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. February 4, 2019

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Owner Operated Companies

Brookfield Asset Management Inc. announced the closing of its latest flagship global private real estate fund, Brookfield Strategic Real Estate Partners III (BSREP III). With total equity commitments of US$15 billion, BSREP III is Brookfield's largest private fund to date. Reflecting strong investor demand, BSREP III significantly exceeded its original fundraising target of US$10 billion. A diverse group of more than 150 limited partners committed to the Fund, including public and private pension plans, sovereign wealth funds, financial institutions, endowments and foundations, family offices, and investors from Brookfield's newly launched private wealth channel. Brookfield and Brookfield Property Partners L.P. have committed US$3.75 billion in aggregate to BSREP III, aligning the organization's interests with those of the Fund's investors. BSREP III focuses on acquiring high-quality real estate assets on a value basis. To date, the Fund has made 10 investments around the world totalling more than US$5 billion.

Danaher Corp. announced results for the fourth quarter and full year 2018, which slightly exceeded the expectations. For the quarter ended December 31, 2018, net earnings were $746.8 million, or $1.05 per diluted share. Non-GAAP adjusted diluted net earnings per share for the quarter ended December 31, 2018 were $1.28. This represents a 7.5% increase over the comparable 2017 period. For the full year 2018, net earnings were $2.7 billion, or $3.74 per diluted share, representing a 7.0% year-over-year increase. Non-GAAP adjusted diluted net earnings per share for 2018 was $4.52 per share, which represents a 12.0% increase over the comparable 2017 amount. Revenues for the full year 2018 increased 8.5% to $19.9 billion, with non-GAAP core revenue growth of 6.0%. The Company generated operating cash flow of $4.0 billion for the full year 2018, which represents a 15.5% year-over-year increase. For the full year 2019, the Company anticipates that diluted net earnings per share will be in the range of $3.85 to $3.95. The Company continues to expect its 2019 non-GAAP adjusted diluted net earnings per share to be in the range of $4.75 to $4.85. Thomas P. Joyce, Jr., President and Chief Executive Officer, stated, "Over the past several years, through a combination of organic and inorganic initiatives, we have transformed Danaher into a higher growth, higher margin, and higher recurring revenue company with strong footholds in attractive, fast-growing end-markets. Our portfolio today — combined with the power of the Danaher Business System — positions us well as we focus on delivering long-term shareholder value in 2019 and beyond."

Facebook Inc. reported better-than-expected profit for the last quarter of 2018, showing that digital advertisers were still flocking to spend money on the service in order to reach customers even after a series of high profile controversies for the world's largest online social media network. That has not significantly harmed advertising, where Facebook makes the vast majority of its revenue. Although ad prices have fallen, Facebook has been showing more ads, particularly on its Instagram app, as it finds users crave daily visual updates from friends, family and celebrities enough to sift past commercials and photo ads every few seconds. The number of ad impressions across Facebook's system accelerated each quarter last year compared to the prior year's quarters, as Facebook moved more aggressively in generating revenue from Instagram after its initial caution on using that strategy, for fear of turning off users. Total fourth-quarter revenue rose 30% to $16.9 billion from $12.97 billion, its slowest quarterly revenue growth in more than six years as a public company. It was, however, above analysts' average estimate of $16.4 billion. Net income rose to $6.88 billion, or $2.38 per share, up from $4.27 billion, or $1.44 per share, a year earlier. Analysts on average had expected earnings of $2.19 per share, according to Refinitiv.

Fortis Inc. said it would sell its 51% stake in the Waneta Expansion hydroelectric plant in British Columbia to two public sector partners for about $1 billion, and plans to use the proceeds for its five-year investment plan. Columbia Power Corporation and Columbia Basin Trust will buy Fortis' stake in the facility, which built a second powerhouse for the Waneta Dam four years ago. Fortis, which has operated the 335 mega-watt facility since it began production in 2015, will continue to operate the facility and purchase its surplus capacity, it said in a statement. The funds go toward Fortis' $17.3 billion five-year capital investment plan for its North American regulated utility business, for which it has also said it may issue new debt. "This transaction completes the asset sale funding component of our five-year capital investment plan," Fortis Chief Executive Officer Barry Perry said. The company expects the deal to close within 90 days.

Liberty Latin America Ltd. announced plans to establish its new Operations Center in Panama City, Panama. This center will allow the company to leverage its scale and expertise, and provide future growth opportunities to its employees. Betzalel Kenigsztein, COO of Liberty Latin America, said, "Selecting Panama City as the location for our Operations Center reinforces our strategy to drive operational efficiencies across our platform to support our organic growth over the coming years. We look forward to leveraging Panama´s economic stability and its profile as a logistics hub in the region with great physical and digital connectivity to continue to deliver innovative products and services to our customers." The Operations Center is expected to create more than 500 new jobs over the next five years and will be established under Panama's Multi Headquarters (MHQ)

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platform, which provides significant financial, immigration, and labor incentives for corporations. The center is expected to be launched in late 2019.

Energy Sector

Royal Dutch Shell PLC - The beauty of the Q4 2018 quarter in our view is that cash generation was strong, the balance sheet now looks very strong, and the buyback program continues at the recent run rate. Clean net income of approximately $5.7 billion beat consensus of approx. $5.3 billion. The beat came mostly from the downstream – the Downstream contributed approx. $2.1 billion, which beat consensus of approx. $1.7 billion. We think the strength in Downstream can be explained by better trading contributions and stronger Canadian refining margins. Additionally, refinery availability was very strong at 94%, which is up from 89% in Q4 2017. The only negative in Downstream is weaker than expected Chemicals, which only delivered $296 million, down from $537 million in Q3 2018. Availability in Chemicals was sound at 93%, but lower base chemicals and intermediates margins, mainly in Asia, contributed to the sequential decline in chemicals. Integrated Gas was slightly ahead of consensus (approx. $2.4 billion versus consensus of approx. $2.3 billion) and a solid showing despite the fact that Pearl GTL didn't fully contribute during the quarter, while the story in upstream was the same with approx. $1.9 billion beating consensus slightly at approx. $1.8 billion. Upstream production amounted to 2,809 kilo barrels per day (compared to our 2,867 kilo barrels per day), while in Integrated Gas production amounted to 979 kilo barrels per day (compared to our 943 kilo barrels per day). Cash conversion was robust with funds from operations pre-working capital of approx. $12.9 billion (and on a post net interest basis of $12.2 billion, which compares to earlier analyst estimates of approx. $10.7 billion). Derivatives contributed approx. $2 billion to this. On a post working capital basis, funds from operations was approx. $22.0 billion as there was a $9.1 billion working capital contribution as a result of a fall in crude prices and lower inventory levels at the end of the quarter. This meant that free cash flow was very strong with net debt falling to approx. $51.5 billion at the end of Q4 2018, down from approx. $60.5 billion at the end of Q3 2018, also helped by approx. $2.4 billion in divestment proceeds. Gearing is now down to 20.3% at the end of Q4 2018, down from 23.1% at the end of Q3 2018. Buybacks continue at $2.5 billion in the next quarterly tranche despite the recent decline in the oil price, which is positive and is indicative of the confidence the company has in the underlying business and the outlook in the near to medium term.

Financial Sector

Nothing significant to report.

Activist Influenced Companies

Brookfield Business Partners L.P. together with institutional partners is pleased to announce that it has reached an agreement to acquire up to 100% of Healthscope Limited for approximately $4.1 billion (AUD$5.7 billion). Healthscope is the second largest private hospital operator in Australia and the largest pathology services provider in New Zealand. "Healthscope is a leading business offering best-in-class, essential services to the well-established and growing private healthcare sector in Australia and pathology services sector in New Zealand," said Len Chersky, Managing Partner, Brookfield Business Partners. "As a long-term operator of and investor in service businesses globally, and one of the largest builders of hospitals in Australia, we are confident in the prospects for Healthscope to strengthen, grow, and continue to provide quality healthcare services to the community under our ownership." Healthscope operates 43 private hospitals across every state in Australia and owns 24 pathology laboratories across New Zealand. The Company provides doctors and patients with access to operating theaters, nursing staff, accommodations, and other clinical care and consumables. The transaction will be funded with up to $1.0 billion of equity, $1.4 billion of long-term financing and $1.7 billion from the sale and long-term leaseback of 22 wholly-owned freehold hospital properties.

Dividend Payers

Mondelez International Inc. - Q4 2018 reported EPS of $0.63 was in line with consensus. Gross margin expanded 90 basis points (bps), to 40%, in the quarter and +40 bps for the year. Operating profit was $12 million short due to the decision to increase investments in advertising and commercial (A&C) and route-to-market but still grew 7% ex F/X. The results showed stronger-than-expected organic revenue growth in Q4 2018 (2.5% vs. 1.5% consensus). Importantly, this embeds accelerating emerging markets (approximately 40% of sales) growth of +6.5% year/year. In addition, global snacking category growth was +2.7% year/year in 2018, the strongest level of growth in three years. Meanwhile, in North America (approx. 25% of sales) – which has been lagging for the better part of two years due to supply chain issues – Mondelez posted an approx. 21% operating margin -- better than Consensus (approx. 20%) and our estimate (approx. 19%). While the rate of improvement in this segment isn't expected to be linear, and recognizing that pricing was also a contributor, it suggests that the company is getting a better handle on its supply chain issues and moving service levels in the right direction. And so we have increasing confidence in the company's ability to transition its strategy from cost-cutting to topline growth. No change to 2019 guidance. Organic sales guidance of 2-3% and EPS of 3-5% sounds reasonable in our view given the momentum in the business, the reinvestment plans, and the 2.7% growth rate in the global snack category. Management said that it took into account higher-than-normal macro risks (such as a hard Brexit) in its guidance. It expects continued progress with its North American supply chain issues, but not linear.

Novartis AG - Group sales grew 6% constant currencies (cc) in Q4 2018, which came in broadly in line with consensus. Core EPS was 1% off consensus expectations. On sales, Pharma and Alcon were broadly in line, while Sandoz missed consensus by 1%. Core operating profit was slightly light (-1%) from lower Alcon and Sandoz profits (-4% and -1% lower than consensus). Divisional Analysis: (i) Innovative Medicines (sales: $9,022 million vs. consensus $8,920 million). Pharma grew +9%cc in Q4 2018 broadly 1-2% ahead of consensus. Within the growth drivers Cosentyx (+33% year/year) and Entresto (+76% cc year/year) were 1% and 4% ahead of consensus. For the older products we highlight better generic retention of Glivec. Underlying Pharma EBIT was in line with expectations, reflecting a slightly lower margin (30.7% vs. consensus of 31%). (ii) Sandoz (sales: $2,459 million vs. consensus $2,474 million). Sandoz sales were 1% light of consensus. Sandoz reported sales down 2% cc as volume growth of 5 percentage points (ppt) was more than offset by 7ppt of price erosion. Core EBIT margin of 19.6% was in line with consensus. (iii) Alcon (sales $1,788 million vs. consensus $1,797 million): Alcon sales grew 2% cc and came in line with expectations. Alcon core operating profit margin of 15.7% compared to consensus expectations of 16.3%. 2019 guidance looks cautious. Novartis has provided 2019 guidance on two levels – current Group structure and "New Focused Medicines Company" which excludes Alcon and the U.S. generic oral solids for both 2018 and 2019. As expected, all guidance includes a full year of US Gilenya in 2019. The company notes that generics could still launch at risk. Guidance is Group net sales growth – low to mid-single digits. Group Core operating income to grow mid-single digits. Key company updates: (i) RTH258 (macular degeneration) has not yet been filed (previous target Q4 2018) but we understand from the company it will be filed shortly. The company intends to use a priority review voucher; (ii) AVXS-101 planned filing in Type 2/3 SMA (intrathecal) has been delayed from late 2019 to 2020; (iii) Novartis has narrowed the proposed spin-off of Alcon to Q2 2019 from previous guidance of first half 2019, broadly as expected. Focus in 2019 will be on the Alcon spinoff.

Roche Holding AG - Sales of CHF 56.85 billion and core operating income of CHF 20.51 billion come in ahead of consensus. Core EPS of CHF 18.14 is ahead of consensus expectations of CHF 17.81. The beat in core operating income is driven from Diagnostics that posted a core operating profit of CHF 2.05 billion. Roche faces biosimilar erosion for MabThera (Rituxan) and Herceptin in Europe. 2018 E.U. revenues for MabThera was 1.7% below expectations and for Herceptin 1.7% above. For Q4 2018, MabThera was 7.7% below estimates and Herceptin 9.7% above. Newly launched products performed well with Hemlibra beating by +5.2%, Alecensa by +2.1% and Tecentriq by +3.5%. Ocrevus missed consensus by 1.1%. Roche proposes a dividend of CHF 8.70 - higher than consensus CHF 8.60 (last year: CHF 8.30). Outlook 2019 is for Sales to grow in the low- to mid-single digit range and core EPS broadly in line with sales. In summary, we believe Roche delivers strong 2018 performance - despite the headwinds of biosimilar erosion that took its toll in Europe. Overall, biosimilar erosion continues at a fast pace in Europe, with MabThera still accelerating year/year erosion rates, Herceptin falls more moderately than we anticipated - this, though, should change in 2019 due to the many competing biosimilars. Most interesting will be the onset biosimilar erosion in the US. Roche's 2019 guidance give us comfort.

Economic Conditions

U.S. Nonfarm payrolls rose 304,000 in January, well above expectations. The overshoot in the month overshadowed a net 70,000 downward revision in the prior two months. If anything, job growth has picked up rather than slowed down; the three-month average (241,000) exceeds the 12-month pace (234,000). All major sectors but one (information) boosted hiring in January. "No discernible impacts" of the government shutdown were reported, though it likely contributed to some layoffs among federal contract private-sector workers. That makes the overall increase in payrolls all the more remarkable in our view. While the **unemployment rate rose to 4.0%** from an upwardly-revised 3.9%, this largely reflected the impact of 380,000 federal furloughed workers, which boosted the number of people on temporary layoff (+175,000) and sliced household survey jobs (-251,000). A further slight upturn in the participation rate provided an assist. We expect to see the jobless rate decline in February, though not back to the 49-year low of 3.7% reached in November. Meantime, the duration of unemployment continued to decline.

U.K. Brexit Update - The Brexit train rolled on last week with the U.K. parliament conducting a debate and series of votes on possible deal options. Whilst the final destination remains far from clear [negative] and at this stage there was no agreement to request a delay [negative], one destination looks increasingly unlikely, with M.P.s making it clear that they will not support a "no deal" Brexit [positive]. The debate also provided further definition on the focus of disagreement (namely the Northern Ireland backstop) and instructed Theresa May (U.K. Prime Minister) to return to the E.U. to try and renegotiate "alternative arrangements to avoid a hard border" between the Irelands. Whilst there was no delay agreed and the E.U. leaders have predictably reacted by stating that the deal is "not open for re-negotiation", we would be more circumspect. In the first instance the E.U. position is logically incoherent in our view. The only reason for the Northern Ireland backstop is to prevent a hard border following a chaotic no deal at the end of the transition period… and yet it now seems to be the only reason that one might happen (only in the E.U.). Secondly the process has identified 17 Conservative M.P.s who are prepared to vote against the government in order to stop a "no deal" Brexit - a workable majority against. And finally the

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Labour Party have agreed to start talks with Theresa May regarding agreeing on any outcome. We would therefore view last week's news more positively than the foreign exchange market reaction suggests. With the prospect of a "no deal" Brexit looking increasingly remote, some form of deal or extended delay are the only options left.

Financial Conditions

The U.S. 2 year/10 year treasury spread is now 0.19% and the U.K.'s 2 year/10 year treasury spread is 0.48% - 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 4.46% (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 3.9 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 16.61 (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.

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

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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.

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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