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Portland Focused Plus Fund LP
Portland Focused Plus Fund

ANNUAL LETTER TO INVESTORS

FOR THE YEAR ENDED DECEMBER 31, 2022

Portland Focused Plus Fund LP
Performance vs. Stock Market Indices

	Calendar Total Returns					
	Portland Focused Plus Fund LP				MSCI Canada Index	MSCI USA Index (US$)
Year	Series A	Series F	Series M	Series P		
2012 (from Oct. 31)	1.7%	1.9%	2.0%	2.0%	0.7%	1.4%
2013	33.0%	34.1%	37.7%	34.4%	12.7%	31.8%
2014	15.6%	16.8%	18.8%	17.5%	10.7%	12.7%
2015	6.5%	7.5%	8.3%	8.5%	-9.0%	0.7%
2016	39.0%	40.4%	45.5%	41.6%	20.3%	10.9%
2017	16.4%	17.5%	19.9%	18.6%	8.4%	21.2%
2018	-14.8%	-14.0%	-13.5%	-13.2%	-9.7%	-5.0%
2019	49.3%	50.8%	54.7%	52.4%	21.1%	30.9%
2020	25.8%	27.1%	30.6%	28.3%	3.5%	20.7%
2021	16.1%	17.4%	21.2%	18.8%	24.9%	26.5%
2022	-31.0%	-30.2%	-30.1%	-29.5%	-6.5%	-19.8%

	Annualized Total Returns as of December 31, 2022					
	Portland Focused Plus Fund LP				MSCI Canada Index	MSCI USA Index (US$)
Year	Series A	Series F	Series M	Series P		
1 year	-31.0%	-30.2%	-30.1%	-29.5%	-6.5%	-19.8%
3 years	0.3%	1.3%	3.4%	2.4%	6.5%	7.0%
5 years	5.1%	6.2%	8.1%	7.3%	5.7%	8.7%
10 years	13.0%	14.1%	16.4%	15.1%	6.9%	11.8%
Since inception	13.0%	14.1%	16.4%	15.1%	6.9%	11.8%

	Cumulative Total Returns as of December 31, 2022					
	Portland Focused Plus Fund LP				MSCI Canada Index	MSCI USA Index (US$)
Year	Series A	Series F	Series M	Series P		
1 year	-31.0%	-30.2%	-30.1%	-29.5%	-6.5%	-19.8%
3 years	0.8%	4.0%	10.6%	7.5%	20.8%	22.4%
5 years	28.1%	34.9%	47.9%	42.1%	32.0%	52.1%
10 years	239.5%	274.6%	356.9%	308.8%	95.2%	205.6%
Since inception	245.1%	281.9%	366.2%	316.9%	96.5%	210.0%

Portland Focused Plus Fund
Performance vs. Stock Market Indices

	Calendar Total Returns					
	Portland Focused Plus Fund				MSCI Canada Index	MSCI USA Index (US$)
Year	Series A	Series F	Series M	Series P		
2016 (from Mar. 31)	28.7%	29.3%	33.6%	30.6%	16.1%	10.0%
2017	15.5%	16.7%	19.4%	18.1%	8.4%	21.2%
2018	-15.6%	-14.7%	-14.2%	-13.8%	-9.7%	-5.0%
2019	48.5%	50.1%	53.2%	51.8%	21.1%	30.9%
2020	27.2%	28.6%	32.2%	30.0%	3.5%	20.7%
2021	15.7%	17.0%	20.8%	18.4%	24.9%	26.5%
2022	-30.0%	-29.2%	-29.1%	-28.4%	-6.5%	-19.8%

	Annualized Total Returns as of December 31, 2022					
	Portland Focused Plus Fund				MSCI Canada Index	MSCI USA Index (US$)
Year	Series A	Series F	Series M	Series P		
1 year	-30.0%	-29.2%	-29.1%	-28.4%	-6.5%	-19.8%
3 years	1.0%	2.1%	4.2%	3.3%	6.5%	7.0%
5 years	5.3%	6.4%	8.3%	7.6%	5.7%	8.7%
Since inception	10.2%	11.3%	13.6%	12.6%	7.8%	11.0%

	Cumulative Total Returns as of December 31, 2022					
	Portland Focused Plus Fund				MSCI Canada Index	MSCI USA Index (US$)
Year	Series A	Series F	Series M	Series P		
1 year	-30.0%	-29.2%	-29.1%	-28.4%	-6.5%	-19.8%
3 years	3.0%	6.6%	13.1%	10.2%	20.8%	22.4%
5 years	29.2%	36.4%	48.7%	44.3%	32.0%	52.1%
Since inception	92.1%	106.0%	137.1%	122.6%	66.1%	102.8%

Notes:
The inception dates of the Portland Focused Plus Fund LP and Portland Focused Plus Fund were October 31, 2012 and March 31, 2016, respectively. 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. The MSCI USA 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 benchmarks or in the same proportions, the performance of the Funds may not be directly comparable to the benchmarks. In addition, the Funds' returns reflect the use of leverage. The use of benchmarks is for illustrative purposes only and is not an indication of the 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 https://portlandic.com/focused_plus_LP for the LP and at https://portlandic.com/focused_plus_trust 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 MSCI Canada Index ("MSCI Canada") and the MSCI USA Index ("MSCI USA") 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 tables on the inside front cover of this letter. The performance tables are also shown in the LP's factsheet ("Fund Brief") which is updated monthly about a week after every month-end and posted to the LP's web page referenced above.

In 2022, the LP's series F units (the highest fee series without embedded advisor compensation) had a return of -30.2% (all performance figures for the Funds are net of fees and expenses). That compares to a return of -6.5% for MSCI Canada and to a return of -19.8% for MSCI USA in US$. A 50%/50% blend of the two indices had a return of -13.2%. As a result, in 2022 the LP underperformed its benchmark indices. For the five years ended December 31, 2022 (I have always suggested that five years is the minimum reasonable period for measuring performance[4]), the LP's series F units had a cumulative return of 34.9%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 32.0% and 52.1%, respectively. A 50%/50% blend of the two indices had a return of 42.0%. As a result, for the five years ended December 31, 2022 the LP underperformed its benchmark indices. For the entire period since inception of the LP on October 31, 2012 to December 31, 2022, the LP's series F units achieved a cumulative return of 281.9%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 96.5% and 210.0%, respectively. A 50%/50% blend of the two indices had a return of 153.3%. As a result, for the full period since the LP's inception, the LP outperformed its benchmark indices.

While the LP achieved a positive return for the five years ended December 31, 2022 (and thus more than preserved capital in that period), it was the first five-year period (ending on a December 31) in which the LP did not outperform its benchmark indices. I am dissatisfied with this result (as I know that many

investors are) and have taken clear, significant and decisive steps to improve investment performance. This is discussed more fully later in this letter in the first paragraph of the section titled “Back to the Future”.

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; the Trust is intended for registered investment accounts and for non-Canadians.[5] 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 in which the portfolios diverge materially, 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 (as has, in fact, been the case, as is described in a later section of this letter). That is why Portland distributes the same annual letter 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 tables on page three 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.

In 2022, the Trust’s series F units (the highest fee series without embedded advisor compensation) had a return of -29.2% (all performance figures for the Funds are net of fees and expenses). That compares to a return of -6.5% for MSCI Canada and to a return of -19.8% for MSCI USA in US$. A 50%/50% blend of the two indices had a return of -13.2%. As a result, in 2022 the Trust underperformed its benchmark indices. For the five years ended December 31, 2022, the Trust’s series F units had a cumulative return of 36.4%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 32.0% and 52.1%, respectively. A 50%/50% blend of the two indices had a return of 42.0%. As a result, for the five years ended December 31, 2022 the Trust underperformed its benchmark indices. For the entire period since inception of the Trust on March 31, 2016 to December 31, 2022, the Trust’s series F units achieved a cumulative return of 106.0%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 66.1% and 102.8%, respectively. A 50%/50% blend of the two indices had a return of 84.5%. As a result, for the full period since the Trust’s inception, the Trust outperformed its benchmark indices.

Similarly to the LP, the five years ended December 31, 2022 was the first five-year period (ending on a December 31) in which the Trust did not outperform its benchmark indices. Factors that affected 2022 performance, and the outlook, are discussed in detail later in this letter.

Monthly Fund Updates

Shortly after every month-end, fund updates are sent out 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. Since September 2022, these updates have included a link to a PowerPoint presentation regarding the two funds (which is also available on their web pages cited above). 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 all emails from Portland.

Comparison of LP and Trust returns

As noted earlier, the LP and the Trust are managed virtually identically. As a result, their performances should be similar. That has been the case, as is shown in the table below.

Annualized Performance Periods ended December 31, 2022	One year	Three years	Five years
LP	-30.2%	1.3%	6.2%
Trust	-29.2%	2.1%	6.4%
LP vs. Trust	-1.0%	-0.8%	-0.2%

As can be seen in the table, the long-term performance of the LP and Trust is similar. For example, for the five years ended December 31, 2022, the LP had a return of 6.2% per annum compared to the Trust's return of 6.4% per annum. Despite this similarity, and the fact that the Funds have always been managed so as to achieve similar performance, some investors and financial advisors sometimes believe that the performance of the Trust is much worse than that of the LP (as noted above, the Trust's performance has, in fact, been slightly better than that of the LP). I believe that this mistaken impression arises from the distributions paid annually by the Trust. This is discussed more fully in the next section of this letter.

Distributions and Returns

The LP does not pay distributions. Mutual funds trusts (like the Trust), however, are required to distribute their net income to their investors. To do so, the Trust pays distributions on December 31 of every year. The vast majority of investors reinvest their distributions into additional units. From an accounting perspective, the market value of those additional units is added to the investor's original cost, resulting in a higher figure for "book value" (sometimes referred to as "book cost"), a figure which is commonly cited on client statements of investment firms. The accumulation of these reinvested distributions results in higher and higher figures for "book value" over time. That leads some investors (and advisors) to believe that investments in the Trust have performed more poorly than they have, because they mistakenly compare market value to "book value" which due to the reinvested distributions is not the investor's original cost.

This misapprehension is as understandable as it is widespread. In order to set the record straight, I wish to be succinct and blunt: **"book value" figures that include reinvested distributions are completely irrelevant for calculating investment performance.** Indeed, I consider the figures, although correct from an accounting perspective, to be highly misleading. My advice to investors who hold the Trust in registered plans (which I believe constitute the vast majority of investments in the Trust) is that what they should do with figures for "book value" or "book cost" on their account statements is simply ignore them.

The fallacy of "book value" may be illustrated by imagining a hypothetical investor who invested the same amount, at the same time, in the LP and the Trust. Let's further assume that the performance of the LP and the Trust were identical. Then, over the years, the investor's original cost of her investment in each of the LP and the Trust would remain unchanged (and the two original costs would be the same as each other); the market values of her investments in the LP and the Trust would always be the same as each other; but while the "book value" of her investment in the LP would never change, the "book value" of her investment in the Trust would rise over time (as a result of reinvested distributions). Thus, it is understandable that the investor would compare the market values of her investments to "book value" and conclude that the LP had

performed well while the Trust had performed poorly, even though the performance of the two investments in this example was identical.

The confusion caused by “book value” figures has persisted for years. For gluttons for (accounting) punishment, I described this issue in detail in a section of the 2018 Letter titled “Allocations, Distributions and Returns.”[6] That letter is available at the web pages cited earlier. In brief, investors in the Trust who hold units through at least one calendar year-end cannot compute their returns by comparing their market value to their “book value” on their investment statements. To derive their return, they must compare market value with original cost; use an internal rate of return function in spreadsheet software such as Excel; use the performance tables in the inside front cover of this letter, in the monthly fund briefs or on Portland’s web site; or consult the personal rates of return that brokerage firms and investment managers are required to provide to their clients annually.[7]

Capital Gains and Taxes

In the spring of 2021, the Funds had substantial net unrealized capital gains. At that time, there was considerable speculation that the 2021 federal budget might increase the “capital gains inclusion rate.”[8] That is the percentage (currently 50%) of capital gains that is included in taxable income. I shared those concerns, and therefore chose to realize a substantial amount of capital gains in the LP prior to the April 19, 2021 federal budget.[9] That was not necessary to do (and was not done) in the Trust, as its investors are generally tax-deferred or tax-free registered plans. In the event, the 2021 federal budget did not change the capital gains inclusion rate (although a future budget may). Also, the LP’s performance in the second half of 2021 was negative. As a result, investors in the LP were allocated considerably more in capital gains in respect of 2021 than was the change in the LP’s market value in that year.

By contrast, the LP’s 2022 tax return, although it will not be finalized until late March 2023, is expected to include substantial allocations of net capital losses. That will be because of negative fund returns since capital gains were realized in the spring of 2021, and the realization of some capital losses in 2022. This will be the first year in the history of the LP in which it will allocate net capital losses (not net capital gains) to its investors. When investors file their tax returns for 2022, capital losses may generally be carried back up to three years by filing a form T1A, “Request for Loss Carryback”.[10] If an investor chooses to file the T1A form, that should result in a tax reduction in respect of the year to which the losses are carried back. Investors should consult their own tax professionals.

At December 31, 2022, the LP and Trust portfolios had net unrealized capital losses. That means that both funds are in a position to earn future capital gains without commensurate capital gains allocations to investors, as the first portion of capital gains would simply be the recovery of currently unrealized capital losses.

Back to the Future

In the 2020 letter, I noted that with the addition of another investment professional to Portland’s team, that person had begun working with me in the management of the Funds. Further, and related to this, the Funds had become more global in their investing scope.[11] By September 30, 2022, I concluded that those two decisions had not worked and that they had been, on balance, significantly negative to the Funds’ performances (for which I take responsibility). As a result, effective on that date, I reverted to being the sole

person involved in investment decisions for the Funds. From September 30, 2022 to December 31, 2022, the returns of the LP and Trust were 12.0% and 11.3%, respectively. In January 2023, the returns of the LP and Trust were 19.6% and 19.5%, respectively. That means that for the four months from September 30, 2022 (when the change described above was made) to January 31, 2023, the returns of the LP's and Trust's Series F units were 33.9% and 33.1%, respectively. In the same period, the returns of MSCI Canada and MSCI USA were 13.4% and 14.0%, respectively. I'm pleased that the performances of the Funds in this most recent four-month period were strong on both an absolute basis and relative to their benchmark indices. I recognize that there is still a long way to go to return the Funds to their former highs (and beyond); that remains my aim.

Another important instance of "Back to the Future" that occurred in 2022 was the normalization of interest rates. Ever since the global financial crisis in 2008-2009, central banks had kept short-term interest rates near zero. That was despite the fact that, by as far back as 2020, inflation had been running rampant.[12] Finally, central banks recognized that inflation was not "transitory", as had so often been asserted by central bankers such as the chair of the U.S. Federal Reserve Board ("Fed"), Jerome Powell.[13] Instead, inflation has been high and persistent, triggering a major policy shift by central banks around the world. For example, during 2022, in order to quell inflation, the Fed raised its target for the federal funds rate from a range of 0% to 0.25% to a range of 4.25% to 4.50%, a dramatic increase of 4.25%.[14] This trend has continued as, on February 1, 2023, the Fed raised its target for the federal funds rate by another 0.25% to its current range of 4.50% to 4.75%.[15] Higher interest rates tend to put downward pressure on equity prices for several reasons. One of the reasons is that stocks are no longer the only game in town as cash and fixed-income securities now offer much higher yields than they did at the beginning of 2022. In other words, an important factor driving equity markets for the last 14 years, There Is No Alternative (widely known by its acronym, TINA), has morphed into There is A Reasonable Alternative (TARA). I do not bemoan this change. The zero interest-rate policy (which has been accorded its own acronym, ZIRP) was an unprecedented economic experiment that, in my opinion, distorted financial markets, caused misallocation of capital, punished savers and was bound to end badly eventually. Now that it has ended, it has contributed to sharply lower equity markets that have provided the Funds with several attractive investment opportunities. ZIRP, R.I.P.

Finally, another important example of "Back to the Future" is what I find to be a striking similarity between financial market conditions in the last three years and those of 1999 to 2003. In both periods, there was a craze in technology-related stocks fuelled by unique historical events (in the earlier period, it was the technology bubble fostered by the simultaneous advent of the internet and Y2K; in the recent period, it was the COVID-19 pandemic, which greatly accelerated pre-existing trends toward work-from-home, online everything and cashless payments). The technology bubbles eventually peaked (in the earlier period, the technology-heavy Nasdaq index famously peaked on March 10, 2000;[16] in the recent period, the widely-followed Standard & Poor's 500 Index ("S&P 500") peaked on January 3, 2022, although a strong case could be made that the peak in technology stocks was on February 16, 2021, which was the date of the all-time high of the Ark Innovation exchange-traded fund. I consider it to be the poster child for the recent mania).[17] In both periods, following the peaks, a bear market ensued, led by technology stocks but also including substantial declines in the share prices of non-technology businesses. Further, in both periods, the Fed began to increase interest rates in order to restore them to more normal levels. After protracted bear markets in both periods, the S&P 500 eventually bottomed in October of the U.S. mid-term election year (the S&P 500 low in the earlier period was on October 10, 2002 while in the current period it was on October 13, 2022). There was then a more than 17% rally in the S&P 500 (in the earlier period, the rally peaked on December 2, 2002 while in the current period the rally peaked on December 13, 2022). In the earlier period, the S&P 500 then gave up almost all of its recent gains and reached its 2003 low on March

12, 2003. That was still slightly higher than the S&P 500 had been on October 10, 2002, which was, in fact, the low for that cycle. From March 2003 until 2007, the S&P 500 enjoyed very strong returns despite that fact that during that period, the federal funds rate increased from 1.25% to 5.25%,[18] and the U.S. 10-year Treasury yield rose from 3.5% to 5.25% (vs. 3.7% at February 7, 2023).[19] As for the current period, no-one knows what will happen in the future. I describe what I believe to be a reasonable outlook in the concluding section of this letter.

Potential Benefits of Leverage

The two key strategies employed in the Funds are: i) focused investing (i.e., a limited number of companies held in large weights as a percentage of Fund net assets) and ii) leverage (i.e., prudent use of a variable amount of margin debt, intended to enhance fund returns). Leverage is so important to the management of the Funds, and so often not fully understood, that this section has been written to illustrate its potential benefits.

For a conventional investment fund that does not use leverage and is fully invested (i.e., it holds no cash), then whatever the percentage change in the value of its equity holdings, the percentage change in its net assets will be the same. Also, if its equity weight (i.e., total equities divided by net assets) at the beginning of a period is 100%, then its equity weight will always remain 100% no matter whether the market values of its equity holdings go up, down or sideways.

As soon as one introduces leverage into a portfolio, however, the outcomes change. Now, the equity weight of a fund will change in response to changes in the market values of its equity holdings. This is shown in the table below.

Hypothetical investment fund	Start of period	10% gain in equities	End of period	Change in period
Total equities (A)	$250.00	$25.00	$275.00	10%
Margin debt	$150.00	$0.00	$150.00	0%
Net assets (B)	$100.00	$25.00	$125.00	25%
Equity weight (A/B)	250%		220%	
Additional equities to restore equity weight to 250%			$37.50	
Portfolio after additional equities:				
Total equities (A')			$312.50	
Margin debt			$187.50	
Net assets (B')			$125.00	
Equity weight (A'/B')			250%	
Additional equities as % of new net assets			30.0%	
Additional equities as % of original net assets			37.5%	

In the above example, at the start of the period, the fund has $250 of total equities, purchased utilizing $150 of margin debt and $100 of net assets (i.e., the amount of the fund that is attributable to its investors) for an equity weight of 250% (i.e., $250 of total equities divided by $100 of net assets equals 250%). The equities are then assumed to increase in value by 10%, or $25. The total equities now have a market value of $275. The margin debt has remained at $150. That means that the net assets (i.e., total equities minus margin borrowings) have also increased by $25, to $125. Thus, in this example, a 10% increase in the market value of equities has increased net assets by 25%. This demonstrates one potential significant advantage of using leverage, which is the potential to realize greater performance (i.e., percentage increase in net assets) than the performance of the underlying portfolio. Of course, as the saying goes, leverage works both ways. The use of leverage may accentuate negative returns (as was the case in 2022).

Now let's pursue the matter a bit further. Note that in the above example and as shown in the table, one of the impacts of assuming a 10% increase in equity prices is that it reduced the equity weight from 250% to 220% (i.e., after the assumed gain in equities, $275 of total equities divided by $125 of net assets equals 220%). Let's further assume that after the initial 10% increase in equity values, the portfolio manager wished to buy enough additional equities so as to restore the original equity weight of 250%. How much additional equities would that be? A little math (multiplying the new net assets of $125 by 2.5 then deducting the existing total equities of $275) reveals that the answer is $37.50 (i.e., $125 x 2.5 - $275 = $37.50). As shown in the table, these additional equities represent an increase to the net assets after their 10% gain of 30.0% (i.e., $37.50 / $125.00 = 30.0%). The additional equities represent an increase to the original dollar amount of net assets of 37.5% (i.e., $37.50 / $100.00 = 37.5%). In other words, another potential benefit of using leverage is the ability to increase the dollar value of equities held as they appreciate without requiring any further cash from investors. Instead, the additional equities are financed with additional margin debt, which use is made possible by the reduction in equity weight (i.e., leverage) that arose when the original portfolio appreciated. This ability to compound investments is a potentially powerful source of investment returns.

For the last several months, the Funds' monthly email updates have noted that the Funds have the financial capacity to increase their equity weights to 200% to 250% or more of net assets (compared to, for example, 176.3% at December 31, 2022). This would be consistent with what the Funds have done before: at December 31, 2018 the LP's equity weight was 270% while at October 31, 2020 it was 209%. Both of those instances were immediately followed by very strong performance of the Funds. Those were not coincidences (i.e., the high equity weights contributed to the subsequent strong performance). Of note, the Funds' prime broker may generally lend up to 70% loan-to-value against large capitalization equities listed in the U.S. and Canada. That means that the theoretical maximum equity weight would be 333%. For example, a portfolio comprised of $100 of total equities, financed with $70 of margin debt (i.e., 70% loan-to-value) and $30 of net assets, would have an equity weight of 333% (i.e., $100 / $30 = 333%). The reason for not buying to that maximum level is that no-one can predict the future with certainty. That is why the Funds have always operated with a significant buffer below maximum leverage to allow for the possibility of an equity market decline (that could happen at any time).

While the Funds are prepared to increase their equity weights up to 200% to 250% or more of net assets if circumstances are deemed appropriate, they have not yet done so. That has been for three reasons: i) while I like the valuations of the businesses owned in the Funds, stock prices generally are not at bargain levels; ii) the Funds have maintained considerable buying capacity in case a possible recession results in the share prices of some potential investees declining further, to more attractive levels, than has so far been the case;

and, iii) most importantly, because I believe that the Funds will meet their investment objectives with their existing investments. Those investments are described more fully in the remainder of this letter.

Banks: 12 is the new 11

Previous annual letters have included many positive comments about the investment merits of banks.[20] For example, in my estimation, banks are generally very free cash generative; have attractive returns on equity; above-average predictability; and have high barriers to entry. In addition, Canadian banks have very high standards of corporate governance. Just as importantly, they are often available for purchase at reasonable valuations that offer attractive potential total returns with, in my opinion, limited downside risk.

The single most important measure of a bank's financial strength is its common equity tier 1 capital ratio ("CET1", calculated by dividing a bank's common equity tier 1 capital by its risk-weighted assets).[21] In the 2017 Letter, I noted that the big five Canadian banks had increased their CET1 ratios to a then record-high weighted average of 11.0%.[22] The primary regulator of Canadian banks is the Office of the Superintendent of Financial Institutions ("OSFI"). On December 8, 2022, OSFI announced that a component of the required CET1 ratio, known as the Domestic Stability Buffer ("DSB"), would increase from 2.5% to 3.0% as of February 1, 2023. Further, OSFI announced that it had increased the DSB's range to a new level of 0% to 4% instead of the previous 0% to 2.5%.[23] Combined with the other components of required capital, the minimum CET1 requirement for Canadian banks as of February 1, 2023 is 11.0%. Given that the banks seek to always have a management buffer above the minimum regulatory requirement, especially now that OSFI has communicated that it may increase the DSB in the future by a further 1%, in my estimation Canadian banks are now seeking to achieve CET1 ratios of 12.0% or higher in the near future (rather than their previous targets of 11.0%). In the short term, achieving the target CET1 ratios of 12.0% will likely mean foregoing share buybacks and continuing with discounts on dividend reinvestment plans ("DRIPs"). I expect that, once the banks achieve their internal targets for their CET1 ratios, they will then resume share repurchases and cancel the discounts on their DRIPs. In the longer term, the change by OSFI will likely mean that in future the banks will report, on average, lower, but safer, returns on equity as compared to their historical averages.

During 2022, bank stocks fell out of investor favour. The Funds used that weakness as an opportunity to add to their bank positions. The LP's bank holdings are summarized in the table below. The first numerical column shows each holding's percentage weight of the LP's net assets at December 31, 2022 (before subscriptions and redemptions effective on that date). The Trust's weights in the banks named in the table, excluding the Trust's year-end distributions (almost all of which were reinvested), were virtually identical to those of the LP.

Banks held in the LP at Dec. 31, 2022

Company	% of LP's net assets	Dividend Yield	P/E ratio	P/B ratio	CET1 ratio
Bank of Montreal	19.6%	4.7%	9.3	1.3	16.7%
Bank of New York Mellon Corporation, The	9.0%	3.3%	9.9	1.0	11.2%
Bank of Nova Scotia, The	19.9%	6.2%	7.8	1.2	11.5%
Citigroup, Inc.	38.0%	4.5%	6.5	0.5	13.0%
Total / weighted average	86.6%	4.8%	7.8	0.9	

As can been seen in the table, at December 31, 2022, the LP had a total of 86.6% of its net assets invested in four banks. On a weighted average basis, the bank holdings had attractive valuations, such as a dividend yield of 4.8%; a price-earnings ("P/E") ratio on 2022 earnings per share ("EPS") of only 7.8x; and a price-book ratio ("P/B") ratio of only 0.9x.[24] Further comments on each of the banks follow below (in alphabetical order):

- ***Bank of Montreal*** ("BMO") completed its acquisition of Bank of the West on February 1, 2023.[25] I believe that the acquisition will increase BMO's net earnings by more than the associated increase in BMO's shares outstanding, so that the deal will be accretive to EPS. Further, it has increased BMO's scale in the U.S. market as will as its geographic diversification. I've been impressed with what BMO's chief executive officer ("CEO"), Darryl White, has accomplished since he assumed the role in 2017. As he is only 51 years old, he still has a lot of runway. At the end of fiscal year ("FY") 2022, BMO's CET1 ratio was an unusually high 16.7% as it raised capital to fund the Bank of the West acquisition. When BMO did an equity issue in December 2022 (in which the Funds bought more BMO shares), BMO stated that it expects to target a CET1 ratio at or above 11.5%.[26] At December 31, 2022, BMO traded at what I believe are attractive valuation metrics with a dividend yield of 4.7%, a P/E ratio on FY'22 EPS of 9.3x and a P/B ratio of 1.3x;
- ***The Bank of New York Mellon Corporation*** ("BNY Mellon") is the world's largest custodian bank and securities services company, with a history that dates back to its establishment in 1784 by a group that included founding father Alexander Hamilton.[27] BNY Mellon's asset-light business model is, in my opinion, much lower risk than traditional banks. At December 31, 2021, 8.3% of BNY Mellon was owned by Portland's role model, Berkshire Hathaway Inc. (led by legendary investor Warren Buffett).[28] At December 31, 2022, BNY Mellon traded at a dividend yield of 3.3%, a P/E ratio on 2022 EPS of 9.9x and a P/B ratio of 1.0x;
- ***The Bank of Nova Scotia*** ("Scotia") is Canada's most international bank, with substantial operations in Mexico, Chile, Peru, Colombia and a number of markets in the Caribbean and Central America.[29] For the 10 years ended in FY'22, the compound annual growth rate of Scotia's EPS was 6.3%, which ranked as the second-worst among the big six Canadian banks.[30] Further, on September 26, 2022, Scotia announced the highly unusual decision that it would replace retiring CEO Brian Porter with an outsider, Scott Thomson, who until then had been CEO of Finning International Inc.[31] It is because of factors such as these that at December 31, 2022, Scotia traded at what I believe are exceptionally attractive valuation metrics with a dividend yield of 6.2%, a P/E ratio on FY'22 EPS of only 7.8x and a P/B ratio of 1.2x. In my opinion, investor sentiment regarding Scotia is so negative that if it performs poorly on fundamentals, that may already be reflected in its share price. Conversely, if Scotia's business performance improves, investors may reap the double benefit of a higher P/E ratio accorded to higher EPS, for strong resulting capital gains on top of Scotia's healthy dividend yield; and
- ***Citigroup Inc.*** ("Citi") is a large U.S. money centre bank which also has a substantial presence in a number of international markets. Under its CEO Jane Fraser (who assumed that role in 2021), Citi has announced its intended exit from consumer banking in many international markets. I believe that this is the correct strategy as Citi may lack the scale to be competitive in some markets compared to local players. As these exits are completed, Citi's risk-weighted assets should decline (as was the case in 2022), freeing up capital for other investments and shareholder returns. As a result of Citi's relatively poor historic performance, at December 31, 2022, Citi traded at what I believe are exceptionally attractive valuation metrics with a dividend yield of 4.5%, a P/E ratio on 2022 EPS of

only 6.5x and a P/B ratio of 0.5x. I'm not alone in this assessment: in May 2022 it was revealed that Berkshire Hathaway Inc. had acquired a 2.8% stake in Citi.[32] As with Scotia, I believe that investor sentiment regarding Citi is so negative that if it performs poorly on fundamentals, that may already be reflected in its stock price. Conversely, if Citi's business performance improves, investors may be rewarded with strong capital gains on top of Citi's healthy dividend yield.

Other Investments

Normally, these letters don't dwell on the Funds' individual investments. The primary reason for that is that I have found that the more one discusses individual holdings, the more one is likely to keep them in the Funds, even if changing valuations or other circumstances suggest one should do otherwise. The Funds' investment objective (i.e., to achieve, over the long term, preservation of capital and a satisfactory return) has never changed nor have the two key strategies (i.e., focus and leverage) employed to meet that objective. Those may be sacrosanct, but individual holdings are not. Holdings are always subject to change if it is deemed to be beneficial for the Funds. Nevertheless, given the declines in 2022 in both equity markets and the Funds, I thought investors might appreciate a review of all of the Funds' investee companies. The Funds' four bank holdings are summarized above; their five non-bank holdings are discussed briefly below (in order of percentage weight in the LP as of December 31, 2022, highest to lowest; the weights of these businesses in the Trust were similar). Of note, also, is that since September 2022 a PowerPoint presentation on the Funds has been updated monthly, including detailed slides on the Funds' largest holdings. The most recent version of that presentation may be found on the web pages referenced earlier in this letter.

- ***CK Hutchison Holdings Limited*** ("CKHH"; 35.1% of the LP's net assets at December 31, 2022). CKHH is a Hong Kong-based and Cayman Islands-registered industrial conglomerate that operates in four core segments: infrastructure, telecommunications, retail, and ports and related services.[33] The company is diversified by geography, with substantial operations in Europe, Asia, China and Canada (where it owns 16% of Cenovus Energy Inc. and other assets).[34] In 2021, CKHH had revenues of US$36.0 billion;[35]
- ***Great-West Lifeco Inc.*** ("GWO"; 20.4% of the LP's net assets). GWO is a Canadian-based financial services holding company providing life and health insurance, retirement and investment services, asset management and reinsurance in Canada, the U.S. and Europe. In 2021, GWO had total revenue of $64.4 billion;[36]
- ***Vodafone Group plc*** sponsored ADRs ("Vodafone"; 18.5% of the LP's net assets). Vodafone is a major telecommunications company with operations in Europe, Africa and other markets. In FY'22, Vodafone had total revenue of €45.6 billion;[37]
- ***Verizon Communications Inc.*** ("Verizon"; 10.0% of the LP's net assets). Verizon is one of the largest telecommunications companies in the United States, providing both wireless and wireline services and products to consumers and businesses. In 2022, Verizon had total revenues of US$136.8 billion;[38] and
- ***Canadian Tire Corporation*** ("Canadian Tire"; 5.7% of the LP's net assets). Canadian Tire is an iconic domestic franchise operating in three segments: retail; financial services; and real estate. In 2021, Canadian Tire had total revenue of $16.3 billion.[39]

Outlook

Equity markets in 2022 were significantly influenced by the sharp increases in interest rates, which were in turn driven by efforts by central banks to quell inflation. As we consider the outlook for 2023 and beyond, we should examine each of these three items; that is done below in reverse order.

- ***Inflation***, as measured by the U.S. Consumer Price Index ("CPI"), appears to have peaked in June 2022 with a 12-month percentage change of 9.1%.[40] By December 2022, U.S. CPI inflation had fallen to 6.5%. I believe that key measures of inflation will continue to decline significantly, as a result primarily of three factors: i) base effects (i.e., as time goes by, current price levels will be compared to higher and higher prices from 12 months earlier, tending to reduce the 12 month rate of change); ii) a possible U.S. recession (as is the base case among many forecasters); and iii) what has become known as quantitative tightening ("QT"), as the Fed and other central banks shrink their balance sheets, thus reducing money supply. In December 2022 (the latest data available at the time of writing), a broad measure of money supply known as M2 declined by 1.3% compared to December 2021.[41] That was reportedly the first year-over-year decline in money supply since records began in 1959.[42]
- ***Interest rates*** are expected by many forecasters to peak in 2023, before ultimately declining. Indeed, the projections made by the Fed's participants themselves show the federal funds rate peaking in 2023 at just over 5.0%, before declining in the longer run to about 2.5%.[43] That would be consistent with research recently published by the Fed itself, which asserts that the neutral rate of interest (i.e., that interest rate that supports the economy at full employment while keeping inflation constant)[44] in the U.S. is in the range of 2.3% to 3.0%.[45] In practical terms, what this means is that if and when the U.S. inflation rate declines to the Fed's target of 2%, then short-term interest rates may ultimately be cut by about 2.5 percentage points (i.e., from about 5.0% to about 2.5%). I expect inflation and interest rates to follow a similar path in Canada as in the U.S.
- ***Equity markets*** are highly sensitive to the prevailing level of interest rates. That is for several reasons, including: mortgage interest rates affect how much cash flow homeowners have for discretionary spending after making their mortgage payments; businesses with floating rate debt may find their cash flows and profits negatively affected as interest rates rise, and vice versa; and the prevailing level of interest rates has a significant influence on how much market participants will pay for each dollar of earnings (i.e., P/E ratios). As noted in the "Back to the Future" section above, after March 2003 the S&P 500 enjoyed four years of gains, despite the 10-year U.S. Treasury yield being at a similar level to that prevailing today. I believe that declining interest rates, earnings growth and reasonable starting valuations set the stage for positive equity market returns in the years ahead.

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 meet their investment objective: to achieve, over the long term, preservation of capital and a satisfactory return.

February 7, 2023

James H. Cole
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Portland Investment Counsel Inc.

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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 https://portlandic.com/focused_plus_LP and https://portlandic.com/focused_plus_trust.
3. For a discussion, see 2013 Letter, p. 3.
4. See, e.g., 2013 Letter p. 3.
5. 2016 Letter, pp. 5-6.
6. 2018 Letter, pp. 8-10.
7. The personal rate of return provided to investors by brokers and investment managers is calculated on a money-weighted basis whereas standard investment returns (such as are stated in this letter and in Portland’s monthly fund briefs) are calculated on a time-weighted basis. For the difference between these two methods, please see the 2015 Letter, pp. 5-8.
8. See, for example, https://www.investmentexecutive.com/inside-track_/jamie-golombek/worried-about-a-possible-increase-to-the-capital-gains-inclusion-rate/
9. https://en.wikipedia.org/wiki/2021_Canadian_federal_budget
10. https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t1a.html
11. See “Turning Japanese (and British and French)” section of 2020 Letter, pp. 9-10.
12. See “If I Had A Trillion Dollars” section of 2020 Letter, pp. 8-9.
13. See, e.g., https://www.washingtonpost.com/business/2021/12/09/inflation-fed-transitory-powell/
14. https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm
15. https://www.federalreserve.gov/newsevents/pressreleases/monetary20230201a.htm
16. https://en.wikipedia.org/wiki/Dot-com_bubble
17. All stock price data in this letter are from Bloomberg LP.
18. https://fred.stlouisfed.org/series/FEDFUNDS#0
19. https://www.cnbc.com/quotes/US10Y
20. 2014 Letter, p. 15 and pp. 20-25; 2015 Letter, pp. 12-14; 2016 Letter, p. 8; 2017 Letter, p. 8; and 2018 Letter, pp. 13-14.
21. https://www.investopedia.com/terms/c/common-equity-tier-1-cet1.asp
22. 2017 Letter, p. 8.
23. https://www.osfi-bsif.gc.ca/Eng/osfi-bsif/med/Pages/dsb20221208-nr.aspx
24. The figures in the table were derived as follows (all based on stock prices as of December 31, 2022). Dividend yield is the indicated dividend rate divided by the stock price. P/E ratio is the stock price divided by earnings per share excluding specified items for the fiscal year 2022, except for Citigroup, Inc. for which the P/E ratio is based on reported earnings per share. P/B ratio is the stock price divided by book value per share for fiscal year 2022.
25. https://newsroom.bmo.com/2023-02-01-BMO-Completes-Acquisition-of-Bank-of-the-West
26. https://newsroom.bmo.com/2022-12-12-Bank-of-Montreal-Announces-Offering-of-Common-Shares-for-Gross-Proceeds-of-C-3-15-Billion-following-the-increase-to-the-Domestic-Stability-Buffer
27. https://en.wikipedia.org/wiki/BNY_Mellon
28. Berkshire Hathaway Inc. 2021 annual report, p. 7.
29. Scotia FY’22 annual report, note 29.
30. Based on Portland’s analysis of bank earnings results.
31. https://www.scotiabank.com/corporate/en/home/media-centre/media-centre/news-release.html?id=3915&language=en
32. https://www.fool.com/investing/warren-buffett-berkshire-hathaway-buy-citigroup/
33. https://en.wikipedia.org/wiki/CK_Hutchison_Holdings
34. CKKH 2021 annual report p. 4 and Cenovus Energy Inc.’s Management Information Circular dated March 1, 2022, p. 1.

35. CKHH 2021 annual report, p. 124.
36. GWO 2021 annual report, note 31.
37. Vodafone FY'22 annual report, note 2.
38. https://www.verizon.com/about/news/strong-wireless-service-revenue-growth-highlights-verizons-4q-and-2022-results
39. Canadian Tire 2021 annual report, note 6.
40. https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm
41. https://ycharts.com/indicators/us_m2_money_supply
42. https://www.barrons.com/articles/m2-money-supply-recession-51674569554
43. Summary of Economic Projections issued December 14, 2022, figure 2, available by clicking on "Projection Materials" at https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm
44. https://en.wikipedia.org/wiki/Neutral_rate_of_interest
45. https://www.federalreserve.gov/econres/notes/feds-notes/longer-run-neutral-rates-in-major-advanced-economies-20221201.html

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