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NEWS HIGHLIGHTS

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OUR VIEWS ON ECONOMIC AND OTHER EVENTS AND THEIR EXPECTED IMPACT ON INVESTMENTS

AUGUST 21, 2023

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OWNER OPERATED COMPANIES



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COMPANY NEWS

Amazon.com, Inc. (Amazon) - announced that it will begin to implement generative AI (Artificial Intelligence) to give customers a more efficient way of understanding feedback on a product without sifting through dozens of individual reviews. The AI will provide a concise paragraph of text right on the product detail page that will highlight the product features and customer sentiment mentioned across the customer reviews. Amazon will also highlight key product attributes as clickable buttons, which will allow customers to see reviews that explicitly mention those terms. The new feature will be rolled out to a subset of U.S. shoppers on mobile devices across a “broad selection” of products, and Amazon will fine tune its AI models during this time. The company will also only summarize reviews from verified purchases in order to combat fake reviews and plans to invest significant resources to proactively stop fake reviews.

Berkshire Hathaway Inc. (Berkshire) – Warren Buffett donated nearly US\$27 million of Berkshire Hathaway stock this week to an unnamed charity, the latest move in the billionaire investor’s plan to give away his fortune. Berkshire disclosed Buffett’s donation of 50 Class A shares in a Wednesday night filing with the U.S. Securities and Exchange Commission. The donation was made on Aug 15, when the shares closed at about \$538,107. It is separate from Buffett’s annual gifts to the Bill & Melinda Gates Foundation and four charities overseen by his family. They have received more than \$51 billion from Buffett since 2006. Berkshire did not immediately respond on Thursday to a request for more details about the latest donation. Buffett still owns 218,237

Class A shares of Berkshire, for an approximately 15% stake in the Omaha, Nebraska-based conglomerate he has run since 1965. Forbes magazine on Wednesday estimated Buffett’s net worth at \$118.3 billion, ranking fifth worldwide. Buffett has said more than 99% of his net worth will go to charity. He turns 93 on Aug 30. Berkshire owns several dozen businesses including the BNSF (Burlington Northern Santa Fe) railroad, Geico car insurance and many energy, manufacturing and retail operations. As of June 30 it also owned more than \$353 billion of stocks, half of which was iPhone maker Apple.

Warren Buffett’s company appears to be betting on the housing market picking up because Berkshire Hathaway bought more than \$700 million worth of homebuilder DR Horton Inc (DR Horton)’s stock this spring along with smaller stakes in fellow builders Lennar Corp. (Lennar) and NVR Corp. (NVR) Berkshire revealed those new investments in a quarterly filing with the Securities and Exchange Commission that shows the conglomerate’s holdings as of the end of June. Buffett typically handles all the biggest investments in the \$350 billion portfolio worth \$1 billion or more. The three homebuilder stakes together are worth around \$800 million. Berkshire holds nearly 6 million DR Horton shares, 152,572 Lennar shares and 11,112 NVR shares. Buffett’s company made a number of other tweaks to its portfolio during the second quarter including reducing the size of its General Motors Co. (GM) and Globe Life Inc. (Global Life) stakes while adding to its Capital One Financial Corp. (Capital One) investment. Berkshire almost halved its GM stake from 40 million shares to 22 million. And it reduced its Globe Life investment to 2.5 million shares from the previous quarter’s nearly 6.4 million. Berkshire Hathaway now owns nearly 12.5 million Capital One shares, up from 9.9 million in March. Buffett’s company also eliminated smaller investments in Marsh & McLennan Companies Inc., McKesson Corp. and Vitesse Energy Inc. Berkshire’s biggest holdings in Apple Inc. and Bank of America Corp. stock remained unchanged. Several of Berkshire’s other moves in the quarter were previously disclosed including adding even more Occidental Petroleum Corp. shares, reducing its Chevron Corporation stake and unloading

most of the Activision Blizzard Inc. it shares Buffett bought as a bet that Microsoft Corporation's acquisition of that video game maker would go through. In addition to its stock portfolio, Berkshire owns dozens of businesses outright including BNSF railroad, several major utilities and an assortment of insurance companies led by Geico. It also owns a number of manufacturing and retail firms such as Precision Castparts Corporation, See's Candy and Helzberg Diamonds.

Brookfield Corporation – Brookfield Reinsurance Ltd. (Brookfield Reinsurance) announced its intention to commence an offer whereby holders of Class A Limited Voting Shares (BN Shares) of Brookfield Corporation will have the opportunity to voluntarily exchange up to 40,000,000 BN Shares for newly-issued Brookfield Reinsurance Shares on a one-for-one basis. Brookfield Reinsurance is a "paired entity" to Brookfield Corporation, which enables the offer to be structured so that the equity base and market capitalization of Brookfield Reinsurance can be enhanced without any dilution to Brookfield Corporation or Brookfield Reinsurance shareholders. Sachin Shah, CEO of Brookfield Reinsurance, said, "As we grow our insurance business, we are focused on balance sheet strength and capital flexibility. This offer enables us to bolster the equity base and market capitalization of Brookfield Reinsurance without diluting either company." He continued, "Brookfield Reinsurance also provides investors with an alternative, efficient means through which to hold an interest in the paired entity. This offer will enable Brookfield Corporation shareholders the opportunity to hold more of their interest in Brookfield Reinsurance should they wish to do so." Both Brookfield Reinsurance and Brookfield Corporation believe that exchanges under the offer by holders whose personal circumstances favor investing in the paired entity through the ownership of Brookfield Reinsurance Shares will be beneficial to overall Brookfield Corporation; however, individual shareholders of Brookfield Corporation will need to make their own decision whether to tender shares in the contemplated offer and it is entirely voluntary.

Reliance Industries Limited – India's Jio Financial Services (JFS), part of billionaire Mukesh Ambani-led conglomerate Reliance Industries, is set to be listed on stock exchanges on Aug 21, according to exchange circulars. Ambani's Reliance had last month spun off JFS, with the stock price set at a much higher-than-expected 261.85 rupees, valuing it at around US\$20 billion in a special trading session. The much-anticipated listing date comes at a time when index managers were growing concerned about the delay. UK's FTSE Russell decided to remove JFS from its indexes due to the delay, but reversed the decision after the listing date was announced. MSCI, another index services provider, said that JFS will be added to its Global Standard Indexes in place of Reliance Industries. JFS is also part of major Indian indexes, including the benchmark Nifty 50, but it cannot be traded until it is listed and will be removed at the end of its third day of listing, as per exchange rules. Some analysts expect JFS to debut at a premium. Analysts say JFS' access to the vast trove of data from Reliance's telecom and retail businesses will also give it a leg up in lending.

Global law firm White and Case LLP has advised Brookfield Infrastructure, a leading global infrastructure company, on the investment by Reliance Industries Limited to expand Brookfield Infrastructure's joint venture with Digital Realty Ltd. to develop high-quality, highly connected scalable data centers to meet the critical infrastructure needs of enterprises and digital services companies in India. Upon closing, the joint venture will operate under the brand name Digital Connexion: A Brookfield Infrastructure, Jio and Digital Realty Company. Each partner will own one-third of the joint venture. Brookfield

Infrastructure is a leading global infrastructure company that owns and operates high-quality long-life assets in the utilities, transport, midstream and data sectors across North and South America, Asia-Pacific and Europe. Brookfield Infrastructure is the flagship listed infrastructure company of Brookfield Asset Management, a global alternative asset manager with more than \$825 billion in assets under management. In India, Brookfield presently has \$24 billion in assets under management.

Samsung Electronics Co., Ltd. (Samsung) – has said it sold part of its stake in the Dutch chip equipment maker ASML Holdings N.V. (ASML) to secure cash flows amid the chip slowdown. The South Korean tech giant's semi-annual report showed that Samsung's shares in Veldhoven-based ASML fell to 2.75 million, or 0.7%, at the end of June, from the 6.29 million shares, or 1.6%, it held end-March. Through the transaction, Samsung, the world's largest memory chip maker, appeared to have secured US\$2.2 billion. Samsung has been cooperating with ASML, one of Samsung's biggest chipmaking partners and the sole maker of extreme ultraviolet lithography systems, since 2000 to boost its competitiveness in semiconductor manufacturing. In 2012, the South Korean tech giant invested approximately 400 billion won in ASML's research and development of next-gen lithography technologies over the next five years. Samsung also bought a 3% stake in ASML for about 700 billion won at that time, and sold off half of the stake four years later for 600 billion won. The report also showed Samsung raised around 115 billion won by selling 2.38 million shares of BYD Co., Ltd., China's leading electric carmaker. It made 67.6 billion won after selling 1.54 million shares of SFA Engineering Corp., a machinery company based in Hwaseong, South Korea. In February, Samsung said it will borrow 20 trillion won from Samsung Display at an interest rate of 4.6% to secure cash flows. The series of moves is seen as Samsung's commitment to its investment drive, even as smaller rivals, like SK hynix Inc. and Micron Technology Inc., moved to cut back on spending in the industry's down cycle. Samsung spent 23 trillion won for chip infrastructure in the first half. In the most recent quarter, it spent 7.2 trillion won for research and development, more than 10 times the quarter's operating profit. Samsung's chip business has logged losses of 8.94 trillion won so far this year, as macroeconomic woes have taken a toll on demand for chips used in electronic gadgets from mobile phones to computers to cars. In the first quarter, Samsung's chip division reported an operating loss of 4.6 trillion won, its first financial loss in 14 years, as chip inventories grew significantly amid tapering global demand. Prior to that, the division recorded losses in the first quarter of 2009.

DIVIDEND PAYERS



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Coloplast A/S (Coloplast) - reported net sales of DKK 6,106 million (1% below company compiled consensus). Organic growth of 8% versus consensus at 8.1% with most divisions in line except Wound and Skin Care who came in on the soft side (+4% versus consensus at +8%). Emerging markets were strong growing +19% organically (12% year

to date illustrating the acceleration) with both ostomy care and wound care growing double-digit in China which has been hampered during COVID-19 restrictions. The company added “Hospital access and procedural volumes fully normalised during the quarter”. With regards to integration of Atos Medical the company added “integration of Atos Medical IT and finance infrastructure is progressing well and the IT infrastructure integration was finalised in May” plus “Coloplast remains on track to deliver estimated run-rate operational synergies of up to DKK 100 million, with full impact from fiscal year 2023/24”. Gross profit of DKK 4,023 million (3% below consensus) implying a margin of 65.9% versus consensus at 67.1%. The company stated “continued headwind from raw material price increases and electricity price levels in Hungary obtained through hedges (in effect since January 2023). Transportation costs were a tailwind in the quarter, as expected, driven by a decline in sea freight rates.” Adjusted earnings before interest and taxes (EBIT) came in at DKK1,686 million (4% below consensus) with a margin of 27.6% versus consensus at 28.5%. Due to positive special items, net income came in at DKK 1,272 million (2% below consensus). Special items were a net positive of DKK 28 million including a gain of DKK 244 million related to a reversal of a provision related to Atos Medical billing compliance but a negative DKK related to a final provision of DKK 200 million for Multi-District Litigation, related to use of mesh products in the U.S., that Coloplast now views as closed. With regards to funding costs Coloplast added “the blended interest rate for the debt financing of Atos Medical is now expected to be around 3.2% in fiscal year 2022/23, from previously around 2.9%, impacted by the adjustment of the variable interest rate on the 2-year bond issue”. Guidance: organic sales growth of 8% (unchanged) and compared with company compiled consensus of 7.9%. Reported growth in DKK is still expected to be 8-9% (unchanged) and compared with consensus of 9.4%. Reported EBIT margin before special items of 28-29% (unchanged) and compared with company compiled consensus of 28.6%.

LIFE SCIENCES



Lantheus Holdings Inc. – announced that its subsidiary Progenics Pharmaceuticals, Inc. (Progenics) would discontinue its Food and Drug Administration-approved radiotherapeutic Azedra due to insufficient uptake and high manufacturing costs. Accordingly, Progenics will stop the production and promotion of Azedra, which is indicated in the U.S. for certain patients with pheochromocytoma or paraganglioma who require systemic anticancer therapy. However, the company intends to produce Azedra until the first quarter 2024 to enable the current patients on the therapy to complete their dosing regimens.

NUCLEAR ENERGY

ITM Power Plc (ITM) – announced final results for the year ended 30 April 2023. The company reported revenue of £5.2 million (fiscal year 2022: £5.6 million) significantly ahead of guidance of £2 million, Adjusted earnings before interest, taxed, depreciation, and amortization (EBITDA) loss of £94.2 million (fiscal year 2022: £39.8 million) in line with the £85 million to £95 million guidance. Net cash at the year end of £283 million (fiscal year 2022: £366 million) ahead of guidance of £245 million to £270 million. The financial performance for the year is in line with, or ahead of, the expectations set at the year end trading update on June 1 2023. ITM’s 12-month plan, including stringent cash control in the second half of the year, led to higher revenue and a stronger balance sheet position compared to the revised guidance. ITM also provided a strategic update for the company noting that good progress has been made against ITM’s 12-month priorities plan. ITM’s Product portfolio has been significantly simplified, concentrating on the company’s core product suite, with mature engineering processes and robust product validation, preparing for manufacturing at scale. Implementation of a rigorous approach to capital allocation and cost management, including a significant reduction in headcount enabling the company to reinvest faster to professionalise important areas such as engineering and manufacturing. The company has also worked to debottleneck fabrication and testing by introducing incremental automation, expanded the factory in Sheffield, and invested into ITM Power Germany. Financial guidance was provided where revenue is expected to increase to between £10 million and £18 million from commercial projects in execution, Adjusted EBITDA loss aimed to improve with growing output/sales and expected to be in the range of £45 million to £55 million, and net cash at year end expected to be in the range of £175 million to £200 million after significant capital investment in capacity expansion, including power supply upgrades.

ITM announced a strategic collaboration with FRIEM, an Italian manufacturer specialized in energy conversions. The companies are collaborating on the joint development of a standard Power Supply Unit (PSU) design which is highly optimised for ITM’s 2 megawatt (MW) Plug & Play electrolysis container. Based on state-of-the-art electrotechnical solutions, the development will leverage each company’s expertise and experience from projects executed both jointly and independently. The aim is to further improve the performance of the PSU by closer integration with ITM’s electrolyser technology. Also, the standardisation aims to further drive overall system reliability, while lowering cost. ITM is a leader in the design and manufacture of electrolysis solutions based on proton exchange membrane technology. Electrolysis requires electrical energy for the process of splitting water into hydrogen and oxygen gases. Power conversion is therefore a key function of electrolysis systems, and it is necessary to ensure a high level of integration. FRIEM is a leader in electric energy conversion systems with 70 years of experience as a supplier into industrial applications. The PSU converts Alternating Current power supplied from either the electricity grid or directly from renewable generators to Direct Current power in a form suitable for the electrolysis process. The characteristics of the PSU therefore contribute to the performance of the overall system.

Silex Systems Limited (Silex) – announced the award of US\$5.1 million in funding from the Defence Trailblazer for Concept to Sovereign Capability Program, a strategic partnership between The

University of Adelaide and UNSW Sydney (UNSW), supported by the Australian Government Department of Education through the Trailblazer Universities Program. The funding will support the establishment of a Quantum Silicon Production Plant, which aims to deliver an end-to-end manufacturing facility at the company's Lucas Heights technology centre. The company anticipates the first production module will produce between 5kg to 10kg annually of Zero-Spin Silicon (ZS-Si) (in the form of halo-silane), which will then be converted to multiple Quantum Silicon (Q-Si) product forms for potential customers in the global silicon-based quantum computing industry. The new project will be undertaken in conjunction with partners, Silicon Quantum Computing Pty Ltd and UNSW, and follows on from an earlier project that demonstrated efficient production of gram quantities of ZS-Si, with enrichment of silicon-28 up to ~99.998% purity. A key benefit of the SILEX laser isotope separation technology is its modular nature, allowing the possibility for the production plant to be scaled up with additional modules, based on market demand and other factors. The 3.5-year Project has a total budget of ~\$16 million, of which \$5.1 million in funding will be provided by the Defence Trailblazer. Silix is currently resolving other avenues of financial support for the Project. Through the new Project, Silix will establish a sovereign capability and secure supply chain for Quantum Silicon products in Australia, and create a new value-added export market for Australia.



ECONOMIC CONDITIONS

Canada's Consumer Price Index increased 0.6% in July, above consensus expectations for a 0.3% increase (not seasonally adjusted). In seasonally adjusted terms, headline prices were up 0.5% after a 0.3% increase the prior month. This translated into a 3.3% annual inflation, up from 2.8% the month before and the first acceleration of this indicator since April 2023. Prices increased in 6 of the 8 categories surveyed, namely transportation (+0.8%), shelter (+0.7%), recreation/education/reading (+0.6%), alcohol/tobacco (+0.4%), food (+0.4%) and clothing/footwear (+0.2%). Meanwhile, prices decreased in the household operations (-0.2%) category and were unchanged in the health/personal care (+0.0%) segment. Annual inflation was below the national average in Alberta (+2.9%), British Columbia (+3.0%) and Ontario (+3.2%) while it was above that mark in Québec (+3.9%). Overall, the pick-up in inflation was notable in July, but it should come as no surprise that the path to the inflation target is not linear. Deflation in China should lower goods prices, and the significant cooling in the Canadian labour market suggests that inflationary pressures in services will reduce in the months ahead. Monetary policy is already extremely restrictive and will continue to hold back the economy, given the lag in transmission, in our view.

U.S., retail sales advanced 0.7% in July, more than the +0.4% print expected by consensus. The prior month's result, meanwhile, was revised from +0.2% to +0.3%. Sales of motor vehicles/parts contributed negatively to the headline print as they eased 0.3% in the first month of the third quarter. Without autos, retail outlays rose a consensus-topping 1.0% as gains for non-store retailers (+1.9%), sporting goods (+1.5%), restaurants/bars (+1.4%) and clothing (+1.0%) were only partially offset by declines for furniture (-1.8%), electronics (-1.3%) and miscellaneous items (-0.3%). In all, sales were up in 9 of the 13 categories surveyed.

Core sales (i.e., sales excluding food services, auto dealers, building materials, and gasoline stations), which are used to calculate Gross Domestic Product (GDP), progressed 1.0%. And so, once again in July, retail sales data came in stronger than expected. True, a big chunk of the monthly gain was due to non-store retailers, which benefited from Amazon Prime Day. But even excluding this category, outlays still advanced a healthy 0.5%. The gains were also quite diffuse, with 9 of the 13 sectors surveyed registering advances during the month. The increase in spending in bars and restaurants was another piece of good news as it suggests spending on services (which accounts for a bigger portion of GDP than spending on goods) remained solid in July. The sizable decline in furniture sales was one of the few negatives in the report and reflected a still depressed real estate market. Recall that home resales remain 20-25% below their pre-pandemic level.

China's July activity data surprised to the downside, tracking the misses in credit growth and trade last week. Retail sales rose by only 2.5% (consensus: 4%) despite summer travels in July typically boosting sales. However, weakness in spending corroborates with the slump in the non-manufacturing Purchasing Managers Index this month as services stay under pressure given the worrying youth unemployment situation and manufacturing weakness. Similarly, industrial production moderated to 3.7% (consensus: 4.3%, June: 4.4%) on the back of a slower output expansion in automobiles, electrical machinery and comms/tech equipment. Infrastructure investment also extended its drop, down 5.3% year over year on a 3 month on month annualised basis which suggest that sentiment among builders/property developers remain tepid.

China Trust Co. (and shadow bank) Zhongzhi is planning a debt restructuring and has hired KPMG to conduct an audit of its balance sheet. Evergrande has filed for Chapter 15 bankruptcy in New York to protect itself from creditors while it restructures debt.

UK retail sales surprised to the downside in July, falling -1.2% month over month (market: -0.6%), following three consecutive increases. The fall was driven by sharp declines in food (-2.6% month over month) and non-food sales (-1.7% month over month), which some retailers suggested was due to the especially cold and wet weather in July as well as the high cost of living weighing on consumer demand. Non-store sales rose 2.8% month over month, potentially in part due to the impact of Amazon Prime Day. The fact that July's retail sales appears to have been heavily influenced by the weather makes it less indicative of the strength of the consumer in our view.

UK labor market data for the three months ending in June saw wages shoot up sharply, despite a second consecutive sharp rise in the unemployment rate to 4.2%. Headline wage growth came in at 8.2% year over year in the second quarter of 2023 (market: 7.4%), while ex-bonus pay came in at 7.8% year over year (market: 7.4%). The all-important private service regular pay measure (the Monetary Policy Committee's preferred), rose 8.2% year over year against their forecast of a 7.6% rise. The strength in pay data was driven in part by revisions to May from late-filing. Notably, the Office for National Statistics said that it expects a further upward revision to June data as late-agreed wage contract details are submitted in the coming weeks. So not only is the wage data already well above expectations, but it is likely to be further revised up. This data will almost certainly ensure a 25 basis points hike by the Bank of England in September in our view.



FINANCIAL CONDITIONS

China announced that the Bank of China is cutting the one-year Medium Lending Facility (MLF) loans by 15 basis points to 2.5% and cutting the seven-day reverse repo by 10 basis points to 1.8%.

China left the 5 year Loan Prime Rate (LPR) at 4.2% but cut the 1 year Loan Prime Rate by 10 basis points to 3.45%. Expectations had been also for a cut in the 5 year LPR in order to help boost real estate properties under pressure.

The U.S. 2 year/10 year treasury spread is now -0.64% and the UK's 2 year/10 year treasury spread is -0.50%. A narrowing gap between yields on the 2 year and 10 year Treasuries is of concern given its historical track record that when shorter term rates exceed longer dated ones, such inversion is usually an early warning of an economic slowdown.

The U.S. 30 year mortgage market rate has increased to 7.22%. Existing U.S. housing inventory is at 3.1 months supply of existing houses as of June 30, 2023 - well off its peak during the Great Recession of 11.1 months and we consider a more normal range of 4-7 months.

The volatility (VIX) is 17.51 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

And Finally: *"Anger is an acid that can do more harm to the vessel in which it is stored than to anything on which it is poured."* ~ Mark Twain

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Glossary of Terms: 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'GDP' gross domestic product, 'ROE' return on equity, 'ROTE' return on common equity, 'ROTCE' return on tangible common equity, 'conjugate' a substance formed by the reversible combination of two or more others.

1. Not all of the funds shown are necessarily invested in the companies listed

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