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Portland Focused Plus Fund LP

Portland Focused Plus Fund

ANNUAL LETTER TO INVESTORS

FOR THE YEAR ENDED DECEMBER 31, 2025

Portland Focused Plus Fund LP
Performance vs. Stock Market Indices

Year	Calendar Total Returns				MSCI Canada Index	MSCI USA Index (US\$)		
	Portland Focused Plus Fund LP							
	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%		
2024	17.5%	18.6%	19.0%	19.5%	22.0%	24.6%		
2025	41.5%	42.7%	47.4%	44.2%	30.1%	17.3%		

Year	Annualized Total Returns as of December 31, 2025					
	Portland Focused Plus Fund LP				MSCI Canada Index	
	Series A	Series F	Series M	Series P		
1 year	41.5%	42.7%	47.4%	44.2%	30.1%	17.3%
3 years	26.4%	27.6%	29.2%	28.9%	21.3%	22.7%
5 years	10.1%	11.2%	12.8%	12.4%	15.8%	13.4%
10 years	15.4%	16.5%	18.7%	17.7%	11.9%	14.2%
Since inception	15.9%	17.0%	19.2%	18.1%	10.0%	14.2%

Year	Cumulative Total Returns as of December 31, 2025					
	Portland Focused Plus Fund LP				MSCI Canada Index	
	Series A	Series F	Series M	Series P		
1 year	41.5%	42.7%	47.4%	44.2%	30.1%	17.3%
3 years	101.9%	107.9%	115.5%	114.1%	78.3%	84.9%
5 years	61.7%	70.2%	82.5%	79.3%	108.2%	87.4%
10 years	318.3%	362.5%	456.2%	410.8%	206.9%	277.8%
Since inception	596.7%	693.8%	904.8%	792.5%	250.5%	473.1%

Portland Focused Plus Fund
Performance vs. Stock Market Indices

Year	Calendar Total Returns				MSCI Canada Index	MSCI USA Index (US\$)		
	Portland Focused Plus Fund							
	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%		
2024	17.8%	19.1%	19.3%	20.2%	22.0%	24.6%		
2025	41.9%	42.8%	47.4%	44.3%	30.1%	17.3%		

Year	Annualized Total Returns as of December 31, 2025					MSCI Canada Index	MSCI USA Index (US\$)		
	Portland Focused Plus Fund								
	Series A	Series F	Series M	Series P					
1 year	41.9%	42.8%	47.4%	44.3%	30.1%	17.3%			
3 years	26.6%	27.9%	29.3%	29.2%	21.3%	22.7%			
5 years	10.4%	11.6%	13.1%	12.8%	15.8%	13.4%			
Since inception	15.0%	16.1%	18.2%	17.4%	11.8%	14.5%			

Year	Cumulative Total Returns as of December 31, 2025					MSCI Canada Index	MSCI USA Index (US\$)		
	Portland Focused Plus Fund								
	Series A	Series F	Series M	Series P					
1 year	41.9%	42.8%	47.4%	44.3%	30.1%	17.3%			
3 years	102.9%	109.0%	116.1%	115.4%	78.3%	84.9%			
5 years	64.4%	73.2%	85.0%	82.7%	108.2%	87.4%			
Since inception	289.6%	330.5%	412.5%	379.6%	196.2%	274.9%			

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 2025, the LP's series F units (the highest fee series without embedded advisor compensation) had a return of 42.7% (all performance figures for the Funds are net of fees and expenses). That compares to a return of 30.1% for MSCI Canada and to a return of 17.3% for MSCI USA in US\$. A 50%/50% blend of the two indices had a return of 23.7%. As a result, in 2025 the LP outperformed its benchmark indices. For the five years ended December 31, 2025 (I have always suggested that five years is the minimum reasonable period for measuring performance⁴), the LP's series F units had a cumulative return of 70.2%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 108.2% and 87.4%, respectively. A 50%/50% blend of the two indices had a return of 97.8%. As a result, for the five years ended December 31, 2025, the LP underperformed its benchmark indices. For the 10 years ended December 31, 2025, the LP's series F units had a cumulative return of 362.5%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 206.9% and 277.8%, respectively. A 50%/50% blend of the two indices had a return of 242.4%. As a result, for the 10 years ended December 31, 2025, the LP outperformed its benchmark indices. Finally, for the entire period since inception of the LP on October 31, 2012, to December 31, 2025, the LP's series F units achieved a cumulative return of 693.8%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 250.5% and 473.1%, respectively. A 50%/50% blend of the two indices had a return of 361.8%. 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 2025, the Trust's series F units (the highest fee series without embedded advisor compensation) had a return of 42.8% (all performance figures for the Funds are net of fees and expenses). That compares to a return of 30.1% for MSCI Canada and to a return of 17.3% for MSCI USA in US\$. A 50%/50% blend of the two indices had a return of 23.7%. As a result, in 2025 the Trust outperformed its benchmark indices. For the five years ended December 31, 2025, the Trust's series F units had a cumulative return of 73.2%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 108.2% and 87.4%, respectively. A 50%/50% blend of the two indices had a return of 97.8%. As a result, for the five years ended December 31, 2025, the Trust underperformed its benchmark indices. Finally, for the entire period since inception of the Trust on March 31, 2016, to December 31, 2025, the Trust's series F units achieved a cumulative return of 330.5%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 196.2% and 274.9%, respectively. A 50%/50% blend of the two indices had a return of 235.6%. 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.

Canadian Hedge Fund Awards

I'm please to report that the LP was a winner of two 2025 Canadian Hedge Fund Awards. The awards, both in the Equity Focused category, were for achieving 2nd place, Best 1-Year Return; and 2nd place, Best 10-year return.⁶ Often, investment funds have excellent returns confined to the recent past, with much worse returns over longer-term periods (if they exist at all). Conversely, some funds had excellent returns many years in the past, with much poorer returns recently. In that context, it's gratifying for the LP to have received recognition for its excellent performance over both short-term (one-year) and longer-term (10-year) periods.

Recent Performance and Market Conditions

As noted above, performance of the Funds in 2025 was strong. Indeed, both Funds closed on December 31, 2025, at record highs (in the case of the LP, that is measured by net asset value per unit; in the case of the Trust, that is measured by the value of \$10,000 invested at inception). There is an old (and wise) expression, however: don't confuse genius with a rising market.

Since October 31, 2023, when the Funds had their performance lows during the last bear market cycle, stock market performance has been very strong. That has greatly helped to boost returns of the Funds. Indeed, from October 31, 2023, to December 31, 2025, the series F units of the LP and Trust had cumulative returns of 139.7% and 140.1%, respectively.

In my opinion, valuations of stock markets in Canada and the United States are currently at high levels based on a variety of traditional valuation measures. Those measures include earnings, dividends, book value, market capitalization to gross domestic product ("GDP"), and the relationship of earnings yields (i.e., the inverse of the widely followed price/earnings ratio) to longer-term interest rates. Measures of market sentiment also appear to be in ebullient territory. This combination of high valuations and bullish sentiment suggests to me that caution is warranted.

Equity Weight

I often cite the Funds' equity weights in these letters and in marketing materials. My preferred method of calculating equity weight is total equities divided by net assets. Expressed that way, any figure over 100% indicates that the Funds' equity positions are financed in part with margin borrowings, while any figure for equity weight under 100% indicates that the Funds are in a net cash position. Given my comments above regarding equity market conditions, you will not be surprised to read that over the course of 2025, the Funds reduced their equity weights substantially. Specifically, the LP's equity weight declined from 234.0% at December 31, 2024, to 87.6% at December 31, 2025 (the Trust's equity weights were similar, as adjusted for its distributions payable at both year-ends, substantially all of which were reinvested into additional Trust units). There is no doubt that in reducing equity weights so greatly I have left money on the table compared to the even-stronger returns that would have been enjoyed had the Funds kept larger equity weights. I often think, however, of words attributed to the first Baron Rothschild when he was asked for the secret of his stock market success: "I never buy at the bottom, and I always sell too soon."⁷

It is a core strategy of the Funds to have very focused portfolios (hence their names).⁸ As a result, investing their portfolios doesn't require broad-based inexpensive valuations; a limited number of attractively valued companies will suffice. Nevertheless, in my opinion, it is much harder to find attractively valued investments under current market conditions. Further, long experience (I've now been employed in the investment business for 43 years) suggests that if there is equity market weakness, it will be broad-based, so that it is prudent not to have too large an equity weight. Having a lower equity weight may serve to both limit negative performance when there is equity market weakness and enable the Funds to add to equities on favourable terms if conditions are deemed appropriate to do so.

An important, and in my view insufficiently appreciated, attribute of the Funds is their ability to widely vary their equity weights, while keeping significant exposure to equities (given that I have long stated my view that equities would provide the best long-term returns among the three major traditional asset classes of equities, bonds and cash).⁹ Conventional Canadian public mutual funds may not use leverage and alternative public

mutual funds are limited in their ability to use leverage. Thus, when equity market valuations are high, their portfolio managers are faced with a quandary. Do they keep the equity weights of their funds at 100%, knowing that they will have full exposure to a stock market decline and that they will not then be able to be a net buyer of equities should they fall to more attractive levels? Or do they reduce the equity weights of their funds far below 100%, investing the proceeds in cash equivalents, which may result in lagging performance in a phenomenon known as “cash drag”?¹⁰ These decisions are notoriously difficult to get right. Conversely, when I deem it appropriate to be more defensive, the equity weights of the Funds may be reduced to as low as 100% without resulting in any cash drag. Yet the Funds retain the ability (through their use of leverage) to greatly increase their equity weights should opportunities arise. Indeed, as noted above, the LP’s equity weight was 234.0% as recently as December 31, 2024. I am prepared to increase equity weights in the Funds significantly, to 250% or more of net assets, if circumstances warrant.¹¹ I believe that, given time, the Funds will again increase their equity investments significantly. Such additional investments will only be made if they are expected to help meet the Funds’ investment objective: to achieve, over the long term, preservation of capital and a satisfactory return.

Taxes and Adjusted Cost Base of LP Units

In the 2018 and 2023 Letters, I discussed in detail how taxes apply to investments in the LP and the Trust.¹² I have also tried to highlight key tax matters in many presentations to financial advisors. Nevertheless, I remain very concerned, based on communications that I’ve had with advisors and investors, that many investors may not be completing their tax returns properly. Failure to do so may result in substantial *overpayment* of taxes compared to those taxes that are actually due. So, this section repeats the tax information provided in the 2018 and 2023 letters, with additional context and a numerical example. **For investors in the LP, if you only read one section of this letter, let this one be it.** Conversely, if you are an investor in only the Trust, you may skip this section. The discussion below is not intended to constitute tax advice; investors should consult their own tax professionals.

I have always prepared and filed my own personal tax returns. 45 years ago, I would pick up a fairly simple paper tax package at the local post office, complete the return by hand and mail it. Those days are long gone. Unfortunately, the same computers that have greatly improved our lives in so many ways have also enabled what are, in my opinion, incompetent and rapacious governments to vastly increase the complexity of the income tax system (more on that in the next section of this letter). These days, of necessity given how complicated the *Income Tax Act* (“ITA”) has become, tax returns are almost all filed using tax software. As Hamlet said, and as explained below, “there’s the rub.”¹³

If you sell an investment security in a non-registered plan (i.e., an open account), you are required to report that disposition, and the resulting capital gain (or loss), on your income tax return. In bygone days, the fields in the tax returns would all be blank. It would be up to taxpayers to determine the correct amounts and enter them into their returns. Investment firms began sending information on securities dispositions to the Canada Revenue Agency (“CRA”) on T5008 slips (“Statement of Securities Transactions”) commencing with the 2005 tax year.¹⁴ Originally, investment firms generally only reported the “proceeds of disposition” (box 21 of the T5008 slip) and not the “cost or book value” (box 20) since the cost was either not known or not tracked by many investment firms.¹⁵ Over time, investment firms began also to report figures in box 20 for “cost or book value.” Unfortunately, I believe that many investors (and tax professionals) are not aware of, or do not heed, CRA’s warning below which appears on its website (and is also stated, in very fine print, on the back page of T5008 slips themselves):

Box 20 - The amount in box 20 may or may not reflect your adjusted cost base (ACB) for the purpose of determining the gain or loss from the disposition of the security. You are required to make the adjustments, as needed, to the amount indicated in box 20, at the time of determining and reporting your gain or loss from the disposition.¹⁶

Indeed, as discussed more fully below, for investors who redeem units in the LP and thus receive T5008 slips, **the amounts shown in Box 20 are the original cost of their LP units, which amounts are generally not their adjusted cost base (“ACB”) of such units for tax purposes.**

This problem of investors misunderstanding the amounts in box 20 of the T5008 slips has been greatly exacerbated by another phenomenon made possible by today's computers: "Auto-fill My Return." This so-called service, which is now widely used, enables individual taxpayers and professional tax preparers to automatically populate the tax information that CRA has on file (including T5008 slips) directly into tax returns. The problem is that, despite the clear warning stated by CRA itself that "cost or book value" may or may not be ACB, tax software (at least a top seller that I use) assumes that it is and copies the amount from box 20 directly into the field for ACB. The only ways that I know to prevent this problem are : i) not to use Auto-fill My Return (which may cause many other tax filing mistakes, especially for professional tax preparers), or at least not use it to import T5008 slips; or ii) after using Auto-fill My Return, overwrite the tax software (if possible) so as to enter the correct amount for ACB into securities dispositions.

In my opinion, purveyors of tax software should not be allowed to automatically copy amounts from box 20 of T5008 slips into ACB fields for capital gains calculations. Alternatively, it should be possible to hold them financially responsible (through class action lawsuits) for the vast tax overpayments that may arise from the use of their software. This practice (of copying box 20 amounts into ACB fields) has been aided and abetted by CRA which, in my opinion, either isn't aware of the issue, doesn't understand it or doesn't care (because it likely results, in the aggregate, in substantial overpayment of taxes).

In my experience, among the at least five parties who may be involved in compiling tax information (i.e., taxpayer, investment firm, financial advisor, tax lawyer and tax accountant), each of them thinks that determining ACB is someone else's responsibility. Please allow me to very clear: determining ACB is the taxpayer's responsibility. The rest of this section describes why you must make adjustments to original cost in order to determine the ACB of your LP units, and how to do so.

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, if the LP should have net capital losses in any year, such capital losses may be carried back up to three years by filing a form T1A, "Request for Loss Carryback,"¹⁷ 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 LP units.

Upon receiving each T5013 slip, investors should adjust the ACB of the LP 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 ITA);¹⁸ and
- **decrease the ACB by the amount of expense items allocated.** Those items comprise foreign dividend withholding tax, which CRA refers to as "foreign tax paid on non-business income" (box 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.¹⁹

It is imperative that investors in the LP make the adjustments described above 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.

This may be illustrated by the following example. The numbers below are hypothetical, although they've been chosen so that the net T5013 allocations bear at least a vague resemblance to what I expect the LP's actual T5013 allocations will look like when they're issued in March 2026.

Portland Focused Plus Fund LP

Hypothetical example of investment, T5013 allocations and ACB

	T5013 Box Number	Increase (decrease) in ACB
Subscription on December 31, 2024 (A)		\$100,000
Increase (decrease) in ACB from 2025 T5013 allocations:		
Interest from Canadian sources	128	\$1,000
Actual amount of eligible Canadian dividends	132	\$6,000
Foreign dividend income	135	\$4,000
Capital gains (losses)	151	\$40,000
Foreign tax paid on non-business income	171	(\$600)
Carrying charges	210	(\$10,400)
Total increase in ACB in 2025 (B)		\$40,000
ACB on December 31, 2025 (A+B)		\$140,000

The following are the required adjustments to ACB in the above example:

- On December 31, 2024, the investor subscribes for \$100,000 of the LP's series F units. On that date, the investor's "cost or book value" and ACB are the same, i.e., \$100,000.
- The investor is not allocated any income in respect of 2024 as they were not an investor for any part of that year.
- The investor holds the LP units for all of 2025. In March 2026, they would be issued a T5013 slip allocating their share of the LP's income and expenses for 2025. Using the hypothetical example in the table, their ACB would be increased by allocations on the T5013 slip as follows: \$1,000 for interest income (box 128); \$6,000 for actual amount of eligible Canadian dividends (box 132); \$4,000 for foreign dividend income (box 135); and \$40,000 for capital gains (box 151). The investor's ACB would be decreased by (\$600) of foreign tax paid on non-business income (box 171); and by (\$10,400) of carrying charges (box 210).
- The net amount of the T5013 allocations in respect of 2025 in the example is +\$40,000. As a result, the investor's ACB at the end of 2025 is \$140,000 (i.e., their original cost of \$100,000 plus the net T5013 allocations for 2025 of \$40,000 for a total ACB of \$140,000).

If the investor continued to hold their units for additional years, they would receive a T5013 slip in respect of each year. They would then determine their ACB in the same manner: start with the ACB as of the prior year-end (after adjustment for the T5013 allocations in respect of that and all previous years) then adjust the ACB for T5013 allocations in the most recent year.

Let's assume, though, that the investor redeemed all of their LP units on the December 31, 2025, valuation date. The settlement date for that redemption would be one week later (i.e., in early January 2026). So, the redemption would be reported on a T5008 slip for 2026 (to be issued in early 2027). Note that such investor would not receive a T5013 slip for 2026 as they would be deemed not to have owned the units for any part of that year. Further assume that the redemption proceeds as of the December 31, 2025, valuation date were \$142,700 (which would have been the actual result had this hypothetical investment been real, since the return of the LP's series F units in 2025 was 42.7%). On that investor's T5008 slip for 2026, the amount in box 21 ("proceeds of disposition") would be \$142,700 (no problem there) but the amount in box 20 ("cost or book value") would be \$100,000 *because that was the investor's original cost*. As noted above, however, the investor's ACB was \$140,000. If such investor correctly reported proceeds of \$142,700 and their ACB of \$140,000, then their capital gain in 2026 would be the difference, i.e., \$2,700. If, however, the investor mistakenly reported their original cost of \$100,000 (as would be reported in box 20) as their ACB, then their reported capital gain would be \$42,700, or \$40,000 higher than it should be (because of failing to adjust original cost for their T5013 allocations in order to determine ACB). At time of writing, the top marginal income tax rate on capital gains in Ontario is 26.76% (or higher; see next section).²⁰ That means that this hypothetical investor, who failed to make the required adjustments to their ACB, would overpay their taxes (assuming that they were in the top tax bracket) by \$10,704 (i.e., $\$40,000 \times 26.76\% = \$10,704$). **As this example demonstrates, it is imperative that investors in LP units adjust their ACB for allocations on T5013 slips issued to them and ensure that such ACBs (not original cost) are correctly entered into their tax returns in respect of years in which they redeem units.**

Alternative Minimum Tax

After the exhaustive (and exhausting?) preceding discussion of ACB, you might think that this letter must be done discussing tax. But wait, there's more!

On March 28, 2023, the federal Liberal government, under Prime Minister Justin Trudeau and his Minister of Finance Chrystia Freeland, tabled the 2023 federal budget. The government dubbed it “A Made-in-Canada Plan.”²¹ The title of the summary of the budget by the Funds’ legal counsel, Borden Ladner Gervais LLP (“BLG”) was, “A masterclass in increasing taxes without increasing rates.”²² In my opinion, as damning as BLG’s assessment was, it was too kind. The 2023 budget did, in fact, substantially increase tax rates (as discussed further below). As BLG itself notes, the budget did so by making substantial changes to increase the Alternative Minimum Tax (“AMT”).

For those unfamiliar, AMT is an alternative income tax calculation applicable to individuals and trusts which, for federal tax purposes, is calculated on the 10-page form T691.²³ Governments sometimes state that the purpose of AMT is to ensure that higher income taxpayers, who might legally have little or no tax owing under the regular tax system (through the use of deductions and credits that the government itself has deemed fit to pass into tax law), pay at least some minimum tax rate. Many Canadians may not know that Canada even has an AMT as, before the 2023 budget, the AMT applied to a small number of taxpayers. Also, tax software typically does not even show the AMT in tax returns unless the AMT is applicable. If that is the case (i.e., if the AMT tax calculation results in a higher amount of tax owing than the amount of tax determined under the regular tax method), then the excess tax paid may be carried forward for up to seven years and recovered in any years in which the AMT tax amount is lower than that under the regular tax method.

The 2023 budget made significant changes to the AMT. In particular, it:

- Increased the AMT tax rate from 15.0% to 20.5%; and
- Changed the law so that only 50% (formerly 100%) of many expenses incurred to earn income (such as interest expense on money borrowed to earn investment income) is deductible.

In my opinion, both of these changes are outrageous. In the case of the increase in the AMT tax rate, it results in an increase in the tax rate on capital gains in an underhanded manner (buried in the AMT rather than in the regular tax calculation). And the other change means that all income is taxed but the government only permits deduction of half of the expenses incurred to generate that income. In my opinion, that should be an affront to all fair-minded people. The AMT changes were effective commencing with the 2024 tax year, for which Canadians filed their tax returns in the spring of 2025 (which is why I am writing about AMT in this 2025 letter).

A comparison of the tax rate (for 2024) on capital gains between the regular tax method and AMT, for an Ontario taxpayer in the highest tax bracket, is shown in the following table:

<u>Capital gains tax rates</u> (highest tax bracket)	Regular	AMT	AMT vs. regular
Federal	16.50%	20.50%	4.00%
Ontario	10.26%	11.80%	1.54%
Total	26.76%	32.30%	5.54%

In the above table, the source for the regular tax rates is TaxTips.ca (<https://www.taxtips.ca/index.html>), which I believe is an excellent source of tax rate information. In the AMT column, the source for the federal tax rate is the aforementioned form T691. The source for the Ontario AMT tax rate (and therefore the combined federal/Ontario AMT tax rate) is me, based on my review of 2024 tax calculations. This highlights one of the many shortcomings of AMT: its lack of transparency. I'm not aware of any published tax tables that show the provincial, and combined federal/provincial, AMT tax rates. For example, as noted in the table (and as discussed in the preceding section of this letter), the top regular method tax rate on capital gains in Ontario is 26.76%. Conversely, the top AMT tax rate on capital gains in Ontario is a much higher 32.30%.

The criticisms of AMT (with which I concur) include that it results in punitively high taxes that are complex and not transparent. Further, historically many taxpayers subject to AMT have been able to recover it in a future year, anyway, so that the net AMT tax paid in such cases is nil. For these reasons, one of Canada's foremost tax experts, Kim Moody of Moodys Tax Law, has stated that the AMT "is an example of silly taxation policy creating complexity and it needs to be abolished."²⁴ I certainly agree. Where I may differ with Moody, though, is that with the 2023 changes to the AMT, it may be much harder and less likely for those taxpayers who pay AMT to recover it in a future year than was previously the case.

There is a basic exemption in the AMT calculation so that it only applies to taxpayers (in 2024) with "net adjusted taxable incomes" of more than \$173,205.²⁵ Some may think that, since they don't have income above \$173,205 (as most Canadians don't), that they're not affected by these AMT changes. Nothing could be further from the truth. According to Moody, in 2021, the top 1% of income earners paid 22.5% of all federal and provincial income taxes.²⁶ According to the Fraser Institute, in 2024 the top 20% of income-earning families (those with incomes above \$243,157) paid 62.7% of federal and provincial personal income taxes and 54.2% of total taxes (including sales taxes, payroll taxes, property taxes, etc.).²⁷ If these AMT changes cause an exodus of higher income earners from Canada (as I believe is occurring) or simply cause them to retire or otherwise change their behaviour since their tax rates are now so high that it discourages work and investment, personal income tax collection could be materially adversely affected. Those revenues accrue to the federal and provincial governments and are used in part to fund essential social services, health care and education. So, these recent AMT tax changes affect us all. In the words of the English poet John Donne, "send not to know for whom the bell tolls, it tolls for thee."²⁸

If you would like a more lighthearted take on how government policies often backfire, and how beyond a certain point (which I think we've passed in Canada) higher tax rates may actually result in lower tax revenue (and conversely lower tax rates may result in higher tax revenue), I recommend economist, lawyer, comedian and actor Ben Stein's performance as an economics teacher in the iconic film *Ferris Bueller's Day Off*, available at a link in the endnote to this sentence.²⁹

You may be wondering, since these letters are primarily about investing, why have I devoted so much space herein to discussing taxes? As noted in the section above, one reason is so that investors in the LP will determine their ACBs correctly so that they do not overpay their taxes. Another, more general, reason, is that for many (if not most) Canadians, taxes will be by far their largest single lifetime expense. I have always stated that investors should consider their returns after tax and inflation.³⁰ So, understanding tax is essential to achieving successful, long-term investment results. Finally, taxes have a profound impact on economic growth, investment and the health of the job market. In my opinion, a simple and sensible tax regime attracts investment and results in growth and jobs. Conversely, an extraordinarily complex and high-tax regime such as Canada's discourages growth and results in economic stagnation and fewer job prospects. For example, from 2015 to 2025, Canada's real GDP per capita increased from \$57,597 to \$60,071, a paltry compound

annual growth rate during that last (and lost) decade of only 0.4%.³¹ As multiple commentators have noted, this performance is Canada's worst since the 1930s (during the Great Depression)³² and is the worst in the G7 group of countries, by far.³³

Another Day, Another Donald (aka I Never Promised You a Rose Garden)

After equity markets closed on April 2, 2025, U.S. President Donald Trump made his “Liberation Day” (so-called “reciprocal”) tariff announcement at the White House Rose Garden.³⁴

The announcement included shockingly high tariffs imposed on virtually every country in the world. Trump stated that the tariff rates were justified using a formula that was widely (and in my opinion, correctly) disparaged. As was described at the time (with a nod to a recent Academy Award-winning film), Trump's global tariff war amounted to attacking “Everyone, Everywhere, All at Once.” The Trump tariff announcement caused turmoil in stock, bond, foreign exchange and commodity markets, as illustrated by the following:

- The flagship U.S. equity benchmark, the Standard & Poor's 500 Index (“S&P 500”), plunged from its close on April 2, 2025, of 5670.97 to a low of 4835.04 on April 7, 2025, a decline of (14.7%);³⁵
- The U.S. 10-year Treasury bond yield first fell from 4.20% on April 1, 2025, to 4.00% on April 4, 2025, seemingly as investors became concerned that the tariffs would slow the U.S. economy. Then, just a week later, the 10-year bond yield soared to 4.50% on April 11, 2025, on concerns that foreigners might sour on holding U.S. assets and on unconfirmed media reports that China might be reducing its holding of the bonds;
- The U.S. dollar index (“DXY”, a measure of the value of the U.S. dollar relative to a basket of foreign currencies),³⁶ fell from 104.26 on April 1, 2025, to 98.28 on April 21, 2025, a decline of (5.7%). That brought the decline in DXY compared to its two-year high of 110.18 on January 13, 2025, shortly before Trump's inauguration, to (10.8%); and
- The price of a barrel of West Texas Intermediate (“WTI”) crude oil fell from US\$71.71 on April 2, 2025, to as low as US\$55.12 on April 9, 2025, a decline of (23.1%). That brought the decline in WTI compared to its 2025 high of US\$80.59 on January 16, 2025, also shortly before Trump's inauguration, to (31.6%).

The turmoil described above did not go unnoticed. In particular, it seems that the White House grew concerned about the rising 10-year Treasury yield and whether the bond market could be relied upon to continue to finance the massive U.S. budget deficits. Whatever the reason (Trump later stated that some market participants had become “yippy”),³⁷ on April 9, 2025, Trump announced a three-month pause on the “reciprocal” tariffs for all countries except China. The result was that that day, the S&P 500 screamed higher by 9.5%, tied for its 8th-largest single-day gain in history.³⁸

On a lighter note, I thought that two memes that circulated on social media at the time captured the moment well:

- In one meme, Trump complains: “My tariffs aren't working.” A tech support person replies: “Have you tried turning them on and off again?” And,
- In another meme, Trump is posed in Karate Kid-themed martial arts clothing under a banner with the words, “Tax On, Tax Off.”

The frequent on again, off again tariff announcements also gave rise to a new market term, the TACO trade (for Trump Always Chickens Out).³⁹ Indeed, it seems the belief that Trump would ultimately back off from any actions with very negative economic consequences helped fuelled the stock market rally for the rest of 2025. On December 31, 2025, the S&P 500 closed at 6845.50, an increase vs. its April 7, 2025, low of 4835.04 of 41.6%.

In the early days of 2026, Trump has again made headlines. On January 11, 2026, Federal Reserve (“Fed”) Chair Jerome (“Jay”) Powell released an extraordinary video statement disclosing that the U.S. Department of Justice had served the Fed with grand jury subpoenas threatening a criminal indictment.⁴⁰ While the alleged reason was his testimony related to the renovation of the Fed’s office buildings, Powell stated that the threat was really about the Fed not having cut interest rates as much as Trump would have liked. Also, on January 17, 2026, Trump threatened punitive tariffs on European countries that oppose his proposed annexation of Greenland.⁴¹

Given the remarkable news flow in recent times, I believe that this is an appropriate moment to underscore the tenets of long-term investing. Do not get distracted by geopolitical noise. I do not make investment decisions based on political events, jobs reports or whether the Fed did or did not raise interest rates. Instead, the Funds buy focused portfolios of good companies at sensible prices and seek to enhance their returns with a prudent amount of leverage when circumstances are favourable. By these means, the Funds have enjoyed strong long-term returns despite the ebbs and flows of the external environment. I believe that they will continue to do so.

The final section of this letter profiles a person who best exemplifies disregarding external noise and focusing instead on long-term investing and business success, with truly remarkable results.

The End of an Era - Warren Buffett Retires as Berkshire Hathaway CEO

On May 3, 2025, at a question-and-answer session that preceded the annual shareholders meeting of Berkshire Hathaway Inc. (“Berkshire”), its chairman and chief executive officer (“CEO”), Warren E. Buffett, announced to a stunned crowd that he was going to recommend to Berkshire’s board of directors that Greg Abel, Berkshire’s Vice Chairman - Non-Insurance Operations, be appointed Berkshire’s CEO effective on January 1, 2026. On May 5, 2025, Berkshire announced that its board had voted unanimously to make that appointment and that Buffett would remain Berkshire’s chairman.⁴²

In these letters, I have previously paid homage to two of the greatest investors of all time: Jack Bogle (in the 2018 Letter)⁴³ and Buffett’s long-time partner, Charlie Munger (in the 2023 Letter).⁴⁴ It would not be appropriate to let this end of an era moment pass without similarly paying homage to the greatest investor of all time, Warren Buffett. The difference is that, like Monty Python’s peasant, he’s not dead yet!⁴⁵

On January 13, 2026, CNBC aired a two-hour special of interviews by its Becky Quick of Buffett (“*Warren Buffett: A Life and Legacy*”), which I highly recommend.⁴⁶ There was too much material available for the special, however, so not all of it made it into the broadcast. I also recommend the full hour-long interview that Quick conducted with Buffett’s three children as I found it delightful and insightful. That interview is available at a link in the endnote to this sentence.⁴⁷

One story retold by Buffett that I had not previously heard was the event that precipitated his shift from betting on horses (where the racetrack takes an 18% handle and where the house always wins) to stocks

(that pay dividends and have a positive total return expectation).⁴⁸ One day, Buffett went to the track and lost in the first race. He then kept betting, and losing, and by the end of the day he was \$50 poorer (an enormous sum at that time). That must have been a devastating blow to this young man. Indeed, Buffett realized that to make up the \$50 loss by delivering newspapers (which he did at the time), for which he earned about \$0.01 each, he would have to deliver 5,000 papers. Buffett says that he took the last couple of dollars that he had on him, bought himself a meal at a Howard Johnson's restaurant, and thought about it and thought about it. For Buffett, that was the end of horse racing. Having now heard this story, I believe that it's possible that was when Buffett devised his oft-repeated two rules of investing: Rule No. 1: Don't lose. Rule No. 2: Don't forget Rule No. 1.⁴⁹

In my opinion, Buffett's brilliance has come from synthesizing investment principles espoused by several other investment thinkers and practitioners, then applying that cohesive philosophy with consummate skill. Buffett's investment style incorporates the ideas of: Benjamin Graham, the lead author of *Security Analysis*⁵⁰ and the author of *The Intelligent Investor* (and Buffett's former employer), who in the latter book articulated three key ideas that a stock is part ownership of a business, the market is there to serve you, not to guide you, and one should only invest with a margin of safety;⁵¹ John Burr Williams, who advocated that a business was worth the present value of its future dividends;⁵² Phil Fisher, who was an early proponent of focused investing;⁵³ and, of course, Charlie Munger himself.⁵⁴ Munger, in addition to being a strong advocate of very focused investing, was instrumental in convincing Buffett to stop investing in "cigar butt" businesses and instead focus on excellent businesses. As Buffett has since put it, "it's better to buy a wonderful business at a fair price than a fair business at a wonderful price."⁵⁵ Buffett's investing record is without parallel. Cumulatively, over the 59 years from 1965 (when Buffett acquired control of Berkshire) to 2024 (the latest Berkshire annual report available at time of writing), Berkshire's market value appreciated by 5,502,284% compared to the total return of the S&P 500 of 39,054%.⁵⁶ Berkshire's published track record will be even stronger when it releases its annual report for 2025, Buffett's 60th and final year as Berkshire's CEO.

Buffett, however, has not only been the world's greatest investor. He has also been an educator (literally, at the University of Nebraska Omaha, as well as at Berkshire annual meetings and in his many interviews and speeches) and a role model. Space in this letter is not sufficient to fully recount Buffett's wisdom. The final words of this section come from his recent Thanksgiving message:

"Decide what you would like your obituary to say and live the life to deserve it...kindness is costless but also priceless...you will never be perfect, but you can always be better."⁵⁷

Outlook

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

February 1, 2026

James H. Cole
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Notes

1. In this letter, all opinions are those of, and the words "I", "me", "my" and "mine" refer to, the Funds' portfolio manager and the letter's author, James H. Cole.
2. Portland Focused Plus Funds Offering Memorandum, October 25, 2018, p. 3. The OM is available at 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://alternativeiq.com/canadian-hedge-fund-awards/> A total of 291 Canadian Hedge Funds were included in the 2025 CHFA program. The awards are based solely on quantitative performance data to June 30, 2025, with Fundata Canada managing the collection and tabulation of the data to determine the winners. There is no nomination process or subjective assessment in identifying the winning hedge funds.
7. Lefèvre, Edwin. *Reminiscences of a Stock Operator* (originally published in 1923; John Wiley & Sons, Inc. edition, 2010), p. 264. The book chronicles the life of legendary trader Jesse Livermore, who attributes the quotation to Baron Rothschild. See also <https://www.goodreads.com/quotes/10187745-old-baron-rothschild-s-recipe-for-wealth-winning-applies-with-greater>
8. The Funds' two core investment strategies are focused investing in a limited number of long securities positions, and leverage by purchasing securities on margin. See OM, p. 3.
9. See, for example, 2014 Letter p. 16 and p. 27.
10. <https://www.onedayinjuly.com/what-is-cash-drag-and-why-is-it-important>
11. The theoretical maximum equity weight, if all equities owned were eligible for the lowest margin requirement of 30%, would be 333% (i.e., 100% of net assets divided by a 30% margin requirement equals 333%).
12. 2018 Letter, pp. 8-10, and 2023 Letter, pp. 5-6.
13. William Shakespeare's Hamlet, Act 3, Scene 1.
14. Google "what year did investment firms have to start reporting securities dispositions to Canada Revenue Agency" for a summary generated by the Google Gemini artificial intelligence assistant.
15. <https://www.advisor.ca/tax/tax-news/report-everything/>
16. <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/tax-slips/understand-your-tax-slips/t5-slips/t5008-statement-securities-transactions-slip-information-individuals.html>
17. <https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t1a.html>
18. <https://laws-lois.justice.gc.ca/eng/acts/I-3.3/section-53.html>
19. Ibid.
20. <https://www.taxtips.ca/taxrates/on.htm>
21. <https://www.budget.gc.ca/2023/home-accueil-en.html>
22. https://www.blg.com/en/insights/2023/03/federal-budget-2023?utm_medium=email&utm_source=crm-list&utm_campaign=tax-insight#msdyntrrid=qkm_keCmxMVwsBZfJV-Ns5gI6wNhQ8hEVmpjHVAcIJs
23. <https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t691.html>
24. <https://financialpost.com/personal-finance/taxes/time-alternative-minimum-tax-put-aside-good-everyone>
25. Form T691, line 95.
26. <https://financialpost.com/personal-finance/taxes/more-people-discovering-rich-eyes-of-liberals>
27. <https://www.fraserinstitute.org/studies/measuring-progressivity-in-canadas-tax-system-2024>
28. https://www.yourdailypoem.com/listpoem.jsp?poem_id=2118
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30. See, e.g., 2024 Letter p. 13 and 2013 letter, pp. 15-17.
31. <https://www.theglobeandmail.com/business/article-economy-stronger-foothing-trade-war-statscan-revisions-show/#:~:text=According%20to%20Statistics%20Canada%2C%20the%20Canadian%20economy,in-%20each%20of%20the%20last%20three%20years>
32. <https://financialpost.com/opinion/canada-worst-decade-real-economic-growth-since-1930s>
33. See the PDF of an article published by National Bank of Canada that may be found by googling “Canada real GDP stagnated for a decade” and clicking on the link under “National Bank.”
34. <https://www.youtube.com/watch?v=uXa2FyPLyFI>
35. All market data in this section is from Refinitiv (part of the London Stock Exchange Group), CNBC or other sources deemed to be reliable.
36. [https://en.wikipedia.org/wiki/U.S._Dollar_Index#:~:text=US%20Dollar%20Index%20\(DXY\)](https://en.wikipedia.org/wiki/U.S._Dollar_Index#:~:text=US%20Dollar%20Index%20(DXY))
37. <https://www.wsj.com/livecoverage/stock-market-trump-tariffs-trade-war-04-09-25/card/trump-says-he-did-tariff-pause-because-yippee-reaction-4Y6So9Q4WhgS0vWY8li1>
38. https://en.wikipedia.org/wiki/List_of_largest_daily_changes_in_the_S%26P_500_Index
39. https://en.wikipedia.org/wiki/Trump_Always_Chickens_Out
40. <https://www.federalreserve.gov/newsevents/speech/powell20260111a.htm>
41. <https://www.cnn.com/2026/01/17/europe/protesters-denmark-greenland-trump-intl>
42. <https://www.berkshirehathaway.com/news/2025news.html>
43. 2018 Letter, pp. 15-16.
44. 2023 Letter, pp. 13-14.
45. <https://bit.ly/45kMajr>
46. The announcement of the TV special is at <https://www.cnbc.com/video/2026/01/12/warren-buffett-a-life-and-legacy-premieres-tuesday-january-13-at-7-p-m-et.html>. I have been unable to find an official replay of the TV special itself, although a (likely unauthorized) replay is available in two segments: <https://www.youtube.com/watch?v=wC7-Deljx3g> and <https://www.youtube.com/watch?v=kCwpQ3Kzh6U>
47. <https://www.youtube.com/watch?v=JG3uvOICo50>
48. *Warren Buffett: A Life and Legacy*, minutes 32-36.
49. Buffett has said this, or a similar statement, many times. One example is minute 3 of the video at <https://www.youtube.com/watch?v=PEPrpSCZkeU>
50. Graham, Benjamin and Dodd, David L. *Security Analysis* (originally published in 1934 by The McGraw-Hill Companies, Inc.).
51. Graham, Benjamin. *The Intelligent Investor* (originally published in 1949).
52. Williams, John Burr. *The Theory of Investment Value* (originally published in 1938 by Harvard University Press).
53. Fisher, Philip. *Common Stocks and Uncommon Profits* (originally published in 1958 by Harper & Brothers).
54. Munger's investment philosophy is articulated in the authorized book about him: Kaufman, Peter D., editor. *Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger* (2005, PCA Publication, L.L.C.).
55. <https://finance.yahoo.com/news/warren-buffetts-investment-tip-better-203104925.html>
56. Berkshire 2024 annual report, p. 15.
57. Berkshire press release dated November 10, 2025, “Thanksgiving Message from Warren Buffett,” pp. 7-8, available at <https://www.berkshirehathaway.com/news/2025news.html>

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