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Portland Focused Plus Fund LP
Portland Focused Plus Fund

ANNUAL LETTER TO INVESTORS

FOR THE YEAR ENDED DECEMBER 31, 2021

Portland Focused Plus Fund LP
Performance vs. Stock Market Indices

Year	Calendar Total Returns					
	Portland Focused Plus Fund LP				MSCI Canada Index	MSCI USA Index (US$)
	Series A	Series F	Series M	Series P		
2012 (from Oct. 31)	1.7%	1.9%	2.0%	2.0%	0.6%	1.4%
2013	33.0%	34.1%	37.7%	34.4%	12.8%	31.8%
2014	15.6%	16.8%	18.8%	17.5%	10.9%	12.7%
2015	6.5%	7.5%	8.3%	8.5%	-9.7%	0.7%
2016	39.0%	40.4%	45.5%	41.6%	21.2%	10.9%
2017	16.4%	17.5%	19.9%	18.6%	8.1%	21.2%
2018	-14.8%	-14.0%	-13.5%	-13.2%	-10.0%	-5.0%
2019	49.3%	50.8%	54.7%	52.4%	21.5%	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%

Year	Annualized Total Returns as of December 31, 2021					
	Portland Focused Plus Fund LP				MSCI Canada Index	MSCI USA Index (US$)
	Series A	Series F	Series M	Series P		
1 year	16.1%	17.4%	21.2%	18.8%	24.9%	26.5%
3 years	29.7%	31.0%	34.8%	32.4%	16.1%	25.9%
5 years	16.7%	17.8%	20.5%	19.0%	8.9%	18.1%
Since inception	19.2%	20.4%	23.0%	21.4%	8.4%	15.9%

Year	Cumulative Total Returns as of December 31, 2021					
	Portland Focused Plus Fund LP				MSCI Canada Index	MSCI USA Index (US$)
	Series A	Series F	Series M	Series P		
1 year	16.1%	17.4%	21.2%	18.8%	24.9%	26.5%
3 years	118.1%	125.0%	144.8%	132.2%	56.4%	99.8%
5 years	116.1%	127.2%	153.8%	139.0%	53.1%	129.9%
Since inception	400.2%	447.4%	567.2%	491.4%	110.3%	286.8%

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%	16.0%	10.0%
2017	15.5%	16.7%	19.4%	18.1%	8.1%	21.2%
2018	-15.6%	-14.7%	-14.2%	-13.8%	-10.0%	-5.0%
2019	48.5%	50.1%	53.2%	51.8%	21.5%	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%

	Annualized Total Returns as of December 31, 2021					
	Portland Focused Plus Fund				MSCI Canada Index	MSCI USA Index (US$)
Year	Series A	Series F	Series M	Series P		
1 year	15.7%	17.0%	20.8%	18.4%	24.9%	26.5%
3 years	29.8%	31.2%	34.7%	32.7%	16.1%	25.9%
5 years	16.3%	17.6%	20.2%	18.9%	8.9%	18.1%
Since inception	19.2%	20.4%	23.4%	21.8%	10.5%	17.5%

	Cumulative Total Returns as of December 31, 2021					
	Portland Focused Plus Fund				MSCI Canada Index	MSCI USA Index (US$)
Year	Series A	Series F	Series M	Series P		
1 year	15.7%	17.0%	20.8%	18.4%	24.9%	26.5%
3 years	118.5%	125.9%	144.5%	133.7%	56.4%	99.8%
5 years	113.2%	124.9%	150.5%	138.0%	53.1%	129.9%
Since inception	174.4%	190.9%	234.7%	210.8%	77.7%	153.0%

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 2021, the LP's series F units (the highest fee series without embedded advisor compensation) had a return of 17.4% (all performance figures for the Funds are net of fees and expenses). That compares to a return of 24.9% for MSCI Canada and to a return of 26.5% for MSCI USA in US$. A 50%/50% blend of the two indices had a return of 25.7%. As a result, in 2021 the LP underperformed its benchmark indices (although the LP still enjoyed strong absolute returns). For the five years ended December 31, 2021 (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 127.2%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 53.1% and 129.9%, respectively. A 50%/50% blend of the two indices had a return of 91.5%. As a result, for the five years ended December 31, 2021 the LP outperformed its benchmark indices. For the entire period since inception of the LP on October 31, 2012 to December 31, 2021, the LP's series F units achieved a cumulative return of 447.4%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 110.3% and 286.8%, respectively. A 50%/50% blend of the two indices had a return of 198.6%. As a result, for the cumulative period since the LP's inception, the LP outperformed its benchmark indices and delivered strong absolute returns. Accordingly, in both the five years ended December 31, 2021 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.

While I'm pleased that the LP has met its investment objective over both five years and since inception, I was not satisfied with the LP's relative performance in 2021. In my opinion, this was partly due to the stock market's infatuation with very expensive information technology stocks (which the LP does not own) and disregard for the businesses in which the LP was invested (in this aspect, the recent period bore some resemblance to the technology bubble of 1999 and the early part of 2000). I'm glad to report that in early 2022, these conditions changed dramatically as what the LP did not own fell out of investor favour while what the LP did own enjoyed a return to greater favour. As a result, for the two months ended February 28, 2022, the LP had a return of 5.1%. By contrast, in the same period, MSCI Canada and MSCI USA had returns of (0.3%) and (8.5%), respectively. I believe that this strong start to the year augurs well for continued satisfactory absolute and relative long-term performance of the LP.

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. 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 2021, the Trust's series F units (the highest fee series without embedded advisor compensation) had a return of 17.0% (all performance figures for the Funds are net of fees and expenses). That compares to a return of 24.9% for MSCI Canada and to a return of 26.5% for MSCI USA in US$. A 50%/50% blend of the two indices had a return of 25.7%. As a result, in 2021 the Trust underperformed its benchmark indices (although the Trust still enjoyed strong absolute returns). For the five years ended December 31, 2021, the Trust's series F units had a cumulative return of 124.9%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 53.1% and 129.9%, respectively. A 50%/50% blend of the two indices had a return of 91.5%. As a result, for the five years ended December 31, 2021 the Trust outperformed its benchmark indices. For the entire period since inception of the Trust on March 31, 2016 to December 31, 2021, the Trust's series F units achieved a cumulative return of 190.9%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 77.7% and 153.0%, respectively. A 50%/50% blend of the two indices had a return of 115.4%. As a result, for the cumulative period since the Trust's inception, the Trust outperformed its benchmark indices and delivered strong absolute returns. Accordingly, in both the five years ended December 31, 2021 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.

As was described above with reference to the LP, the Trust has enjoyed a strong start to 2022. Specifically, for the two months ended February 28, 2022, the Trust had a return of 5.6%. By contrast, in the same period, MSCI Canada and MSCI USA had returns of (0.3%) and (8.5%), respectively.

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 prior 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:[6]

- ***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 other 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 payable 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 pages two and three of this letter, for the period from October 31, 2012 to December 31, 2021, the LP's series F units had a cumulative return of 447.4% while the LP's series M units and series P units had higher cumulative returns of 567.2% and 491.4%, respectively. For the period from inception of the Trust on March 31, 2016 to December 31, 2021, the Trust's series F units had a cumulative return of 190.9% whereas the Trust's series M units and series P units had higher cumulative returns of 234.7% and 210.8%, 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.[7] 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 0.18% plus applicable tax in 2020 to 0.10% plus applicable tax in 2021. That is because the LP's average net assets rose from $48.2 million in 2020 to $92.2 million in 2021. Similarly, the Trust's operating expense ratio fell from 0.30% plus applicable tax in 2020 to 0.23% plus applicable tax in 2021. That was because the Trust's average net assets rose from $32.4 million in 2020 to $57.2 million in 2021. At December 31, 2021, net assets of the LP and Trust (before subscriptions and redemptions effective on that date) were $90.6 million and $61.6 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 2021 levels of 0.10% and 0.23%, respectively (in both cases, plus applicable tax), Portland remains committed to careful management of fees and expenses so as to maximize the Funds' returns.

Tax Management

The 2019 letter stated that the Funds are managed so as to try to keep unrealized gains as of any December 31 in the range of -10% to +10% of each Fund's net asset value.[8] Volatility in equity markets, however, particularly toward year-end, may result in unrealized capital gains (or losses) falling outside of the range of -10% to +10% of net assets, but that is the aspiration.

During 2021, there was considerable speculation that the 2021 federal budget might increase the "capital gains inclusion rate."[9] 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.[10] That was not necessary to do 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 I would not be surprised to see that happen in 2022, given that it forms part of the platform of the New Democratic Party,[11] on whom the minority Liberal government relies for support).

As a result of the combination of realizing many capital gains in the LP in the first four months of 2021, followed by a late-year swoon in the stock market prices of several of the LP's holdings, at December 31, 2021 the LP's net unrealized capital losses were 19% of its net assets. On the same date, the Trust's net unrealized capital losses were 7% of its net assets (adjusted for distributions payable on that date, most of which were reinvested). In practical terms, what this means is that the investors in the Funds in 2021 received taxable allocations (or distributions in the case of the Trust) which exceeded the investors' returns in 2021. The unrealized capital losses at year-end may reverse in future years, i.e., future returns may exceed the amount of taxable allocations (or distributions) in such years. Indeed, given the strong performance of the Funds in early 2022 as described above, this may be the case as soon as 2022. I expect these sorts of swings (i.e., in investment returns and taxable allocations) to approximately even out over time. That is one of the reasons that I encourage all investors in the Funds to have a time horizon of at least five years.

Price Is What You Pay; Value Is What You Get - Part II

A section of the 2015 Letter was titled after a well-known expression of legendary investor Warren Buffett: "price is what you pay; value is what you get."[12] By this, Buffett refers to the possible disconnect in the stock market between a company's share price (i.e., what you pay) and its intrinsic value (i.e., what you get). Recent circumstances have made it appropriate to follow up that discussion with another example.

To illustrate how wide the disparity between price and value can be, let's consider a tale of two companies. While these are actual businesses listed on the Toronto Stock Exchange, for now we'll call them Company A and Company B. A brief statistical comparison of the two companies is provided in the table below:[13]

Selected data items (C$ millions):	Company A	Company B
Market capitalization (November 19, 2021)	$188,112	$268,708
Average annual net income, 2017-2021	$12,556	$760
Common shareholders' equity	$91,983	$14,371
Dividend (November 19, 2021 indicated rate)	$6,158	$0

The data items listed in the table are as follows:

- ***Market capitalization*** is the product of the stock market price per share multiplied by the most recently published number of common shares outstanding. At the date of the comparison (November 19, 2021), Company A had a market capitalization (i.e., "price") of $188 billion. That was considerably lower than Company B's market capitalization of $269 billion. By contrast, indicators of the disparity in "value" between the two businesses are listed in the remainder of the table.
- ***Average annual net income*** shows the average net income attributable to common shareholders for the five years ended in 2021. Despite the fact that Company A's market capitalization was (30%) less than that of Company B, Company A had average annual net income of $12.6 billion compared to less than $0.8 billion for Company B. In other words, Company A's average annual net income in the most recent five years was more than 16 times that of Company B.
- ***Common shareholders' equity*** is the amount of the company's assets (at their accounting or carrying value) minus all of the company's liabilities. Using the most recent quarterly information available prior to the date of the comparison, Company A had common equity of $92.0 billion while Company B had common equity of $14.4 billion. In other words, Company A's common shareholders' equity was more than six times that of Company B.

- ***Dividend*** is the indicated rate of the company's annual amount of common share dividends as of the date of the comparison. Company A was paying annual dividends of $6.2 billion. Company B did not pay a dividend.

There is a popular conversation or party game that poses a dilemma in the form of a question beginning with "would you rather".[14] Let's assume, for a moment, that you just won a monstrously large lottery in the amount of $269 billion. The condition of the prize, however, is that you must invest it into buying Company A or Company B and the only information provided to you about the two companies is the data in the table above. Would you rather buy all of Company B for $269 billion, or all of Company A for $188 billion and still have $81 billion in cash to spare? Would it take you more than a few seconds to choose the latter? I think not.

Company A is Canada's largest bank, Royal Bank of Canada ("RBC"). Company B is the Ottawa-based e-commerce company, Shopify Inc. ("Shopify"). On May 6, 2020, Shopify surpassed RBC to become Canada's largest public company in terms of market capitalization.[15] Shopify continued its run at the top for more than a year, reaching its all-time high closing stock price on November 19, 2021 (the date of the comparisons in the above table).[16] Alas, price is what you pay; value is what you get. The implications of that phrase are explored more fully in the next two sections of this letter.

The RBC Curse Strikes Again

In overtaking RBC's market capitalization, Shopify joined a short list (pun intended) of other companies which have accomplished that feat since the turn of the 21st century. As was chronicled in a section of the 2015 Letter titled "The RBC Curse", the complete list, prior to the addition of Shopify, was (in chronological order): Nortel Networks Corporation; Manulife Financial Corporation; Encana Corporation; Research in Motion Limited; Potash Corporation of Saskatchewan; Barrick Gold Corporation; and Valeant Pharmaceuticals International Inc.[17] In various ways, all of these companies subsequently had an ignominious fall from grace and they, or their successors, are now trading at market capitalizations far below that of RBC (except for Nortel, which is no longer publicly traded as it went bankrupt). For the gory details, see the 2015 Letter. To paraphrase Groucho Marx, this is a club to which you do not want to belong.

Even when these companies surpassed RBC in market capitalization, their intrinsic values were clearly lower than that of RBC based on historical facts and established standards of value. The father of value investing, Benjamin Graham (to whom the Funds' investment objective of "over the long term, preservation of capital and a satisfactory return" pays homage) stated that "in the short run, the market is a voting machine, but in the long run, it's a weighing machine."[18] What Graham meant by that is that at any given moment, a stock may have a price (i.e., market capitalization) which is far above (or below) its intrinsic value because of the company's extreme popularity (or unpopularity). Over the long run, however, the stock market has an uncanny tendency to restore the market capitalization of companies to something resembling their intrinsic value. To underscore the timelessness of this tendency, Graham prefaced his classic text, *Security Analysis*, with a quotation from the Roman poet Horace: "Many shall be restored that now are fallen and many shall fall that now are in honour."[19] Incidentally, this propensity is one of the reasons that the Funds are such strong adherents to focused investing. It is not every day that a large, financially strong company with a long history of sales and earnings and competent, ethical management goes on sale (i.e., trades far below its intrinsic value). When that happens, the Funds seek to capitalize to the fullest extent possible by taking very large positions (sometimes exceeding 40% of net assets in individual businesses). The Funds do so in anticipation that, as so often happens, the market prices of such businesses will revert closer to their intrinsic values, providing the Funds with strong returns. Furthermore, I believe that buying such businesses at prices far below their intrinsic values offers what Graham called a "margin of safety".[20]

In the context of the above paragraph, what has become of Shopify? Since its intraday all-time high on November 19, 2021 to its closing price on February 28, 2022, Shopify's stock price fell by (62%). As a result, on the latter date, Shopify's market capitalization was (45%) lower than that of RBC. What changed at Shopify to cause such a sharp revaluation? In brief, not much. The biggest change in market conditions in recent months is that certain types of businesses, those with formerly very high valuations relative to their previously-reported sales and earnings, have suddenly fallen out of favour in the Wall Street fashion show. For Shopify specifically, one could say that the RBC curse strikes again.

Short Selling

Short selling refers to the practice of selling an asset that one doesn't own (and which thus must be borrowed from someone who does own the asset so as to deliver it to the buyer) in the hope that the asset will decline in price. At that time, the short seller may purchase the asset, close out the position and profit from the difference between the sale price and the subsequent purchase price.[21] The Funds have the ability to sell short.[22] Yet, the Funds have never engaged in short sales (with which I have considerable personal experience, most positive and one negative, from early in my career). To understand how the Funds operate, it would be worthwhile to explore this matter a little further.

As was stated in the 2013 Letter, short selling was included in the investment strategies of the Funds in order to give them investment flexibility.[23] That letter also noted, however, that there are two reasons to be wary of short selling. The first reason is that a long position can only go to zero, whereas the potential loss on a short sale is theoretically unlimited. The second, little-appreciated reason to be wary of short sales is that when a long position goes against you, its size gets progressively smaller, whereas when a short position goes against you, its size gets progressively larger. These two drawbacks of short sales can be both financially and emotionally debilitating. As a result, as that section of the 2013 Letter concluded, short selling in the Funds is likely to be limited in both amount and duration. As noted above, but which bears repeating, the Funds have never, in fact, engaged in short sales.

In my opinion, during much of 2021, the stock market placed unjustifiably high valuations (to put it mildly) on the "new new thing": e-commerce, electric vehicles and special purpose acquisition companies ("SPACs"), just to name a few examples. To my mind, it was a speculative mania reminiscent of the technology bubble of 1999 and early 2000, when in the market's estimation no valuation was too high for technology companies and no valuation was too low for non-technology companies. Then, as in 2021, the mania was fuelled by very easy monetary policies of the world's central banks. I found the conditions in 2021 to be so extreme that I did consider two short sales. One (that I won't mention by name) has since had its share price fall by more than 50%. The other, on which I wrote an internal memo on May 10, 2021, was Shopify.

On May 10, 2021, Shopify closed at $1,303.28 per share. Had the Funds shorted it at that time, they would have had to endure an immediate and substantial increase in Shopify's stock price. Its intraday stock price peaked on November 19, 2021 at $2,288.73 for a six-month gain of 76%. Shopify's stock price then began a very sharp fall, reaching a closing price on February 28, 2022 of $879.92 for a decline from its peak of (62%). Its decline compared to its price on May 10, 2021, however, was only (32%). Thus, had the Funds shorted Shopify on May 10, 2021, they first would have had to endure a harrowing 76% increase in its stock price. In addition to being destructive to short term investment performance, the rise would have required that substantially more margin have been dedicated to supporting the short sale, thus reducing the Funds' ability to buy and hold other investments. In my opinion, when the decline in Shopify's stock price finally did come, it would not have been enough to justify the risks and negative consequences during the period that the position would have been held. That is in part because there is nothing terribly wrong with Shopify's business: it's a Canadian-based global success story, profitable, with skilled founder-management and a very strong financial position. The latter is partly attributable to management's astute use of the period when its shares were more in favour to issue equity to raise cash. Its reset in stock market valuation has simply been in keeping with other companies of its ilk.

When considering short sales, it's important to recall the saying attributed to John Maynard Keynes: "the market can stay irrational longer than you can stay solvent."[24] For better or worse, I will continue to be wary of short selling and expect that most, or all, of the Funds' investments will continue to be long positions.

Big Trouble in Little China

One of the companies owned in the Funds is the investment holding company SoftBank Group Corp. ("SoftBank"). In 2020, SoftBank contributed 7.6 percentage points to the LP's annual return in that year. In 2021, however, SoftBank detracted 3.0 percentage points from the LP's return.[25] In my opinion, the biggest reason for SoftBank's declining share price in 2021 was its investments in China. At December 31, 2021, investments in China accounted for 32% of SoftBank's net asset value.[26] SoftBank's largest single investment in China is its part ownership of e-commerce giant Alibaba Group Holding Limited ("Alibaba").[27]

Readers of a certain vintage may recall an action-comedy film starring Kurt Russell, *Big Trouble in Little China*. To my mind, the movie couldn't be saved either by Russell or by its leading lady, Kim Cattrall (who went on to star as Samantha in the television series and movie, *Sex and the City*). Audiences seemed to agree and in its initial release *Big Trouble in Little China* was a box office flop. Improbably (at least to me), it has gone on to become a cult classic.[28]

China's influence on global affairs is no longer little and its recent actions have certainly caused big trouble. Beginning in late 2020, Chinese authorities seemed to become suddenly uncomfortable with the size and influence of China's private sector. As if to leave no doubt as to who is the boss, the Chinese Communist Party, under its leader president Xi Jinping, commenced a major, multi-faceted crackdown on China's private sector. Space doesn't permit a full chronicling of its actions. Some of the major ones are as follows:

- On November 3, 2020, China suspended what would have been the world's largest initial public offering ("IPO"), that of financial technology company Ant Group, just two days before it was to occur.[29] Alibaba owned 33% of Ant Group and would have been one of the largest beneficiaries of the IPO. On news of the cancellation, Alibaba's stock price fell by 7%. At the time of writing this letter, the Ant Group IPO has yet to be revived.
- In April 2021, Chinese anti-monopoly regulators fined Alibaba a record amount of US$2.8 billion.[30]
- Chinese ride-hailing company DiDi Global Inc. ("DiDi") completed its IPO on the New York Stock Exchange ("NYSE") on June 30, 2021.[31] Just days later, Chinese regulators, seemingly infuriated that DiDi had proceeded with the U.S. IPO over their objections, ordered smart phone app stores to stop offering DiDi's app.[32] It was then reported that Chinese regulators were considering serious, perhaps unprecedented, penalties for DiDi.[33] On December 2, 2021, DiDi announced that its board of directors had authorized it to delist from the NYSE and seek a listing on the Hong Kong Stock

Exchange.[34] SoftBank's Vision Fund had invested nearly US$11 billion in DiDi[35] and owned 21.5% of DiDi following its IPO.[36]

In my opinion, it's unlikely that China's crackdown on the private sector will continue to be so severe that it risks killing the golden goose (capitalism) that has laid the golden egg (China's prosperity in recent decades). Over the last year or so, though, the changed regulatory environment described above has certainly meant big trouble for investors in China. History suggests, however, that, just as in action films, when things are looking bleakest is when they often turn for the better. I believe that it would be unwise to count out our hero (in this case, SoftBank CEO Masayoshi Son) and that brighter days are ahead in this gripping drama. Stay tuned.

Other Investments

Normally, these letters don't dwell on the Funds' individual investments (as I've just done above). Also, the presentations that I give on the Funds almost never have slides on individual holdings. 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 that one should do otherwise. The Funds' investment objective has never changed nor have the strategies used to pursue their investment objective. To me, that is the overriding constant. For readers who would like to see complete listings of the investments held in the Funds as of December 31, 2021, they will be available in the financial statements of the Funds at the web pages cited on page four of this letter.

Outlook

I would like 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 9, 2022

James H. Cole
Senior Vice President and Portfolio Manager
Portland Investment Counsel Inc.

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. OM, pp. 6-7 and pp.13-14.
7. OM, pp. 14-15.
8. 2019 Letter, p. 7.
9. See, for example, https://www.investmentexecutive.com/inside-track_/jamie-golombek/worried-about-a-possible-increase-to-the-capital-gains-inclusion-rate/
10. https://en.wikipedia.org/wiki/2021_Canadian_federal_budget
11. https://www.advisor.ca/tax/tax-news/ndp-pledges-to-raise-top-marginal-tax-rate-capital-gains-inclusion-rate/
12. 2015 Letter, pp. 12-13.
13. In the table, market capitalizations are derived from shares outstanding from company reports and share prices from Bloomberg LP; and other data items are from company reports (for Company A's fiscal years ended October 31 and Company B's fiscal years ended December 31). Company B reports in US$; its common equity and average annual net income were converted to C$ at the rate of exchange on November 19, 2021.
14. https://en.wikipedia.org/wiki/Would_you_rather
15. https://www.bnnbloomberg.ca/shopify-displaces-rbc-to-become-canada-s-most-valuable-company-1.1432436
16. All stock price data in this and the next two sections of the letter are from Bloomberg LP.
17. 2015 Letter, pp. 13-14.
18. https://www.goodreads.com/quotes/831517-in-the-short-run-the-market-is-a-voting-machine
19. Horace, *Ars Poetica*, quoted at the beginning of Benjamin Graham and David L. Dodd, *Security Analysis* (McGraw-Hill, 1934 first edition).
20. https://www.valuewalk.com/2016/12/margin-of-safety/
21. https://www.investopedia.com/terms/s/shortselling.asp
22. OM, p. 3.
23. 2013 Letter, pp. 10-11.
24. https://quoteinvestigator.com/2011/08/09/remain-solvent/
25. Performance attribution figures are Portland's internal calculations.
26. Presentation materials for Softbank's results for the nine months ended December 31, 2021, slide 18.
27. Ibid., slide 17.
28. https://en.wikipedia.org/wiki/Big_Trouble_in_Little_China
29. https://www.cnbc.com/2020/11/03/ant-group-ipo-in-shanghai-suspended.html
30. https://www.bbc.com/news/business-56713508
31. https://www.reuters.com/business/chinas-didi-raises-4-billion-us-ipo-source-2021-06-29/
32. https://www.cnbc.com/2021/07/04/didi-app-suspended-in-china-over-data-protection.html
33. https://www.bnnbloomberg.ca/china-weighs-unprecedented-penalty-for-didi-after-u-s-ipo-1.1631709
34. https://ir.didiglobal.com/news-and-events/news/news-details/2021/DiDi-Announces-Recent-Developments/default.aspx
35. https://asia.nikkei.com/Business/SoftBank2/SoftBank-s-investment-strategy-in-China-unchanged-CFO
36. https://www.cnbc.com/2021/07/28/uber-shares-drop-as-softbank-plans-to-sell-shares-to-cover-didi-losses.html

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