD 203.7 million (SGD 210.52 million) for the half year ended Sept. 30, 2017, 14.1% higher than the AUD 178.6 million registered last year. This came on the back of colder weather and increased customer contributions, said AusNet, an associate company of Singapore Power. Directors of the board approved an interim dividend of AUD \$167.2 million, or 4.63 cents per share for fiscal year 2018, about 0.23 cents per share higher than the dividend from the corresponding period last year. Dividends will be paid out on Dec. 21, 2017. (Source: The Business Times)

Dufry AG has signed a seven-year concession agreement with Swedavia AB (for 8 airports with Stockholm and Göteborg being

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the most important ones), which runs airports in Sweden. The concession in Sweden was part of Nuance and the contract was renewed in 2013 for five years and was coming up for renewal in 2018. Sales over the contract terms are estimated to be CHF 0.95-1.2 billion and all stores will be renovated in the coming 2 years. Terminal 5 in Stockholm will have a new walk-through store of 2,000m² (=0.5% of Dufry's total retail space), completed in 2021. Up to now Dufry was covering 5,950m² in 14 stores (6 in Stockholm, 2 in Göteborg), which means an expansion of 30% and so with the new terminal/shop there will be opportunities to increase sales; also the loyalty program RED will be available in Swedish stores.

Dufry announced that its wholly-owned subsidiary, Hudson Group, has publicly filed a registration statement with the U.S. Securities and Exchange Commission (SEC) relating to a proposed initial public offering (IPO) of Hudson's Class A common shares. The number of shares to be offered and the price range for the offering have not yet been determined, although Dufry intends to retain majority ownership of Hudson. Dufry expects the offering to occur in 2018, subject to market conditions. The news does not come as a surprise as Dufry has announced its plans to float a minority of its North America travel retail business at earlier occasions. The division North America is expected to generate revenue and EBITDA of close to CHF 1.8 billion and up to CHF 200 million, respectively. Depending on the number of shares to be listed, the proceeds could thus amount to more than CHF 1 billion, which would allow to faster pay-back of debts (2017E: CHF 3.5 billion net) than without a listing.

Roche Holding AG announced positive results for HAVEN 3, ie treatment of hemophilia A patients without inhibitors with Hemlibra prophylaxis versus on-demand factor VIII. HAVEN 3 showed statistically significantly and clinically meaningful reduction in number of treated bleeds for people using Hemlibra every week (primary endpoint), analogous secondary endpoints using Hemlibra every 2 weeks, as well as in intra-patient comparisons of factor VIII prophylaxis versus Hemlibra prophylaxis. No specific data was provided on the press release. The most frequent adverse events were injection-site reactions, no new safety signals identified. With HAVEN 3 estimated now to be filing 1st Half 2018, Roche will enter the recombinant non-inhibitor market but we expect its positioning and adoption to require significant initiatives and so initially a slow adoption.



Economic Conditions

U.S. housing starts surged in October, well beyond consensus, as it moved past the hurricanes. Starts jumped 13.7% in the month, the biggest monthly gain since last October's 25.0% rise (weather-related), to 1.29 million units, also the highest in a year. The gains were spread across most of the country, with the hard-hit regions moving to rebuild. Only the West fell for the first time in three months. And, construction began for both singles and multis. More activity

is expected, as building permits also increased by 5.9% to 1.297 million units, just above the level of starts and across all four regions.

Japan's economy expands for the 7th straight quarter by 0.3% quarter/quarter, 1.4% quarter/quarter in Q3 2017, recording its best growth streak in 16 years, since 2001. Growth was mainly supported by the rebound in net exports, helping to offset the dip in private consumption & government spending while business spending grew at a slower pace in Q3. 2017 GDP growth is forecast at about 1.3% after the positive growth outturn seen in the first nine months of the year with a potential moderate decline in Q4 2017. In fact, Japan's exports continued to grow in double-digit pace at 14% year/year in October but imports surged higher by 18.9% year/year, mainly due to a higher energy bill. Japan still managed to etch out another month of trade surplus although it was markedly narrowed to JPY 285.4 billion, the smallest monthly surplus so far in 2017. We remain optimistic about Japan's trade outlook but will be increasingly wary of import surges (especially if it is attributed purely to higher energy imports), which could threaten Japan's trade surplus position in Q4 2017 without any commensurate improvement to domestic demand.



Financial Conditions

Venezuela has suffered what is expected to be the first in a cascade of defaults on more than US\$60 billion in international bonds after missing several interest payments. Caracas, last Monday evening missed a deadline to make US\$200 million in interest payments on two of its government bonds, spurring Standard & Poor's to declare formally the first of what is expected to be many defaults. The country is already overdue on US\$420 million of interest payments on other sovereign bonds which will also soon be in default, as well as payments on debt from Petróleos de Venezuela, S.A., the state oil company. (Source: Financial Times)

The U.S. 2 year/10 year treasury spread is now .63% and the U.K.'s 2 year/10 year treasury spread is .80% - 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 3.95% (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 4.2 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 11.36 (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.

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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:

- [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](#)

Net Asset Value:

The Net Asset Values (NAV) of our investment funds are published on our Portland website at <http://www.portlandic.com/prices/default.aspx>

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

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