PORTLAND
INVESTMENT COUNSEL®

Portland Focused Plus Fund LP
Portland Focused Plus Fund
ANNUAL LETTER TO INVESTORS

FOR THE YEAR ENDED DECEMBER 31, 2019

Portland Focused Plus Fund LP
Performance vs. Stock Market Indices

	Annual Total Return					
	Portland Focused Plus Fund LP				S&P/TSX Index	S&P 500 Index (US$)
Year	Series A	Series F	Series M	Series P		
2012 (from Oct. 31)	1.7%	1.9%	2.0%	2.0%	0.6%	1.5%
2013	33.0%	34.1%	37.7%	34.4%	13.0%	32.4%
2014	15.6%	16.8%	18.8%	17.5%	10.6%	13.7%
2015	6.5%	7.5%	8.3%	8.5%	-8.3%	1.4%
2016	39.0%	40.4%	45.5%	41.6%	21.1%	12.0%
2017	16.4%	17.5%	19.9%	18.6%	9.1%	21.8%
2018	-14.8%	-14.0%	-13.5%	-13.2%	-8.9%	-4.4%
2019	49.3%	50.8%	54.7%	52.4%	22.9%	31.5%

Since Inception (Oct. 31, 2012)

Compound annual return	18.7%	19.9%	22.2%	20.8%	7.7%	14.6%
Cumulative return	242.5%	267.0%	321.7%	288.0%	70.5%	165.6%

Portland Focused Plus Fund
Performance vs. Stock Market Indices

	Annual Total Return					
	Portland Focused Plus Fund				S&P/TSX Index	S&P 500 Index (US$)
Year	Series A	Series F	Series M	Series P		
2016 (from Mar. 31)	28.7%	29.3%	33.6%	30.6%	15.8%	10.5%
2017	15.5%	16.7%	19.4%	18.1%	9.1%	21.8%
2018	-15.6%	-14.7%	-14.2%	-13.8%	-8.9%	-4.4%
2019	48.5%	50.1%	53.2%	51.8%	22.9%	31.5%

Since Inception (Mar. 31, 2016)

Compound annual return	18.1%	19.2%	21.8%	20.6%	9.7%	15.0%
Cumulative return	86.4%	93.3%	109.7%	101.9%	41.5%	69.2%

Notes:
Performances for the Portland Focused Plus Fund LP and Portland Focused Plus Fund are net returns after all fees and expenses (and taxes thereon) have been deducted. Performance for both indices is per TD Securities Inc. The S&P 500 Index is shown in U.S. dollars rather than in Canadian dollars since the Funds generally hedge their U.S. dollar exposure. Since the Funds do not necessarily invest in the same securities as the benchmark or in the same proportion, the performance of the Funds may not be directly comparable to the benchmark. In addition, the Funds' returns reflect the use of leverage. The use of a benchmark is for illustrative purposes only, and is not an indication of performance of the Funds.

Portfolio manager's letter* to investors in the Portland Focused Plus Fund LP (the "LP") and the Portland Focused Plus Fund (the "Trust") (jointly, the "Funds"):

This letter describes how the Funds are managed and why they are managed that way. The letter also discusses topics of general interest to investors and is intended to serve as a useful reference for current and prospective investors in the Funds.[1]

Previous Letters

Previous annual letters to investors in the Funds are available on the web site of Portland Investment Counsel Inc. ("Portland") at http://www.portlandic.com/focusedplusfundLP.html for the LP and at http://www.portlandic.com/focusedplusfundtrust.html for the Trust. Important subject areas regarding investing and portfolio management were discussed in detail in those letters. The remarks were intended to be of a lasting nature; this letter does not update or revise them. Investors are strongly encouraged to read those previous letters.

Investment Objective

As stated in the Funds' Offering Memorandum dated October 25, 2018 ("OM"), the investment objective of each Fund is "to achieve, over the long term, preservation of capital and a satisfactory return."[2] In order to gauge whether the performance of the Funds has been satisfactory, investors should compare the long-term performance of the Funds to a 50%/50% average of the returns of the S&P/TSX Composite Index ("S&P/TSX Index") and the Standard & Poor's 500 Index ("S&P 500 Index") in U.S. dollars ("US$").[3]

Performance of the LP

The performance of the LP and that of its two benchmark stock market indices is shown in the table on the inside front cover of this letter. The LP's factsheet ("Fund Brief"), which shows performance updated to the latest available month-end including annualized returns over various time periods, may be found at the LP's web page referenced above.

For 2019, the LP's series F units (the highest fee series without embedded advisor compensation) had a return of 50.8% (all performance figures for the Funds are net of fees and expenses). That compares to a return of 22.9% for the S&P/TSX Index and to a return of 31.5% for the S&P 500 Index in US$. A 50%/50% blend of the two indices had a return of 27.2%. For the entire period since inception of the LP on October 31, 2012 to December 31, 2019, the LP's series F units achieved a cumulative return of 267.0%. That compares to a cumulative total return of 70.5% for the S&P/TSX Index and 165.6% for the S&P 500 Index in US$. A 50%/50% blend of the two indices had a cumulative return of 118.0%. Accordingly, in both the one-year period of 2019 and the cumulative period since the LP's inception, the LP has met its investment objective of preservation of capital and a satisfactory return. It's worth noting that the LP also offers four series of units with lower fees for larger investors, three of which series have units outstanding (Series M, Series P and Series Q). Due to their lower fees, these latter three series have even higher returns than the series F. The different series are discussed further below.

Awards

I'm pleased to report that the LP was a winner of three 2019 Canadian Hedge Fund Awards in the category of Equity Focused funds for achieving 3rd place, Best 3-Year Return; 2nd place, Best 1-Year Return; and, most importantly from my perspective (because it's the longest time period), 1st place, Best 5-Year Return.[4] This follows receipt by the LP of a 2018 Canadian Hedge Fund Award for achieving 3rd place in the category of Equity Focused funds, Best 5-Year Return and the LP's receipt of the 2017 Investment Fund Award conferred by the Private Capital Markets Association of Canada.[5] These awards recognize the LP's long-term performance. Since the LP may be affected by short-term vagaries in equity markets, which may be accentuated by the LP's use of leverage, it has always been suggested that investors assess performance over periods of not less than five years.[6]

Performance of the Trust

As discussed in detail in the 2016 Letter, with very limited exceptions, the LP is intended for non-registered investment accounts while the Trust is intended for registered investment accounts and for non-Canadians.[7] The Trust's investments are managed in a virtually identical manner to those of the LP. Each of the Funds experience monthly cash flows arising from subscriptions and redemptions. Shortly after every month-end, the Funds make such portfolio transactions as are necessary to harmonize their respective portfolios. As a result, investors should expect that the management and long-term performance of the two Funds will be similar. That is why Portland has decided to distribute the same annual letters to investors in both the LP and the Trust.

The performance of the Trust and that of its two benchmark stock market indices is shown in the table on the inside front cover of this letter. The Trust's Fund Brief, which shows performance updated to the latest month-end, may be found at the Trust's web page referenced at the start of this letter.

For 2019, the Trust's series F units (the highest fee series without embedded advisor compensation) had a return of 50.1% (all performance figures for the Funds are net of fees and expenses). That compares to a return of 22.9% for the S&P/TSX Index and to a return of 31.5% for the S&P 500 Index in US$. A 50%/50% blend of the two indices had a return of 27.2%. For the entire period since inception of the Trust on March 31, 2016 to December 31, 2019, the Trust's series F units achieved a cumulative return of 93.3%. That compares to a cumulative total return of 41.5% for the S&P/TSX Index and 69.2% for the S&P 500 Index in US$. A 50%/50% blend of the two indices had a cumulative return of 55.3%. Accordingly, in both the one-year period of 2019 and the cumulative period since the Trust's inception, the Trust has met its investment objective of preservation of capital and a satisfactory return. As was noted with reference to the LP, the Trust also offers four series of units with lower fees for larger investors, two of which series have units outstanding (Series M and Series P). Due to their lower fees, both of these latter series have even higher returns than the series F units. The different series are discussed further below.

Monthly Fund Updates

Shortly after every month-end, I send out fund updates by email for each of the LP and the Trust. These are generally factual in nature, with data on performance, net asset value per unit and net assets. When circumstances merit, these updates may also include comments on important events impacting the LP and the Trust and the investment outlook. Canada's Anti-Spam Legislation restricts Portland's ability to add anyone's email address to the list to receive these updates without that person's written consent. If you wish to receive the monthly email updates for either the LP, the Trust, or both, please send an email to that effect to me at info@portlandic.com. At the bottom of every email update there is an "unsubscribe" button that you may click on to be removed from that list.

Series of Fund Units

The Funds have designated six series of units, five of which have units outstanding. The features of each of the series are outlined below:[8]

- ***Series A units*** have a minimum initial subscription amount of $2,500 for accredited investors ($150,000 for other non-individual subscribers); a management fee of 2% per annum; and a performance fee of 10% of the amount above the highest ever net asset value per unit ("High Water Mark") of the series. A trailing commission of 1% per annum is paid to financial advisors whose clients invest in series A units;
- ***Series F units*** have a minimum initial subscription amount of $2,500 for accredited investors ($150,000 for non-individual subscribers); a management fee of 1% per annum; and a performance fee of 10% of the amount above the High Water Mark of the series;
- ***Series M units*** have a minimum initial subscription amount of $500,000 or more in respect of the Trust, or $1,000,000 or more in respect of the LP; and a management fee of 1% per annum. Series M units do not have a performance fee;
- ***Series P units*** have a minimum initial subscription amount of $500,000 or more in respect of the Trust, or $1,000,000 or more in respect of the LP; and a performance fee of 10% of the amount above the High Water Mark of the series. Series P units do not have a management fee;
- ***Series O units*** are charged a negotiated management fee and/or performance fee directly to Portland. Series O units will only be issued to certain institutional or other investors. No series O units have yet been issued; and
- ***Series Q units*** have a minimum initial subscription amount of $10,000,000; and a management fee of 0.75% per annum. Series Q units do not have a performance fee. The LP has issued series Q units while the Trust has not.

As can be seen in the tables on the inside front cover of this letter, for the period from October 31, 2012 to December 31, 2019, the LP's series F units had a cumulative return of 267.0% while the LP's series M units and series P units had higher cumulative returns of 321.7% and 288.0%, respectively. For the period from inception of the Trust on March 31, 2016 to December 31, 2019, the Trust's series F units had a cumulative return of 93.3% whereas the Trust's series M units and series P units had higher cumulative returns of 109.7% and 101.9%, respectively.

Going forward, with respect to each of the Funds, the series P units are certain to continue to have returns greater than the series F units since the series P units have no management fee. Similarly, the series M units will have a performance greater than the series F units to the extent that the Funds earn performance fees. Thus, investors who have the means to meet the minimum initial subscription amounts for the series M and series P units are encouraged to do so in order to take advantage of the lower fees applicable to those series which will continue to enhance their long-term performance.

Operating Expenses

The Funds incur operating expenses for such items as fund administration, audit fees, legal fees, and preparation of income tax returns and tax slips.[9] These expenses are relatively fixed (i.e., they are insensitive to a fund's asset size). That means that as a fund grows, and its operating expenses are spread over a larger asset base, the fund's operating expense ratio (i.e., the ratio of its operating expenses to its net assets) tends to decline which helps drive better fund performance.

I'm pleased to report that the LP's operating expense ratio fell from 0.37% plus applicable tax in 2018 to 0.24% plus applicable tax in 2019. That is because the LP's average net assets rose from $36.7 million in 2018 to $48.1 million in 2019. Conversely, the Trust, which was launched 3½ years after the LP, has yet to achieve the same economies of scale. The Trust's operating expense ratio in both 2018 and 2019 remained at 0.50% of net assets plus tax. At December 31, 2019, net assets of the LP and Trust (before subscriptions and redemptions effective on that date) were $52.8 million and $30.4 million, respectively (in the latter case, excluding distributions payable, almost all of which were reinvested).

While there can be no assurance that the operating expense ratios of the LP and Trust will remain at or below their 2019 levels of 0.24% and 0.50%, respectively (in both cases, plus applicable tax), Portland remains committed to tight management of fees and expenses so as to maximize the Funds' returns. Indeed, if the Trust maintains its current level of net assets, its operating expense ratio may decline in 2020.

Leverage Management

As I wrote this section I was reminded of the Academy Award-nominated song that has been performed by Bing Crosby, Paul McCartney and many others: "Ac-Cent-Tchu-Ate the Positive."[10] As suggested by that title, in this section we discuss how the Funds seek to vary their asset mix to enhance their returns.

The 2013 letter discussed at length the LP's use of leverage.[11] Leverage refers to buying stocks on margin (i.e., using borrowed money) to increase the Funds' assets and potentially their rates of return. In simple (pretax) terms, if stocks bought with borrowed money achieve rates of return (dividends plus capital gains) higher than the rate of interest on the borrowed funds, then the use of leverage would enhance the Funds' performance. Certainly, the careful use of a variable amount of leverage has been an important factor in achieving the Funds' strong performance outlined earlier in this letter.

As good as the Funds' performance has been, however, there is no room for complacency. As with other endeavours, examining history is an excellent means of learning from the past and seeking to do better in the future. In my opinion, an examination of the Funds' history reveals that performance would have been even better had I more actively managed the Funds' leverage. By that I do not mean *increasing* the amount of leverage. The Funds already have a proven history of increasing leverage when favourable opportunities have arisen (while always leaving room for a possible further equity market decline so as to avoid a margin call, which neither Fund has ever experienced). Instead, if more significant changes in leverage seem appropriate, and it can't (for prudence reasons) be done at the high end of leverage, then it must be done at the low end, i.e., by selling stocks and reducing the Funds' equity weights more aggressively when conditions are favourable. That is exactly what the Funds did in 2019, particularly in the second half of the year. At December 31, 2018, the LP's common stock investments comprised 270% of its net assets (facilitated by the use of margin borrowings). At December 31, 2019, however, the LP's weight in common stocks had fallen dramatically to 57% of the LP's net assets while the remaining 43% was held in cash and other assets (the Trust's asset mix at both year-ends was similar, before giving effect to subscriptions, redemptions and distributions). This recent high cash weighting, which is unprecedented in the life of either the LP or Trust, is a response to stock markets which hit record levels in late 2019 (and which set even higher records in early 2020) and that carried stocks into territory that I believe is relatively expensive. The high cash weights may cause the Funds to lag if stock markets go ever higher. If, however, as history suggests, there will always be occasional periods in which equity markets decline, the high cash positions will limit the Funds' downsides in such periods and provide excellent opportunities to deploy capital when stocks are more favourably priced. In brief, the purpose of the Funds' leverage management strategy is to, as Bing Crosby sang, "spread joy up to the maximum, bring gloom down to the minimum."

Tax Management

The 2016 Letter stated that the Funds are generally managed so as to try to keep unrealized capital gains as of any December 31 in the range of 10% to 25% of each Fund's net asset value.[12] The Funds' more active leverage management discussed above, however, has implications for unrealized gains. In brief, more active leverage management, such as selling down holdings that have appreciated in order to reduce margin debt, suggests that unrealized capital gains may not be as high a percentage of net assets as they have sometimes been in the past. Therefore, the updated target is to try to keep unrealized capital gains as of any December 31 in the range of -10% to +10% of each Fund's net asset value. At December 31, 2019, unrealized gains were within this range as they were approximately 6% of the LP's net assets (and a similar percentage of the Trust's net assets, excluding the impact of distributions payable at year-end). As 2018 amply demonstrated, volatility in equity markets, particularly toward year-end, may result in actual unrealized capital gains (or losses) being outside of the range of -10% to +10% of net assets (either higher or lower), but that is the aspiration. Further, striving to keep unrealized capital gains in the range of -10% to +10% of net assets helps to minimize the likelihood of an investor subscribing for units when the Funds have substantial unrealized capital gains in which the investor did not participate. As stated in the 2016 Letter, "the Funds will not let the tax tail wag the investment dog...Tax consequences are an important, but secondary, consideration (and will vary with each investor in any event)."

TINA meets FOMO (or Party Like It's 1999)

As described in the 2015 and 2016 Letters, persistently low interest rates have buttressed the demand for equities since they look attractive compared to the very low interest rates obtainable on cash and government bonds.[13] This phenomenon has been widely described as 'there is no alternative', a condition that is better known by its acronym, TINA. In my opinion, the unrelenting melt-up in equity prices since December 2018 has now morphed into something even stronger. This is what younger people, consumed by envy regarding the great lives that their peers are seemingly enjoying as suggested by their posts on social media, refer to as 'fear of missing out', or FOMO. Similarly, those investors holding low or negative yielding cash and bonds, watching as investors in equities have been enjoying steady gains, are capitulating so that they, too, can join the party. What happens when TINA meets FOMO? The table below updates one that was included in the 2015 and 2016 Letters.[14]

S&P 500 Index	2012	2013	2014	2015	2016	2017	2018	2019
Average index value	1,379	1,643	1,932	2,061	2,094	2,448	2,744	2,912
Closing index value	1,426	1,848	2,059	2,044	2,239	2,674	2,507	3,231
Operating earnings	96.82	107.30	113.01	100.45	106.26	124.51	151.60	155.84
Average price-earnings ratio	14.2	15.3	17.1	20.5	19.7	19.7	18.1	18.7
Closing price-earnings ratio	14.7	17.2	18.2	20.3	21.1	21.5	16.5	20.7

In brief, while the S&P 500 Index's average price/earnings (P/E) ratio on 2019 operating earnings (i.e., excluding specified items) in 2019 was a robust but not excessive 18.7 times, by the end of 2019 it had shot up to a closing P/E ratio of 20.7 times (with, at time of writing, 88% of S&P 500 companies having reported their 2019 results). That level is certainly on the high side compared to its historical levels, although it is by no means unprecedented.

Some people would assert that because of today's low interest rates, stocks should trade at much higher P/E ratios than they have historically. In other words, some would assert that "this time it's different". I consider those to be the four most dangerous words in investing. If they are used to justify recent equity valuations, the implicit premise is that interest rates will stay low forever. That may not be the case. In any event, even if it were, it would not prevent occasional material declines in equity prices. Indeed, even though interest rates have stayed historically very low since stocks bottomed in March 2009 (during the global financial crisis), there have been what I consider to be three bear markets in equities (i.e., declines of at least 20%) since that time, as follows:

- From the high of the S&P 500 Index on May 2, 2011, to its low on October 4, 2011, the index declined by 21.6%.[15] During this time, Standard & Poor's downgraded the credit rating of the U.S. government,[16] and there were also market concerns about slowing economic growth in China and falling commodity prices;
- From the S&P 500 Index's 2015 high to its low on February 11, 2016, the index declined by 15.2%. As was described in the 2016 letter, however, during that period many of the world's equity markets experienced drops of more than 20%, with Canada's S&P/TSX Index declining by 25.7%.[17] During this period, market concerns included the collapse in world oil prices and whether banks would have significant energy-related loan losses (which, as subsequent performance showed, they didn't); and
- From the S&P 500 Index's then record high on September 21, 2018 to its low on December 26, 2018 (Boxing Day Sale!), the index declined by 20.2%. The greatest market concern in that period appeared to be a hawkish statement from Jerome ("Jay") Powell, the chair of the Federal Reserve, which suggested that interest rates might rise significantly.[18]

The last of these periods, in particular, should serve as a cautionary tale for investors. If interest rates rise when they are expected to stay flat, or even if interest rates stay flat when they are expected to decline, equity prices could decline.

Mark Twain is alleged to have said that "history doesn't repeat, but it rhymes."[19] To me, while recent market conditions have been nowhere near as extreme as the technology bubble of 1999, there is some resemblance. Then, numerous companies sported market capitalizations so high that they cast, to put it mildly, reasonable doubt on the long-term rates of return that investors would earn if they bought companies at such high valuations. That is to say nothing of the many companies who commanded large market capitalizations that had never been profitable. Today, several (generally technology-related) companies now command market capitalizations of over $1 trillion.[20] For investors to earn an 8% return on investing in such businesses, their market capitalizations would have to increase by $80 billion per year (before accounting for dividends or the impact of possible share repurchases). That is a tall order for any business, no matter how profitable. Speaking of profits, at least one company that has never had a profitable year now commands a market capitalization of well over $100 billion.[21]

What is an investor to do in the current circumstances? Should we throw caution to the wind and, as music icon Prince suggested, "Party Like It's 1999"?[22] Or should we, as anecdotally it seems that far too many investors have done in the last decade, go entirely to cash and wait for another apocalyptic meltdown? I prefer the middle path, which is to continually recall that it is not a stock market, it's a market of stocks. If one is investing in a stock market index, then index valuations are of great importance. For the Funds, however, in my estimation all that they need is a handful of undervalued, high quality, large capitalization companies in order to be invested so as to fulfill their investment objectives of, over the long term, preservation of capital and satisfactory returns. Current bullish equity market conditions make that job harder, but not impossible. As for the future, someday equities will be the artist formerly known as a bull market. When that day arrives, I hope, through the prudent leverage management described earlier in this letter, to be able to increase the Fund's equity weights significantly.

Five Years Down, 45 More Years to Go

In the 2014 Letter, I had the audacity (foolhardiness?) to provide 50-year return forecasts for selected major asset classes (hey, I'm unlikely be alive in 2064 to have to defend the forecasts!).[23] How time flies! Already, five years have passed. This is an appropriate time to check in with those forecasts to see how the various items have actually been doing. As a reminder from the 2014 Letter, actual results will differ from these forecasts and the differences could be material. The predictions do not account for major, low probability, outlier events which have come to be known as "black swans". These could include, for example, a nuclear terrorist attack on the U.S. or a global pandemic which could dramatically affect investment returns. I've assumed, instead, that the world will muddle through as that is the high-probability scenario for which one should plan (while remaining mindful of downside risk in extreme scenarios).

The following table summarizes the 50-year return forecasts made in the 2014 Letter, with a starting point of December 31, 2014, and the actual returns for the five years ended December 31, 2019:[24]

<u>Asset class total returns</u>
<u>Forecast vs. actual returns</u>
<u>Five years ended 2019</u>

	50-year forecast at end of 2014	Actual, 5 years ended 2019
S&P/TSX Canadian banks index	8.50%	8.51%
S&P 500 Index, US$	6.00%	11.68%
S&P 500 Index ETF, C$	5.59%	13.78%
Canadian bond index ETF	2.67%	2.97%
Cash	2.50%	1.00%
Inflation	2.00%	1.84%

What I consider were the three most important projections (all with a 50-year horizon from the end of 2014 to the end of 2064) that the 2014 Letter tried to convey were as follows:

- Among the three major asset classes, stocks would outperform bonds which would outperform cash;
- Canadian bank stocks would provide total returns of 8.5% per annum; and
- Canadian bank stocks would outperform the S&P 500 Index.

How have things been working out so far? Well, in the words of Meat Loaf, “two out of three ain’t bad”.[25] First, the rank ordering of returns of the three major asset classes has been as predicted (i.e., stocks have outperformed bonds which have outperformed cash). Second, in a feat of either great foresight or extraordinary luck (can we tell them apart?), the Canadian banks have had annualized total returns as predicted (i.e., 8.5% per annum). Third, contrary to the forecast in the 2014 Letter, the S&P 500 Index in US$ has enjoyed even stronger returns than have the Canadian banks, and its returns in Canadian dollars (C$) have been stronger still. What have been the reasons for these various returns, and what implications do they have for the future? At the outset, I should state that I stand by the asset class return forecasts I made in the 2014 Letter. I don’t intend to update them as they were purposefully planned to be very long-term. The following three paragraphs address in general terms each of the above three major projections.

First, regarding the rank ordering of asset class returns, the yields offered on bonds and cash at the end of 2014 were so paltry that it was plain that under any reasonably likely scenario for equities, they would outperform bonds and cash. That remains the case today. That is why the Funds continue to seek out equity investments which, if they exceed 100% of the Funds’ net assets, are financed with margin borrowings at very low interest rates.

Second, the returns from investing in Canadian banks were predicted to be comprised of an initial dividend yield of 4.0%, real growth of dividend of 2.5%, inflation of 2.0%, and no change in valuation (P/E ratio or price to dividends), for expected total returns of 8.5% per annum.[26] That is broadly speaking how it has played out so far, although the growth rates of earnings and dividends have been higher than forecast, offset by some contraction in valuation. Going forward, I continue to believe that high quality banks bought at sensible valuations will provide satisfactory total returns. That is why banks remain an important component of the Funds’ portfolios. At December 31, 2019, before giving effect to subscriptions and redemptions as of that date, North American banks represented 46.6% of the LP’s net assets (and a similar percentage of the Trust’s net assets, also before giving effect to its year-end distributions).

Third, I would attribute the outperformance of the S&P 500 Index in the last five years primarily to U.S. public policy changes which have been generally favourable for equities. In particular, the reduction in the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018 resulted in a substantial increase in corporate earnings and a commensurate increase in stock prices. This, combined with deregulation and generally pro-business public policy, has unleashed what John Maynard Keynes referred to as “animal spirits”,[27] so that not only have earnings increased, but also so has the P/E ratio. This combination multiplied together has resulted in the substantial outperformance of U.S. equities. Finally, in the 2014 Letter I expected the long-term value of the Canadian dollar to remain at its level then of C$1.00 = US$0.86.[28] Instead, sustained low world oil prices, combined with what I believe has been bad public policy in Canada by the federal government (such as higher income tax rates, cancellation of certain major infrastructure projects and increased regulatory burden and uncertainty), has decreased Canada’s attractiveness as a place in which to invest and likely contributed to the decline of the C$. For the five years from the end of 2014 to the end of 2019, the C$ fell from US$0.86 to US$0.77 (i.e., the US$ appreciated from C$1.16 to C$1.30), further boosting U.S. equity returns when expressed in C$.

Who Wants to Be a Millionaire?

The primary purpose of doing the 50-year asset class return forecasts included in the 2014 Letter was to provide guidance to a hypothetical young adult, who was assumed to have turned 18 in 2014, as to how to invest his or her tax-free savings account (TFSA). This was described in the final section of the 2014 Letter titled "Using Tax-Free Savings Accounts for Long-Term Wealth Creation".[29] That section described how a person just turned 18 (the minimum age for having a TFSA), who contributed the maximum amount to her TFSA at the beginning of every year, and who earned a compound annual rate of return of 8.5% (which was the long-term rate of return then estimated for Canadian bank stocks), would by the end of 2064 build a TFSA with a value of $5.52 million (equivalent to $2.05 million in real (i.e., inflation-adjusted) 2014 dollars). By the end of 2019, the hypothetical adult's TFSA was projected to have assets of $44,761.[30]

I'm pleased to report that I know of an actual TFSA, created in 2014, that has exceeded this 2019 projection. The TFSA in question was originally invested in Canadian bank stocks and latterly in the Trust. The excess value of the TFSA compared to the 5-year projection in the 2014 Letter was derived partly from earning a higher rate of return than the projected rate of 8.5%, and partly because after the 2014 Letter was written the TFSA contribution limit was raised from $5,500 to $10,000 just for 2015,[31] and the accountholder contributed this extra amount of $4,500. Thus, with five years or 10% of the original 50-year investment horizon having elapsed, the accountholder is on track to potentially exceed the 2064 TFSA value described in the 2014 Letter of $5.52 million.

What should an investor do today, someone who may know little about investing but who wants to be a millionaire? Should they, as the TV game show of that name permitted, ask the audience?[32] Should they phone a friend? Alas, while everyone has the need to save (for future spending needs such as healthcare and retirement), in my opinion few people have the requisite education, training and experience, let alone temperament, to invest successfully over a lifetime. My investment advice is the same today as it was five years ago: "start young (or if you're not young, now); invest as much as you can; earn a satisfactory return (net of fees and expenses); compound that return for a long period of time without permanent losses; and minimize taxes."[33] Following this prescription can lead to remarkable long-term results, as the hypothetical and actual TFSA examples discussed above show.

Outlook

I want to take this opportunity to thank all investors in the Funds for their investment and confidence. I sincerely believe that by continuing to follow the principles and procedures outlined in this and previous letters, the Funds will continue to meet their investment objective: to achieve, over the long term, preservation of capital and a satisfactory return.

March 2, 2020

James H. Cole
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Notes

1. In this letter, all opinions are those of, and the words "I", "me", "my" and "mine" refer to, the Funds' portfolio manager and the letter's author, James H. Cole.
2. Portland Focused Plus Funds Offering Memorandum, October 25, 2018, p. 3. The OM is available at www.portlandic.com/focusedplusfundLP.html and www.portlandic.com/focusedplusfundtrust.html.
3. For a discussion, see 2013 Letter, p. 3.
4. http://alternativeiq.com/canadian-hedge-fund-awards/about/. The awards are based solely on quantitative performance data of 197 Canadian hedge funds to June 30th, 2019 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.
5. 2017 Letter, p. 4. The Canadian Hedge Fund 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. Private Capital Markets Award nominees are evaluated based on their leadership in the industry, their contribution to the deal, innovative market, product or investment opportunities created, the benefits of the deal for the issuer and for investors, and the overall impact of the deal on the quality and integrity of the private capital markets.
6. 2013 Letter, p. 3 and especially p. 8.
7. 2016 Letter, pp. 5-6.
8. OM, pp. 6-7 and pp.13-14.
9. Ibid., pp. 14-15.
10. https://en.wikipedia.org/wiki/Ac-Cent-Tchu-Ate_the_Positive
11. 2013 Letter, pp. 5-8.
12. 2016 Letter, pp. 6-7.
13. 2015 Letter, pp. 14-15; and 2016 Letter, pp. 9-10.
14. 2015 Letter, p. 14; 2016 Letter, p. 9.
15. Unless otherwise noted, all data in this section is from Refinitiv (formerly Thomson Reuters). Also, index levels are intraday highs and lows (not daily close highs and lows).
16. https://money.cnn.com/2011/08/05/news/economy/downgrade_rumors/index.htm
17. 2016 Letter, pp. 11-12.
18. 2018 Letter, pp. 10-11.
19. https://quoteinvestigator.com/2014/01/12/history-rhymes/
20. https://www.cnbc.com/2020/01/31/amazon-amzn-reaches-1-trillion-market-cap.html
21. https://markets.businessinsider.com/news/stocks/tesla-stock-price-gain-brings-market-value-100-billion-first-2020-1-1028835953
22. https://www.youtube.com/watch?v=rblt2EtFfC4
23. 2014 Letter, pp. 16-27 (especially the table on pp. 25-26).

24. Actual returns have been sourced as follows. The returns of the S&P/TSX Canadian banks index and the S&P 500 Index in US$ are from Bloomberg. The returns of the S&P 500 Index exchange-traded fund (ETF) in Canadian dollars (C$) are those of the iShares Core S&P 500 Index ETF (symbol XUS). The returns of the Canadian bond index ETF are those of the iShares Core Canadian Universe Bond Index ETF (symbol XBB). The returns for cash are those of 91-day Canadian treasury bills according to Bloomberg. The annual inflation rate is according to the Bank of Canada's inflation calculator.
25. https://en.wikipedia.org/wiki/Two_Out_of_Three_Ain%27t_Bad
26. 2014 Letter, pp. 23-25 (especially the table on p. 25).
27. Keynes, John Maynard. The General Theory of Employment, Interest, and Money (first Harcourt, Inc., edition, 1964, originally published in 1936), p. 161.
28. 2014 Letter, pp. 19-20.
29. Ibid., pp. 32-34.
30. Ibid., p. 33.
31. https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/tax-free-savings-account/contributions.html
32. https://en.wikipedia.org/wiki/Who_Wants_to_Be_a_Millionaire_(American_game_show)
33. 2014 Letter, p. 34.

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