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Portland Focused Plus Fund LP
Portland Focused Plus Fund

ANNUAL LETTER TO INVESTORS

FOR THE YEAR ENDED DECEMBER 31, 2023

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%
2023	21.4%	22.8%	22.9%	24.2%	12.3%	26.5%

	Annualized Total Returns as of December 31, 2023					
	Portland Focused Plus Fund LP				MSCI Canada Index	MSCI USA Index (US$)
Year	Series A	Series F	Series M	Series P		
1 year	21.4%	22.8%	22.9%	24.2%	12.3%	26.5%
3 years	-0.9%	0.2%	1.3%	1.3%	9.5%	8.6%
5 years	12.8%	14.0%	16.0%	15.2%	10.4%	15.2%
10 years	12.0%	13.1%	15.1%	14.2%	6.9%	11.4%
Since inception	13.7%	14.8%	16.9%	15.9%	7.4%	13.0%

	Cumulative Total Returns as of December 31, 2023					
	Portland Focused Plus Fund LP				MSCI Canada Index	MSCI USA Index (US$)
Year	Series A	Series F	Series M	Series P		
1 year	21.4%	22.8%	22.9%	24.2%	12.3%	26.5%
3 years	-2.7%	0.5%	4.1%	4.0%	31.2%	28.2%
5 years	82.6%	92.7%	110.2%	103.3%	64.3%	102.6%
10 years	209.8%	242.8%	307.9%	277.7%	94.6%	193.3%
Since inception	318.9%	368.8%	473.0%	417.7%	120.8%	292.1%

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%
2023	21.4%	22.8%	22.9%	24.2%	12.3%	26.5%

	Annualized Total Returns as of December 31, 2023					
	Portland Focused Plus Fund				MSCI Canada Index	MSCI USA Index (US$)
Year	Series A	Series F	Series M	Series P		
1 year	21.4%	22.8%	22.9%	24.2%	12.3%	26.5%
3 years	-0.5%	0.6%	1.7%	1.7%	9.5%	8.6%
5 years	13.2%	14.5%	16.3%	15.8%	10.4%	15.2%
Since inception	11.6%	12.7%	14.8%	14.0%	8.4%	12.9%

	Cumulative Total Returns as of December 31, 2023					
	Portland Focused Plus Fund				MSCI Canada Index	MSCI USA Index (US$)
Year	Series A	Series F	Series M	Series P		
1 year	21.4%	22.8%	22.9%	24.2%	12.3%	26.5%
3 years	-1.6%	1.8%	5.2%	5.3%	31.2%	28.2%
5 years	85.8%	96.4%	113.0%	107.9%	64.3%	102.6%
Since inception	133.2%	153.0%	191.5%	176.5%	86.6%	156.5%

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 2023, the LP's series F units (the highest fee series without embedded advisor compensation) had a return of 22.8% (all performance figures for the Funds are net of fees and expenses). That compares to a return of 12.3% 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 19.4%. As a result, in 2023 the LP outperformed its benchmark indices. For the five years ended December 31, 2023 (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 92.7%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 64.3% and 102.6%, respectively. A 50%/50% blend of the two indices had a return of 83.4%. As a result, for the five years ended December 31, 2023, the LP also outperformed its benchmark indices. Finally, for the entire period since inception of the LP on October 31, 2012 to December 31, 2023, the LP's series F units achieved a cumulative return of 368.8%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 120.8% and 292.1%, respectively. A 50%/50% blend of the two indices had a return of 206.5%. As a result, for the full period since the LP's inception, the LP outperformed its benchmark indices.

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 long-term performance of the two Funds will be similar (as indeed has been the case). 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 2023, the Trust's series F units (the highest fee series without embedded advisor compensation) had a return of 22.8% (all performance figures for the Funds are net of fees and expenses). That compares to a return of 12.3% 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 19.4%. As a result, in 2023 the Trust outperformed its benchmark indices. For the five years ended December 31, 2023, the Trust's series F units had a cumulative return of 96.4%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 64.3% and 102.6%, respectively. A 50%/50% blend of the two indices had a return of 83.4%. As a result, for the five years ended December 31, 2023, the Trust also outperformed its benchmark indices. Finally, for the entire period since inception of the Trust on March 31, 2016 to December 31, 2023, the Trust's series F units achieved a cumulative return of 153.0%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 86.6% and 156.5%, respectively. A 50%/50% blend of the two indices had a return of 121.6%. As a result, for the full period since the Trust's inception, the Trust outperformed its benchmark indices.

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, equity weight and largest holdings. 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 receiving Portland emails.

Taxes and Adjusted Cost Base of LP Units

Benjamin Franklin (who was a hero to Charles T. ("Charlie") Munger, who is discussed later in this letter) famously wrote that "in this world, nothing can be said to be certain, except death and taxes."[6]

While taxes may be certain, there is no reason that you should pay more than required by law. In the 2018 Letter, I discussed in detail how taxes apply to investments in the LP and the Trust.[7] Certain events in 2023 underscored for me the advisability of recapping that discussion with respect to investors in the LP. **Please**

bear with me, as this is critically important. The discussion below is not intended to constitute tax advice; investors should consult their own tax professionals.

The LP does not pay distributions. Instead, the LP allocates its income and expenses to its investors on a pro rata basis. These allocations are recorded for tax purposes on T5013 slips which are issued to investors annually in March in respect of the preceding calendar year. One of the attractive features of limited partnerships is that income earned and expenses incurred by them retain their tax character when they are attributed to investors. For example, most of the LP's income over time has been tax-advantaged as it has been in the form of capital gains and eligible Canadian dividends (only half of capital gains are included in taxable income and eligible Canadian dividends earn significant tax credits). At the same time, the LP's expenses (i.e., management fees, performance fees, operating expenses and interest expense on margin loans) are all fully deductible in the computation of taxable income (with the exception of foreign dividend withholding taxes, which also earn a tax credit). For tax purposes, these expense items (other than foreign withholding taxes) are all aggregated into one number (reported on the T5013 slips) called "carrying charges". Also, in the event that the LP should have net capital losses in any year (as was the case for 2022 and I expect will be the case again for 2023), such capital losses may be carried back up to three years by filing a form T1A, "Request for Loss Carryback",[8] or they may be carried forward indefinitely for application against future capital gains. Note that since the LP does not actually pay distributions, investors must have some other means to pay any taxes owing by them on their allocation of the LP's income and expenses. In my experience, investors generally fund their LP-related tax obligations using other resources held by them or by redeeming some of their units of the LP.

Upon receiving each T5013 slip, investors should adjust the adjusted cost base ("ACB") of the LP's units that they own as follows:

- **increase the ACB by the amount of income items allocated.** Those items comprise interest from Canadian sources (reported in box 128 of T5013 slips); actual amount of eligible Canadian dividends (box 132); foreign dividend and interest income (boxes 135); and capital gains (box 151: if the amount in box 151 is positive (i.e., capital gains), it increases ACB; if the amount in box 151 is negative (i.e., capital losses), it decreases ACB). The requirement to increase ACB for income items allocated is stated in s. 53(1)(e)(i) of the Income Tax Act ("ITA");[9] and
- **decrease the ACB by the amount of expense items allocated.** Those items comprise foreign dividend withholding tax, which Canada Revenue Agency ("CRA") refers to as "foreign tax paid on non-business income" (boxes 171); and carrying charges (box 210). The requirement to decrease ACB for expense items allocated is stated in s. 53(2)(c)(i) of the ITA.[10]

It is imperative that investors in the LP make the above adjustments to their ACB. Only by doing so can investors in the LP avoid double taxation. That would arise if investors paid taxes on income allocated to them on T5013 slips but not actually received by them, and then, when they eventually redeem their units, they paid too much tax because they had not adjusted their ACB for the cumulative amounts of income and expenses allocated to them.

One might ask, has there ever been any instance when CRA has reviewed and accepted the calculations of an investor who had made the adjustments referenced above to the ACB of their LP units? The answer now is "yes". In 2023, I replied to CRA on behalf of an investor in the LP whose tax return was audited with respect to the claimed ACB of LP units that had been redeemed. I'm pleased to report that CRA concluded that no changes were required to that investor's reported ACB or capital gains.

Two-Year Performance and Market Conditions

As noted earlier in this letter, over periods of one year, five years and since their respective inceptions, both Funds have achieved positive performance and outperformed their benchmark indices. I am keenly aware, however, that two-year performance of the Funds is negative and significantly lags their benchmark indices over that time period. The high-water mark of the LP (i.e., its highest ever net asset value per unit ("NAVPU")) was set on January 31, 2022 (that was also the date of the Trust's record high). Since for 11 months prior thereto (i.e., from February 28, 2021 to January 31, 2022) the LP had NAVPUs not far below its ultimate record high, investors (including me) who subscribed for Fund units during that period currently have negative returns since those subscriptions. As was described in last year's letter, to address this situation, on September 30, 2022 I reverted to being the sole investment decision-maker for the Funds.[11] I'm pleased to report that from that date until December 31, 2023, the LP had a cumulative return of 37.5%. While there is still considerably more performance required to return the Funds to their record highs (and beyond), I believe that the Funds will do that with time. Reasons for that opinion are provided at the end of this letter in the "Outlook" section.

An external factor that affected the Funds in 2022 and 2023 was the significant increase in interest rates in that period. For example, at the beginning of 2022, the U.S. Federal Open Market Committee ("FOMC") had a target for the federal funds rate of 0.00% to 0.25%.[12] Then, in an attempt to reduce high rates of inflation, the FOMC raised interest rates 11 times, reaching a target for the fed funds rate of 5.25% to 5.50% on July 26, 2023.[13] That increase in interest rates of 5.25%, together with the FOMC's reduction of the Federal Reserve's balance sheet and the money supply in a process known as quantitative tightening ("QT"),[14] had a depressing effect on asset prices, including those of stocks and bonds.

Besides interest rates, another notable market condition in 2023 was the striking performance disparity between a handful of leading businesses and the rest of the equity market. The share prices of many businesses performed poorly both in 2022 and in the first 10 months of 2023. This fact was masked in 2023 by strong performance of a small number of U.S. technology-related stocks, a group that came to be known as the "Magnificent Seven".[15] For example, while that small group of businesses drove strong performance of the market capitalization-weighted Standard & Poor's 500 Index ("SPX") in 2023 of 26.3%, the 2023 performance of the S&P 500 Equal Weight Index ("SPXEW", in which, as its name implies, all companies are weighted equally) lagged far behind at 13.9%.[16] Indeed, until October 27, 2023, the SPXEW had negative year-to-date performance.[17] From that day until the end of 2023, SPXEW had very strong performance (as did the Funds in that period), resulting in its aforementioned 2023 return of 13.9%.

TSN Turning Point

In my opinion, October 27, 2023 marked the end of the long, grinding bear market for the average stock (i.e., represented by SPXEW, not SPX) that began in January 2022. I believe that for the average stock, October 27, 2023 was what might be termed a "TSN Turning Point",[18] since which market performance has been strong. In my opinion, it is likely to remain strong for at least several years (albeit punctuated by the usual occasional and inevitable declines).

No one can predict when bear markets will bottom (or, for that matter, when bull markets will end). It's also difficult to state conclusively, even after the fact, why bear markets ended when they did. Having said that, I believe that the bear market for the average stock ended on October 27, 2023 for the following reasons:

- Firstly, I believe that after the protracted decline, sellers were exhausted and many investors were fearful. It was “the time of maximum pessimism” that legendary investor Sir John Templeton advised was the time to buy;[19]
- Secondly, valuations of many businesses had fallen to levels that offered attractive total return prospects with limited risk over a longer-term horizon;
- Thirdly, on the very day of October 27, 2023, the U.S. Bureau of Economic Analysis (“BEA”) released its monthly estimate of the price index for personal consumption expenditures excluding food and energy (“core PCE”).[20] It is arguably the single most important inflation measure in the view of the FOMC. The BEA report showed a continued decline in year-over-year core PCE to 3.7%. That gave market participants further encouragement that the FOMC was likely finished raising interest rates for this cycle;
- Fourthly, that opinion was further affirmed just a few days later when, on November 1, 2023, the FOMC held its target rate for the federal funds rate unchanged for the second consecutive meeting;[21]
- Fifthly, the 10-year U.S. Treasury yield, which had risen relentlessly from its record low of 0.31% on March 9, 2020 (in the very early days of the COVID-19 pandemic) to a 16-year high of 4.99% on October 19, 2023, finally began to ease.[22] By October 27, 2023, the 10-year Treasury yield had fallen to 4.83%; on December 31, 2023 it closed at 3.88%. The yield on long-term government bonds is a crucial factor in equity valuations. In my opinion, it heavily influences the rates that investors use to discount future corporate cash flows and estimate the intrinsic values of businesses. Higher interest rates mean lower estimated intrinsic values and conversely lower interest rates mean higher estimated intrinsic values; and
- Sixthly, seasonality was likely a contributing factor. September and October are well known for negative equity market events. Indeed, a previous letter described these events and noted that historically, substantially all of U.S. equity market returns (and in Canada, more than all) have been made from October 31 to August 31, with September and October proving much more difficult.[23] Knowing this history, investors likely became more willing to invest in equities by late October.

The six ingredients above, when combined, proved to be a powerful cocktail that helped restore what acclaimed economist and investor John Maynard Keynes referred to as the market’s “animal spirits.”[24]

As stocks weakened during the late summer and early fall of 2023, the Funds substantially increased their equity weights (i.e., total equities divided by net assets, so that any amount above 100% is financed with margin borrowings). That was to take advantage of the more attractive equity prices. For example, the LP’s equity weight increased from 142.1% on July 31, 2023 to its 2023 high of 206.3% on October 31, 2023 (the Trust’s equity weights on both dates were similar). That positioned the Funds well to achieve very strong performance in the final two months of 2023 as equity market conditions improved. From October 31, 2023 to December 31, 2023, the LP’s Series F Units and the Trust’s Series F Units had returns of 41.5% and 41.1%, respectively.

March Madness

The year 2023 witnessed dramatic upheaval in the U.S. banking industry, particularly in March. Since the Funds have investments in some U.S. and Canadian banks, it’s worth reviewing developments in the U.S. industry.

Some of the major U.S. banking industry events in 2023 included:

- On March 10, 2023, the U.S. Federal Deposit Insurance Corporation ("FDIC") announced that it had closed Silicon Valley Bank ("SVB"). As of December 31, 2022, SVB had total assets of US$209.0 billion and deposits of US$175.4 billion;[25]
- On March 12, 2023, the FDIC announced that it had closed Signature Bank ("Signature"). As of December 31, 2022, Signature had total assets of US$110.4 billion and deposits of US$88.6 billion;[26] and
- On May 1, 2023, the FDIC announced that it had closed First Republic Bank ("First Republic"). As of April 13, 2023, First Republic had total assets of US$229.1 billion and deposits of US$103.9 billion.[27]

In my opinion, the collapse of these three banks was due to abject failure of both management and regulation.

In terms of management, it seems that the banks that failed never asked themselves the question, "what if interest rates go up?" That is evident from how they managed their securities portfolios. U.S. banks generally group their securities into three accounting "buckets": trading securities, which are generally small and which are marked-to-market every quarter with resulting gains and losses immediately reflected in income; available-for-sale ("AFS") securities, which are also marked-to-market every quarter with gains and losses reflected in a component of shareholders' equity known as accumulated other comprehensive income ("AOCI"); and held-to-maturity ("HTM") securities, which are not marked-to-market and whose unrealized gains and losses are simply mentioned on the balance sheet or are shown in a note to the financial statements.[28] During the COVID-19 pandemic, as bank deposits swelled from government support payments, and the growth in deposits exceeded issuance of new loans, banks invested much of the increased deposits into securities. As short-term securities issued by the U.S. government were then yielding close to zero, many banks reached for yield by buying large amounts of mortgage-backed securities ("MBS") with inherently long durations (i.e., very long periods until their eventual full repayment). As interest rates rose in 2022 and 2023, the market values of MBS declined sharply. No matter which securities bucket the MBS were placed in, financial statement readers were able to discern that the unrealized losses were vast and, in some cases, exceeded regulatory capital. That triggered a crisis of confidence in such banks and withdrawals of deposits, which the failed banks were unable to fund since their securities losses were so large. Hence, the FDIC closed such banks and covered their securities losses by levying a special assessment on the remaining banks.[29] Nor were the failed banks alone: at the end of the third quarter of 2023 (the most recent data available at time of writing), unrealized securities losses among U.S. banks were $683.9 billion.[30] In my opinion, unrealized securities losses in the U.S. banking industry will only be recovered by: i) lower long-term interest rates (which, as noted in the "TSN Turning Point" section above, has been happening since October 19, 2023); and ii) time (i.e., the so-called "pull to par" as these securities approach their eventual maturity dates). In my estimation, that process will take a further five to 10 years.

In terms of regulation, there is an enormous and critical difference between the regulations applicable to large U.S. banks versus smaller, regional banks (such as those that failed in 2023). Large U.S. banks are required to include unrealized gains (and losses) on AFS securities in their regulatory capital; smaller banks (those with assets of less than US$250 billion) are not.[31] Further, no banks are required to include unrealized gains (and losses) on HTM securities in their regulatory capital.[32] In my opinion, this huge difference in regulatory treatment for AFS securities based on bank size encourages risk-taking by smaller banks that was the primary cause of the three U.S. bank failures in 2023. Currently out for comment by U.S. bank regulators is a sweeping set of proposals to implement what is known as Basel III Endgame ("B3E"). While the final form of the B3E regulations is not yet known, in my opinion it is virtually certain to require any bank with assets of greater than US$100 billion to include gains and losses on AFS securities in their regulatory capital.[33] That regulatory change, if implemented, should rein in risk-taking by smaller banks and improve the safety and soundness of the U.S. banking industry.

As at December 31, 2023, the Funds held positions in six banks (two domiciled in the U.S. and four in Canada). All of these banks are required to include unrealized gains (and losses) on their AFS securities in their regulatory capital. Further, in our estimation, even if these banks were also required to include unrealized gains (and losses) on their HTM securities in their regulatory capital (which the relevant bank regulators are not proposing), their capital ratios would still exceed their regulatory minimums. Banks held in the Funds are discussed in more detail in the next section of this letter.

Despite its seriousness, the recent U.S. regional banking crisis was not without its lighter moments. For example, at the 2023 annual general meeting of Berkshire Hathaway Inc. ("Berkshire"), held only a few weeks after the worst moments of the crisis, a shareholder asked a question about U.S. banking regulation. At the start of his reply, Berkshire's chief executive officer ("CEO"), uber-capitalist Warren Buffett, placed a premade sign in front of himself stating "available for sale." Buffett then placed a sign in front of Berkshire's 99-year-old vice chairman, Charlie Munger, stating "held-to-maturity."[34]

Banks - 12 is still the new 11

This and the next section of this letter review the businesses held in the funds at December 31, 2023. Please note that nothing in this letter should be taken to be an investment recommendation in respect of any business. Holdings in the Funds can and will change. Having said that, investors in the Funds may find the following discussion to be a useful guide to some of the factors that are considered in choosing the Funds' investments.

Previous annual letters have included many positive comments about the investment merits of banks.[35] 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).[36] The 2022 Letter discussed how in December 2022, the Office of the Superintendent of Financial Institutions ("OSFI", the primary regulator of Canadian banks) had imposed a sharp increase in required CET1 capital ratios to 11.0% and indicated that it might raise the required CET1 ratio again in the future.[37] As a result, I then estimated that Canadian banks, which always seek to have a management buffer above the minimum regulatory requirement and which had previously sought to achieve CET1 ratios of 11.0%, would instead seek to achieve CET1 ratios of 12.0% or higher. On June 20, 2023, OSFI did, in fact, raise required CET1 ratios by another 0.5% to 11.5%.[38] On December 8, 2023, however, OSFI maintained the required CET1 ratio at 11.5%, and stated that it "recognizes the prudent approach to capital management taken by the Boards of Directors of Canada's systemically important banks, all of which have produced CET1 ratios exceeding 12%".[39] Canadian banks will thus likely continue to target CET1 ratios of 12.0%. In practical terms, what this means is that, after a prolonged period of having to manage their businesses to achieve ever-higher capital ratios, bank managements should now be able to devote more resources to more shareholder-friendly initiatives, including internal growth, dividend growth and share repurchases. In addition, I expect that in 2024, all of the Canadian banks that have not already done so will cancel the discounts on their dividend reinvestment plans. Those discounts have resulted in higher common shares outstanding that have been a headwind to achieving earnings and dividend growth in per-share terms.

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, 2023 (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, 2023

Company	% of LP's net assets	Dividend Yield	P/E ratio	P/B ratio	CET1 ratio
Bank of Montreal	11.5%	4.6%	11.2x	1.3x	12.5%
Bank of New York Mellon Corporation, The	8.8%	3.2%	10.3x	1.1x	11.6%
Bank of Nova Scotia, The	17.8%	6.6%	9.9x	1.1x	13.0%
Canadian Imperial Bank of Commerce	19.0%	5.6%	9.5x	1.2x	12.4%
Citigroup, Inc.	28.7%	4.1%	12.7x	0.5x	13.3%
Toronto-Dominion Bank, The	4.9%	4.8%	10.7x	1.5x	14.4%
Total / weighted average	90.7%	4.9%	10.9x	1.0x	

As can been seen in the table, at December 31, 2023, the LP had a total of 90.7% of its net assets invested in six banks. On a weighted average basis, the bank holdings had attractive valuations, such as a dividend yield of 4.9%; a price-earnings ("P/E") ratio on 2023 earnings per share ("EPS") of 10.9x; and a price-book ("P/B") ratio of only 1.0x.[40] Brief 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.[41] 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;
- ***The Bank of New York Mellon Corporation*** ("BNY Mellon") is one of the world's largest custodian bank and securities services companies, with a history that dates back to its establishment in 1784 by a group that included founding father Alexander Hamilton.[42] BNY Mellon's asset-light business model is, in my opinion, much lower risk than traditional banks;
- ***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.[43] On December 13, 2023, Scotia's CEO Scott Thomson laid out Scotia's strategy to improve its financial performance.[44] 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;
- ***Canadian Imperial Bank of Commerce*** ("CIBC") has been led by CEO Victor Dodig since 2014. In my opinion, he has done a good job in navigating CIBC through some difficult times (such as the

COVID-19 pandemic) while largely avoiding the mistakes which plagued CIBC in the past and which continue to be reflected in its comparatively low valuation;

- ***Citigroup Inc.*** ("Citi") is a large U.S. money centre bank which also has a substantial presence in a number of international markets. As with Scotia, I believe that investor sentiment regarding Citi is so negative that if its business performance improves, investors may be rewarded with strong capital gains on top of Citi's healthy dividend yield. At September 30, 2023 (the latest data available at time of writing), 2.9% of Citi was owned by Portland's role model, Berkshire (led by legendary investor Warren Buffett);[45] and
- ***The Toronto-Dominion Bank*** ("TD") has a substantial presence in both Canada and the U.S. and has an outstanding long-term track record. In 2023, TD was unable to secure regulatory approval for its proposed acquisition of First Horizon Corporation, leading to that deal's termination.[46] TD was left in an enviably strong financial position, so that in FY'23 it repurchased $4.3 billion of its own common shares.[47]

Other Investments

The Funds' five non-bank holdings are discussed briefly below (in order of percentage weight in the LP, highest to lowest; the weights of these businesses in the Trust were similar). Together, these five businesses accounted for 81.5% of the LP's net assets. In addition to their expected returns, these companies provide the Funds with diversification by company, industry sector and geography.

- ***AT&T Inc.*** ("AT&T"; 22.2% of the LP's net assets at December 31, 2023). AT&T is one of the largest telecommunications companies in the United States, providing both wireless and wireline services and products to consumers and businesses. In 2023, AT&T had revenues of US$122.4 billion;[48]
- ***Verizon Communications Inc.*** ("Verizon"; 21.7% of the LP's net assets). Verizon is also one of the largest telecommunications companies in the United States. In 2023, Verizon had revenues of US$134.0 billion;[49]
- ***CK Hutchison Holdings Limited*** ("CKHH"; 14.7% of the LP's net assets). 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.[50] The company is diversified by geography, with substantial operations in Europe, Asia, China and Canada (where it owns 17% of Cenovus Energy Inc. and other assets).[51] In 2022 (the latest year available at time of writing), CKHH had revenues of US$33.7 billion;[52]
- ***CVS Health Corporation*** ("CVS"; 13.7% of the LP's net assets). CVS is an American healthcare company that owns CVS Pharmacy, a retail pharmacy chain; CVS Caremark, a pharmacy benefits manager; and Aetna, a health insurance provider, as well as other healthcare businesses.[53] In 2022 (the latest year available at time of writing), CVS had revenues of US$322.5 billion;[54] and
- ***Magna International Inc.*** ("Magna"; 9.1% of the LP's net assets). Magna is one of the world's largest automotive parts manufacturers. In 2022 (the latest year available at time of writing), Magna had total revenues of US$37.8 billion.[55]

In Memoriam: Charles T. Munger

On November 28, 2023, the world marked the passing of Berkshire's vice chairman, Charlie Munger, at the age of 99. Charlie, as he was widely and affectionately known, was just one month shy of what would have been his 100th birthday.[56]

I believe that Charlie had at least two major influences on Warren Buffett: to invest in excellent businesses (as Charlie said, "a great business at a fair price is superior to a fair business at a great price"[57]); and to concentrate his investment holdings (in Charlie's words, "you don't need a ton of good ideas; you need a couple of ideas that make a ton"[58]). Charlie was certain that Buffett would come around to the superiority of Charlie's opinions; he told Buffett that he'd eventually agree "because you're smart and I'm right."[59]

It would be impossible to fully relate herein Charlie's many quips and his worldly wisdom. For those interested, I highly recommend *Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger*.[60] The following is just a small sampling.

Focused investing:

"The idea that very smart people with investment skills should have hugely diversified portfolios is madness."[61]

"A few opportunities will come. You've got to learn how to recognize them when they come and not make too minor a trip to the pie counter when the opportunity's available."[62]

"Make fewer decisions; make better decisions."[63]

Combining good investments with speculations:

"If you mix raisins with turds, they're still turds."[64]

Leverage:

"Lever up when you're sure your right."[65]

"Berkshire could easily be worth twice what it is now, and the extra risk we would have taken would have been practically nothing. All we had to do was use a little more leverage that was easily available."[66]

"If Warren and I had owned Berkshire without any shareholders that we knew, we would have made more; we would have used more leverage."[67]

Temperament:

"The fretful disposition is an enemy of long-term performance."[68]

Mentors:

"You're not restricted to living people in choosing your mentors. Some of the very best people are dead."[69]

Capitalism versus socialism:

"I like inequality a lot more than I like poverty."[70]

Artificial intelligence:

"I like the idea of using artificial intelligence because we're so short of the real kind."[71]

"I am personally skeptical of some of the hype that has gone into artificial intelligence. I think old-fashioned intelligence works pretty well."[72]

Without Charlie, Berkshire's annual meetings will never be the same. Charlie Munger is gone, but he will never be forgotten.

In Charlie's oft-used words: "I have nothing to add."

Outlook

I believe that future long-term returns of the Funds will continue to be positive, partly for the following reasons:

- ***Lower rates of inflation.*** The year-over-year change in the core PCE price index has already declined from its post-pandemic peak of 5.2% for the year ended September 30, 2022 to 2.9% for the year ended December 31, 2023 (the most recent data reported).[73] I believe that it will continue to decline and will reach the Federal Reserve's target of 2.0% by about mid-2024.[74] I expect core PCE to continue to decline primarily because of base effects (i.e., previously-reported high rates on inflation will drop out of the 12-month data) and the delayed impact of monetary policy (i.e., the full effect of higher interest rates and QT in slowing the economy and reducing price increases have likely not yet been felt as monetary policy acts with a long and variable lag);
- ***Lower interest rates.*** I believe that, once core PCE has fallen to about 2%, the FOMC will begin to reduce its target for the federal funds rate. In that process, an important consideration will be the so-called neutral rate of interest (i.e., that level of interest rates that supports the economy at full employment while keeping inflation constant). Estimates vary, but FOMC participants appear to be believe that the neutral real (i.e., after inflation) rate of interest, known to policy wonks as r* (r-star), is in the range of 0.5% to 1.0%.[75] Adding in the Federal Reserve's 2% inflation target suggests that the FOMC will ultimately seek to target a nominal federal funds rate in the range of 2.5% to 3.0%. Given that the FOMC's target rate for the federal funds rate is currently 5.25% to 5.50%, I believe that U.S. interest rates will likely be cut by 2.5% or more between mid-2024 and the end of 2025. A similar trajectory is likely to be followed in Canada. These expected interest rate cuts will, in my opinion, be very beneficial both to economic growth and to equity market valuations;
- ***The Funds, in my opinion, own good businesses trading at sensible prices.*** These businesses should deliver good long-term fundamental performance. I believe that will be reflected in continued positive total returns (i.e., dividends plus share price appreciation);
- ***Existing use of leverage.*** At December 31, 2023, the LP's equity weight was 172.2% (the Trust's equity weight was similar, as adjusted for distributions payable on that date, substantially all of which were reinvested into additional Trust units). If future total returns (from dividends and capital gains)

exceed the Funds' margin interest rates, as I expect will be the case, the use of leverage will enhance fund returns;

- ***Willingness to increase equity weights to 200% to 250%.*** In my monthly email updates, I have often stated the willingness to increase the Funds' equity weights to 200% to 250% of net assets. Such additional equities could be comprised of both new investments as well as additions to existing holdings. If done, that would be in the expectation that such additional equities would increase the Funds' prospective returns above and beyond that expected from their current portfolios. Even without adding further to equities, I expect that the Funds may provide satisfactory future returns; and
- ***When positive performance occurs, it automatically reduces leverage and enables the purchase of additional equities.*** This process was described in the 2022 letter.[76]

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.

February 5, 2024

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. https://en.wikipedia.org/wiki/Death_and_taxes_(idiom)
7. 2018 Letter, pp. 8-10.
8. https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t1a.html
9. https://laws-lois.justice.gc.ca/eng/acts/I-3.3/section-53.html
10. Ibid.
11. 2022 Letter, pp. 7-8.
12. See minutes of the FOMC meeting of January 25-26, 2022 available at https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm
13. https://www.forbes.com/advisor/investing/fed-funds-rate-history/
14. https://en.wikipedia.org/wiki/Quantitative_tightening
15. https://www.theglobeandmail.com/investing/markets/inside-the-market/article-is-the-dominance-of-apple-amazon-and-the-other-magnificent-seven/
16. See fact sheets available at https://www.spglobal.com/spdji/en/indices/equity/sp-500/#overview and https://www.spglobal.com/spdji/en/indices/equity/sp-500-equal-weight-index/#overview, respectively.
17. Source: Bloomberg LP.
18. The term "TSN Turning Point" was first used by Canada's The Sports Network (TSN) to describe the moment that most influenced the outcome of a sports game. It has since become generalized to refer to a significant or life-changing event. See https://www.urbandictionary.com/define.php?term=The%20TSN%20Turning%20Point
19. https://www.oreilly.com/library/view/buying-at-the/9780137084463/pr02.html
20. https://www.bea.gov/news/2023/personal-income-and-outlays-september-2023
21. See minutes of the FOMC meeting of October 31 to November 1, 2023 available at https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm
22. Source for the 10-year Treasury yield data is Bloomberg LP and https://www.cnbc.com/quotes/US10Y
23. 2014 Letter, pp. 27-30.
24. https://www.investopedia.com/terms/a/animal-spirits.asp
25. https://www.fdic.gov/news/press-releases/2023/pr23016.html
26. https://www.fdic.gov/news/press-releases/2023/pr23018.html
27. https://www.fdic.gov/news/press-releases/2023/pr23034.html
28. See, e.g., https://www.wsj.com/articles/banks-investors-revive-push-for-changes-to-securities-accounting-after-svb-collapse-99caa9ce
29. https://www.fdic.gov/news/financial-institution-letters/2023/fil23058.html
30. FDIC Third Quarter 2023 Quarterly Banking Profile, p.4, available at https://www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/index.html
31. Federal Reserve Bank of Kansas City, "The Implications of Unrealized Losses for Banks", Second Quarter 2023, p. 8.
32. Ibid.
33. Ernst & Young LLP, "Basel III Endgame", September 2023, p. 1, https://www.ey.com/en_us/banking-capital-markets/basel-iii-endgame-what-you-need-to-know
34. Berkshire Hathaway 2023 annual general meeting, afternoon session, minute 1:00, available at https://buffett.cnbc.com/video/2023/05/08/afternoon-session---2023-meeting.html

35. 2014 Letter, p. 15 and pp. 20-25; 2015 Letter, pp. 12-14; 2016 Letter, p. 8; 2017 Letter, p. 8; 2018 Letter, pp. 13-14; and 2022 Letter, pp. 11-13.
36. https://www.investopedia.com/terms/c/common-equity-tier-1-cet1.asp
37. 2022 Letter, p. 11.
38. https://www.osfi-bsif.gc.ca/en/news/osfi-reinforces-resilience-canadas-financial-system-sets-domestic-stability-buffer-35
39. https://www.osfi-bsif.gc.ca/en/news/osfi-maintains-domestic-stability-buffer-3_5
40. The figures in the table were derived as follows (all based on stock prices as of December 31, 2023). 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 2023, 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 2023.
41. https://newsroom.bmo.com/2023-02-01-BMO-Completes-Acquisition-of-Bank-of-the-West
42. https://en.wikipedia.org/wiki/BNY_Mellon
43. Scotia FY'23 annual report, note 29.
44. https://www.scotiabank.com/ca/en/about/investors-shareholders/investor-day.html
45. https://www.sec.gov/Archives/edgar/data/1067983/000095012323011029/0000950123-23-011029-index.htm
46. https://stories.td.com/ca/en/news/2023-05-04-td-bank-and-first-horizon-mutually-agree-to-terminate-merger
47. TD FY'23 annual report, note 20.
48. https://investors.att.com/financial-reports/quarterly-earnings/2023
49. https://www.verizon.com/about/investors/quarterly-reports/4q-2023-earnings-conference-call-webcast
50. https://en.wikipedia.org/wiki/CK_Hutchison_Holdings
51. CKKH 2022 annual report p. 4 and Cenovus Energy Inc.'s Management Information Circular dated March 1, 2023, p. 5.
52. CKHH 2022 annual report, p. 126.
53. https://en.wikipedia.org/wiki/CVS_Health
54. https://investors.cvshealth.com/investors/events-and-presentations/default.aspx
55. Magna 2022 annual report, p. 33.
56. https://en.wikipedia.org/wiki/Charlie_Munger
57. Peter D. Kaufman, editor, Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger (PCA Publication, 2005), p. 57.
58. Berkshire annual meeting, May 6, 2006, as transcribed by the author.
59. The author has heard Munger (and Buffett) recite this line more than once although doesn't know the exact occasions.
60. Kaufman, op. cit.
61. Berkshire annual meeting, May 1, 2004, as transcribed by the author.
62. CNBC interview with Charlie Munger on November 14, 2023, hour 1:44, available at https://buffett.cnbc.com/video/2023/12/05/charlie-mungers-final-cnbc-interview.html
63. The author heard Munger state this line at a Berkshire annual meeting but doesn't know the year.
64. Berkshire annual meeting, April 29, 200, as transcribed by the author.
65. CNBC interview with Charlie Munger on November 14, 2023, hour 1:01, available at https://buffett.cnbc.com/video/2023/12/05/charlie-mungers-final-cnbc-interview.html
66. Ibid., hour 1:02.
67. Ibid., hour 1:02.
68. Berkshire annual meeting, May 3, 2003, as transcribed by the author.
69. Berkshire annual meeting, May 5, 2007, as transcribed by the author.
70. CNBC, op. cit., hour 1:05.
71. Berkshire annual meeting, April 30, 2016, as transcribed by the author.
72. Berkshire annual meeting, May 6, 2023, hour 0:37, available at https://buffett.cnbc.com/video/2023/05/08/

morning-session---2023-meeting.html
73. https://www.bea.gov/news/2024/personal-income-and-outlays-december-2023
74. The Federal Reserve has often stated that its inflation objective is 2%. See, e.g., https://www.reuters.com/markets/us/feds-waller-says-us-within-striking-distance-inflation-goal-2024-01-16/
75. https://www.brookings.edu/articles/the-hutchins-center-explains-the-neutral-rate-of-interest/
76. 2022 Letter, pp. 9-11.

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