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Portland Focused Plus Fund LP
Portland Focused Plus Fund

ANNUAL LETTER TO INVESTORS

FOR THE YEAR ENDED DECEMBER 31, 2024

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%
2024	17.5%	18.6%	19.0%	19.5%	22.0%	24.6%

	Annualized Total Returns as of December 31, 2024					
	Portland Focused Plus Fund LP				MSCI Canada Index	MSCI USA Index (US$)
Year	Series A	Series F	Series M	Series P		
1 year	17.5%	18.6%	19.0%	19.5%	22.0%	24.6%
3 years	-0.5%	0.5%	0.7%	1.5%	8.6%	8.1%
5 years	7.5%	8.7%	10.1%	9.8%	10.6%	14.0%
10 years	12.2%	13.3%	15.1%	14.4%	7.9%	12.5%
Since inception	14.0%	15.1%	17.1%	16.2%	8.5%	13.9%

	Cumulative Total Returns as of December 31, 2024					
	Portland Focused Plus Fund LP				MSCI Canada Index	MSCI USA Index (US$)
Year	Series A	Series F	Series M	Series P		
1 year	17.5%	18.6%	19.0%	19.5%	22.0%	24.6%
3 years	-1.6%	1.6%	2.2%	4.6%	28.1%	26.3%
5 years	43.7%	51.5%	61.7%	59.5%	65.6%	92.8%
10 years	214.8%	248.3%	308.5%	284.3%	114.6%	224.3%
Since inception	392.3%	456.1%	581.7%	518.9%	169.4%	388.5%

Portland Focused Plus Fund
Performance vs. Stock Market Indices

Year	Calendar Total Returns					
	Portland Focused Plus Fund				MSCI Canada Index	MSCI USA Index (US$)
	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%

Year	Annualized Total Returns as of December 31, 2024					
	Portland Focused Plus Fund				MSCI Canada Index	MSCI USA Index (US$)
	Series A	Series F	Series M	Series P		
1 year	17.8%	19.1%	19.3%	20.2%	22.0%	24.6%
3 years	0.0%	1.2%	1.3%	2.2%	8.6%	8.1%
5 years	8.1%	9.3%	10.6%	10.5%	10.6%	14.0%
Since inception	12.2%	13.4%	15.3%	14.7%	9.9%	14.2%

Year	Cumulative Total Returns as of December 31, 2024					
	Portland Focused Plus Fund				MSCI Canada Index	MSCI USA Index (US$)
	Series A	Series F	Series M	Series P		
1 year	17.8%	19.1%	19.3%	20.2%	22.0%	24.6%
3 years	0.1%	3.6%	3.9%	6.9%	28.1%	26.3%
5 years	47.3%	55.9%	65.8%	64.5%	65.6%	92.8%
Since inception	174.6%	201.4%	247.6%	232.3%	127.7%	219.6%

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 2024, the LP's series F units (the highest fee series without embedded advisor compensation) had a return of 18.6% (all performance figures for the Funds are net of fees and expenses). That compares to a return of 22.0% for MSCI Canada and to a return of 24.6% for MSCI USA in US$. A 50%/50% blend of the two indices had a return of 23.3%. As a result, in 2024 the LP underperformed its benchmark indices. For the five years ended December 31, 2024 (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 51.5%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 65.6% and 92.8%, respectively. A 50%/50% blend of the two indices had a return of 79.2%. As a result, for the five years ended December 31, 2024, the LP underperformed its benchmark indices. For the 10 years ended December 31, 2024, the LP's series F units had a cumulative return of 248.3%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 114.6% and 224.3%, respectively. A 50%/50% blend of the two indices had a return of 169.4%. As a result, for the 10 years ended December 31, 2024, the LP outperformed its benchmark indices. Finally, for the entire period since inception of the LP on October 31, 2012, to December 31, 2024, the LP's series F units achieved a cumulative return of 456.1%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 169.4% and 388.5%, respectively. A 50%/50% blend of the two indices had a return of 279.0%. 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 2024, the Trust's series F units (the highest fee series without embedded advisor compensation) had a return of 19.1% (all performance figures for the Funds are net of fees and expenses). That compares to a return of 22.0% for MSCI Canada and to a return of 24.6% for MSCI USA in US$. A 50%/50% blend of the two indices had a return of 23.3%. As a result, in 2024 the Trust underperformed its benchmark indices. For the five years ended December 31, 2024, the Trust's series F units had a cumulative return of 55.9%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 65.6% and 92.8%, respectively. A 50%/50% blend of the two indices had a return of 79.2%. As a result, for the five years ended December 31, 2024, the Trust underperformed its benchmark indices. Finally, for the entire period since inception of the Trust on March 31, 2016, to December 31, 2024, the Trust's series F units achieved a cumulative return of 201.4%. That compares to cumulative returns for MSCI Canada and MSCI USA in the same period of 127.7% and 219.6%, respectively. A 50%/50% blend of the two indices had a return of 173.7%. As a result, for the full period since the Trust's inception, the Trust outperformed its blended 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.

Recent Performance

As noted earlier in this letter, over 10 years and since its inception, the LP has achieved positive performance and outperformed its benchmark indices. Similarly, since its inception, the Trust has achieved positive performance and outperformed its benchmark indices. Over periods of one year and five years, however, the performance of both Funds, while positive, underperformed their benchmark indices.

The Funds' five-year records are a continuing legacy of the poor performance of the Funds from about mid-2021 to September 30, 2022. As was described in the 2022 Letter, to address that situation, on September 30, 2022, I reverted to being the sole investment decision-maker for the Funds.[6] From that date until December 31, 2024, the cumulative returns of the series F units of the LP and Trust were 63.1% and 62.9%, respectively. While more performance is required in order for the Funds to return to outperformance of their benchmarks over five-year periods, I believe that the Funds will do that with time. Some reasons for that opinion are provided later in this letter in the "Investments" and "Outlook" sections.

On November 30, 2024, the series F units of both Funds achieved record highs (in the case of the LP, which is measured by net asset value per unit; in the case of the Trust, which is measured by value of $10,000 invested at inception). The previous record highs had been set on January 31, 2022. Fund performance in 2024 ended with declines in December in conjunction with equity markets which were negative in that month. Some of the factors that influenced markets in 2024 are discussed below. [Note that in the month ended January 31, 2025, performances of the series F units of the LP and Trust were 9.8% and 10.1%, respectively, recouping almost all of their December 2024 declines.]

Market Conditions and Equity Weight

In my opinion, some of the notable features of financial markets in 2024 were:

- *Declining short-term interest rates*. Commencing in June, the Bank of Canada ("BoC") reduced its target for the overnight rate from a cycle peak of 5.0% to 3.25% by the end of 2024, a cumulative reduction of 1.75%.[7] Also, starting in September, the U.S. Federal Open Market Committee ("FOMC") reduced its target for the federal funds rate from a cycle peak of 5.25% to 5.50% to a new range of 4.25% to 4.50% by the end of 2024, a cumulative reduction of 1.00%.[8]
- *Increasing long-term interest rates*. The yield to maturity of the 10-year Government of Canada bond rose slightly from 3.11% at December 31, 2023 to 3.23% at December 31, 2024.[9] More importantly, the yield on the 10-year U.S. Treasury bond rose from 3.86% at December 31, 2023 to 4.58% at December 31, 2024. The combined effect of lower short-term interest rates and higher long-term interest rates is that in both Canada and the U.S., yield curves are now positive (i.e., long-term rates are higher than short-term rates).[10] That follows a prolonged period of inverted yield curves (i.e., short-term rates higher than long-term rates) when both central banks had raised short-term interest rates to seek to quell inflation.
- *Lower inflation rates*. In Canada, the year-over-year change in the Consumer Price Index ("CPI") fell from 3.4% in December 2023 to 1.9% in December 2024.[11] In the U.S., however, the preferred inflation gauge of the Federal Reserve ("Fed"), the personal consumption expenditures price index excluding food and energy ("core PCE"), fell only slightly from 2.9% in December 2023 to 2.8% in December 2024.[12] That remained well above the Fed's inflation target of 2.0%.[13]
- *Outperformance (again) of mega-capitalization companies*. The 2023 letter noted how the common stocks of the very largest businesses vastly outperformed the broader stock market in that year.[14] That phenomenon repeated in 2024 as the performance (in US$) of the market capitalization-weighted Standard & Poor's 500 Index ("SPX") was 25.0% while the 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 13.0%.[15]

- *U.S. federal elections*. On November 5, 2024, these elections resulted in control by the Republican Party of all three of the executive and legislative branches of the U.S. government (i.e., the presidency, Senate and House of Representatives).[16] Markets appear to believe that this will result in stronger economic growth and reduced regulatory burden, with perhaps higher inflation.

The stock market euphoria at the outcome of the U.S. federal elections appeared to ware off in December as equity markets declined and, as noted above, faced competition from higher long-term interest rates. In addition, the tragic murder that month of a prominent health care executive exacerbated a selloff in the common stock prices of large health care insurance companies.[17]

My monthly email updates have long spoken of the willingness to increase the Funds' equity weights (i.e., common equities as a percentage of net assets) to 200% to 250% or more (anything greater than 100% is financed with margin borrowings). This was done in December, as the Funds took advantage of lower stock prices for equities in general, and for U.S. health care insurers in particular, to increase equity weights significantly. The LP's equity weight increased from 172.2% at December 31, 2023, to 234.0% at December 31, 2024 (the Trust's equity weights were similar, as adjusted for distributions paid at both year-ends, most of which were reinvested).

Favourite/Long Shot Bias (aka March Madness Redux)

Before reviewing the Funds' investments, it's worthwhile to consider a persistent feature of human behaviour.

Studies have shown that in horse racing (and investing), there is a favourite/long shot bias.[18] That is to say, bettors tend to under-bet favourites (resulting in foregone profits) and over-bet long shots (resulting in losses). One reason cited for this irrational behaviour is bettors' overestimation of the chances that long shot bets will win. In addition, bettors may derive utility merely from the hope associated with holding a ticket on a long shot (such as a lottery). Also, it may be perceived as more "fun" to pick a long shot to win over a favourite and this has more bragging rights.[19]

One of the sections of the 2023 Letter was titled "March Madness".[20] It discussed the 2023 U.S. regional banking crisis that began in March of that year. The title also drew its name from the annual U.S. National College Athletic Association (NCAA) college basketball tournament. In that competition, the nation's top 64 teams compete in a single-game elimination format to determine the ultimate winner.[21] Betting on the outcome of the 63 games needed to determine the winner has become a national (and international) pastime. On the eve of the 2024 competition, I was invited to enter a March Madness pool. Since I hadn't read the pool rules (and had failed to ask for them) that favoured long shots (at least in the early rounds), and I was very busy at the time, I quickly and naively made my selections with a heavy emphasis on higher-ranked teams. After the first day of competition, my position in the pool was dead last (42nd out of 42 entrants). But then, a funny thing happened on the way to the national championship. The higher-ranked teams kept winning…and winning…and winning. In the end, two teams that had been top-ranked in their respective regions, the University of Connecticut (UConn) and Purdue University (led by Toronto's Zach Edey), met in the title game. The pre-tournament favourite and defending champion UConn Huskies prevailed. That resulted in an epic (for me) come-from-behind pool victory. Winning a March Madness pool? $600. Bragging rights for a year? Priceless.

The favourite/long shot bias has significant investment implications. As has been the case in the Funds, I believe that equity investments should emphasize "favourites": well-established, financially strong businesses that are leaders in their industries. As the time-tested expression goes, "the race is not always to the swift, nor the battle to the strong, but that is the way to bet."[22] In that context, the Funds' investments are reviewed in the next section of this letter.

Investments

The LP's investments are summarized in the table below (the businesses held in the Trust were identical and its individual and aggregate equity weights were very similar). Holdings can and will change if it is deemed to be in the best interests of the Funds. Nevertheless, a brief review of the Funds' investee companies may serve to underscore their high quality, strong financial positions and attractive valuations. The table lists the LP's holdings in descending order of percentage weight in the LP. The price/earnings ("P/E") ratio is each company's stock price at December 31, 2024, divided by Refinitiv mean estimated fully diluted earnings per share excluding specified items ("EPS") for fiscal year 2024 (estimates as of January 31, 2025), or actual EPS for those companies that have by that date already reported their fiscal year 2024 results. Dividend yield is the ratio of indicated annualized dividend rate at December 31, 2024, divided by each company's stock price on that date.

LP investments at December 31, 2024

Company	% of LP's net assets	P/E ratio	Dividend Yield
Cigna Group, The	26.2%	10.1	2.0%
South Bow Corporation	24.9%	12.5	8.5%
Kraft Heinz Company, The	21.5%	10.2	5.2%
Toronto-Dominion Bank, The	21.4%	9.8	5.5%
Verizon Communications Inc.	20.2%	8.7	6.8%
Elevance Health, Inc.	19.8%	11.2	1.8%
Magna International Inc.	19.8%	8.0	4.5%
Bank of Nova Scotia, The	19.4%	11.9	5.5%
Nutrien Ltd.	16.3%	12.5	4.8%
CK Hutchison Holdings Limited	14.8%	6.8	5.9%
AT&T Inc.	11.0%	10.1	4.9%
Citigroup Inc.	10.4%	11.9	3.2%
CVS Health Corporation	8.2%	8.7	5.9%
Total / weighted average	234.0%	10.3	5.0%

At December 31, 2024, the weighted average P/E ratio of the LP's holdings was only 10.3x while their weighted average dividend yield was 5.0%. While many other factors are considered when selecting the Funds' investments, I believe that these two metrics are generally very important. In my opinion, these valuations are attractive and support my belief that the Funds are well-positioned to meet their investment objective over the long term.

A brief summary of each business follows (in the same order as in the table, i.e., largest portfolio weight to smallest weight).

- ***The Cigna Group*** ("Cigna") is a U.S.-based health insurance company that offers medical, dental, disability, life and accident insurance. In 2024, its sales were US$247.1 billion.[23] Led by chief executive officer ("CEO") David Cordani since 2009, the company has an excellent long-term record. For example, in the decade that ended in 2024, Cigna's EPS increased by 268%.[24] The December 2024 weakness in the share prices of U.S. health insurers described earlier in this letter gave the Funds the opportunity to acquire a large investment within the Funds in Cigna on what I believe were very attractive terms.

- ***South Bow Corporation*** ("South Bow") was spun out of TC Energy Corporation ("TC") on October 1, 2024.[25] South Bow comprises TC's former liquids pipelines business, with its principal asset being the Keystone oil pipeline. I believe that South Bow is not widely known in the investment community (for example, South Bow has not yet released its first set of financial results since its spinoff). I believe that over time, given South Bow's relatively high dividend yield compared to other investments in the Funds of 8.5% and its high business predictability, it will be accorded a higher stock market valuation. If so, it should continue to generate attractive total returns.
- ***The Kraft Heinz Company*** ("Kraft Heinz") was formed in 2015 by the merger of Kraft Foods Group and the H.J. Heinz Co. Together, the company includes many of America's most iconic consumer packaged goods brands, including *Heinz* (ketchup), *Kraft* (macaroni and cheese), *Oscar Meyer*, *Classico*, *Velveeta*, *Philadelphia*, *Maxwell House* and many others.[26] In my opinion, now that leverage resulting from the merger has been reduced to a satisfactory level, Kraft Heinz is in a position to substantially and accretively repurchase shares, in addition to its healthy dividend yield. Kraft Heinz is 26.8%-owned by Warren Buffett's Berkshire Hathaway Inc.[27]
- ***The Toronto-Dominion Bank*** ("TD") had long been one of Canada's leading and top-performing banks. As has been well-publicized, in 2024 TD took a financial charge of ($4.2) billion to resolve regulatory investigations into its anti-money laundering practices.[28] This has resulted in a depressed valuation for TD's shares which I believe is a buying opportunity. TD remains in a strong financial position. Also, its business performance is expected to improve under its new CEO-elect, Raymond Chun, who assumed the office on February 1, 2025.[29]
- ***Verizon Communications Inc.*** ("Verizon") is one of the largest telecommunications companies in the United States, providing both wireless and wireline services to consumers and businesses. In 2024, Verizon had revenues of US$134.8 billion.[30]
- ***Elevance Health, Inc.*** ("Elevance"), formerly named Anthem, Inc., is one of the largest health care benefits companies in the United States.[31] As with Cigna, the weakness in the share prices of U.S. health care companies in late 2024 created an opportunity to make an investment in Elevance at a price that I believe offers substantial total return potential with limited downside risk. In 2024, Elevance had total revenues of US$177.0 billion.[32]
- ***Magna International Inc.*** ("Magna") is one of the world's largest automotive parts manufacturers. The company is highly diversified by customer, product and geography. In 2023 (the latest year available at time of writing), Magna had total revenues of US$42.8 billion.[33]
- ***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.[34] Scotia's strategy includes divesting non-core markets and focusing on banking and asset management in North America.[35] As its financial 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.

- ***Nutrien Ltd.*** ("Nutrien"), which is based in Saskatchewan, is the world's largest provider of crop inputs and services.[36] Crop inputs are potash, nitrogen and phosphate, while Nutrien Ag Solutions has retail facilities in the U.S., Canada and other markets. In 2023 (the latest year available at time of writing), Nutrien had total revenues of US$29.1 billion.[37]
- ***CK Hutchison Holdings Limited*** ("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.[38] 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).[39] In 2023 (the latest year available at time of writing), CKHH had revenues of US$35.3 billion.[40]
- ***AT&T Inc.*** ("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 2024, AT&T had revenues of US$122.3 billion.[41]
- ***Citigroup Inc.*** ("Citi") is a large U.S. money centre bank which also has a substantial presence in a number of international markets. Its shares performed very strongly in 2024 as investor sentiment regarding Citi improved as it executed on its strategy to divest consumer operations in non-core international markets, increased its earnings and strengthened its financial position.[42]
- ***CVS Health Corporation*** ("CVS") is a U.S. 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.[43] In 2023 (the latest year available at time of writing), CVS had revenues of US$357.8 billion.[44]

10 Years Down, 40 More Years to Go

In the 2014 Letter, I had the audacity (foolhardiness?) to provide 50-year return forecasts for selected major asset classes.[45] The purpose of the exercise was to provide guidance to hypothetical 18-year-olds, who would thus have 50-year time horizons until their retirements at age 68, as to how to invest their Tax-Free Savings Accounts ("TFSA") and what their long-term returns might be. The forecasts were reviewed at the five-year mark (in the 2019 Letter).[46] Since 2024 marks 10 years since the original forecasts, this is an appropriate time to review again how actual experience has compared to the forecasts. Actual results will differ from forecasts and the differences could be material.

In the table below and the discussion that follows, "ETF" refers to exchange-traded funds, which are generally low-cost investment funds whose performance is intended to closely track their benchmark indices. The table summarizes the 50-year return forecasts made in the 2014 Letter, with a starting point of December 31, 2014, and the actual returns for the 10 years ended December 31, 2024.[47]

Asset class annualized total returns
Forecast vs. actual returns
10 years ended 2024

	50-year forecast at end of 2014	Actual, 10 years ended 2024
S&P/TSX Canadian banks index	8.50%	10.05%
S&P 500 Index, US$	6.00%	13.10%

S&P 500 Index ETF, C$	5.59%	14.95%
Canadian bond index ETF	2.67%	1.82%
Cash	2.50%	1.59%
Inflation	2.00%	2.62%

I consider that the three most important projections (all with a 50-year time horizon from the end of 2014 to the end of 2064) that the 2014 Letter tried to convey were as follows:

- Among the three major asset classes, stocks would outperform bonds which would outperform cash. Indeed, the 2014 Letter summarized that view by stating that "a reasonable base-case forecast suggests that over the long term, equities will continue to provide higher returns than fixed income or cash, probably by a wide margin."[48]
- Canadian bank stocks would provide total returns of 8.5% per annum; and
- Canadian bank stocks would outperform the S&P 500 Index.

How have things been working out so far? Well, in the words of Meat Loaf, "two out of three ain't bad".[49] First, and in my opinion most importantly, the rank ordering of returns of the three major asset classes has been as predicted (i.e., stocks have outperformed bonds which have outperformed cash). Second, the Canadian banks have had annualized total returns of 10.05% per annum, slightly better than (although not far off) the predicted 50-year return of 8.50% per annum. Third, contrary to the forecast in the 2014 Letter, the S&P 500 Index in US$ has enjoyed even stronger returns than have the Canadian banks, and its returns in Canadian dollars (C$) have been even stronger. I stand by the asset class return forecasts stated in the 2014 Letter. I don't intend to update them as they were purposefully planned to be very long-term. With that said, the following briefly reviews each of the six items included in the table.

- *Canadian banks*. I continue to believe that banks provide a fertile ground for potentially profitable investment. Reasons for that opinion include that banks are highly cash generative, have high barriers to entry and, in my opinion, have their strongest-ever financial positions. Also, banks often trade at attractive valuations relative to earnings and with significant dividend yields. Having said that, however, banks have recently enjoyed very strong returns and, in my opinion, many of them are currently not offering sufficiently attractive combinations of risk and reward to merit investment. That is why the LP's portfolio weight in Canadian and U.S. banks combined has been reduced from 90.7% of net assets at December 31, 2023, to 51.3% at December 31, 2024.[50]
- *S&P 500 Index in US$*. The annualized 50-year return of the S&P 500 Index was forecast to be 6.00% but the 10-year return has been a dramatically higher 13.10%. That difference has been both because earnings growth has been stronger than expected and valuation (i.e., the market's P/E multiple) is higher than was forecast. Reasons for higher-than-expected earnings growth include very easy monetary policy during the COVID-19 pandemic, which debased currencies (more on that below) and resulted in increased earnings in nominal terms. Reasons for the high-than-expected P/E multiple include conservatism in the initial forecast (I was trying to assert that equities would be the best-performing asset class even under conservative assumptions) and the recent investor enthusiasm for anything involved with artificial intelligence (AI). Indeed, as has been well-documented and was mentioned earlier in this letter, the recent strength in market capitalization-weighted U.S. equity indices owes much to a small number of mega-capitalization technology-oriented companies

that have enjoyed tremendous earnings growth and trade at historically high valuations.[51] While these factors have led some pundits to predict that S&P 500 returns in the next decade will be very low,[52] I believe that there a number of businesses that are still attractively priced. It is from investment in such businesses that the Funds expect to achieve satisfactory long-term returns.

- *S&P 500 Index in C$ (and the decline of the Canadian dollar)*. For the 10 years ended December 31, 2024, the S&P 500 Index ETF in C$ returned 14.95% per annum compared to 13.10% for the S&P 500 Index in US$. The difference in returns was primarily attributable to the decline in the value of the Canadian dollar in terms of its U.S. counterpart. On December 31, 2014, the C$ traded at US$0.8617; by December 31, 2024, it had fallen to US$0.6957, for a cumulative decline in the decade of (19.3%).[53] That has boosted the return of all US$-denominated assets when such returns are translated into C$. In my view, the largest reason for the decline in the value of the C$ in the past decade (for the 50-year horizon I had expected it to be flat at US$0.86) has been the election in 2015 of a Canadian federal government, that has remained in office to this day, that has implemented what I believe to be terrible economic policies. For example, on their watch, the net debt of the Government of Canada has almost doubled from $687.7 billion at October 31, 2015 (the month the government was elected), to $1,342.3 billion at March 31, 2024 (the latest data available);[54] the federal budgetary balance has deteriorated from a *surplus* of $1.9 billion in the fiscal year ended March 31, 2015, to a deficit of $61.9 billion in the fiscal year ended March 31, 2024;[55] tax rates have increased significantly;[56] and the government has passed a number of bills that have discouraged investment in oil and gas production, one of Canada's largest industries.[57] This has contributed to a stagnant economy: for example, on a per-person basis, the Canadian economy has shrunk for the last six quarters in a row.[58] All of this has not gone unnoticed in foreign exchange markets. I believe that the C$ is currently undervalued with respect to the US$. Having said that, it may take a change in the government (which I expect to occur with a federal election in May 2025), and better economic policies, in order for the C$ to appreciate in value.
- *Canadian bond index ETT*. I thought that the returns of bond ETFs would be lousy, with a predicted 50-year annualized return of only 2.67%, and over the 10-year period they've been even worse, with an actual return of only 1.82% The 2014 Letter did expect bond returns to be initially lower than the 50-year forecast, stating "implicitly, the forecast assumes that the capital losses that would initially be suffered by bondholders as interest rates rose would be more than offset over the 50-year investment horizon by the higher interest rates then available for reinvesting bond coupons and maturities."[59] That is what has occurred. The reason that the 2014 Letter made a reasonably accurate prediction of bond returns is that, especially compared to equities, it's relatively easy to predict what bond returns will be over the long term. For any particular bond with a fixed maturity date, its return to that maturity date will be approximately equal to its yield to maturity at the time that it is purchased. So, the future returns of bond ETFs, if held for a long period of time, are likely to be similar to their yield to maturity at the time of purchase minus their management expense ratio. Using that method, in my opinion, the future long-term returns of bonds will continue to be inferior to that of carefully chosen equities. Unlike equities, which have the opportunity for sustained capital appreciation, the long-term return of any particular bond has a ceiling (equal to its yield to maturity at the time of purchase), but it has no floor (since it has credit risk and, in the event of default, a bond could become worthless).
- *Cash*. I thought that the returns of cash would also be lousy, with a predicted 50-year annualized return of only 2.50%. Over the 10-year period they've been even worse, with an actual return of only 1.59%. Given that the returns on cash are currently about 3%,[60] over time that should result in the returns of cash since 2014 approaching that year's 50-year forecast.

- *Inflation*. The 2024 Letter noted that for the 25 years ended December 31, 2024, Canada's annualized rate of CPI inflation was 1.99%.[61] That was almost identical to the BoC's inflation control target, adopted in 1991, of 2.00%.[62] It thus seemed reasonable to predict, as the 2014 Letter did, that future inflation would average 2.00%.[63] Unfortunately, the BoC has since missed its inflation target by a wide margin. The rate of CPI inflation for the 10 years ended December 31, 2024, was 2.62%. While that may not seem like much of a difference compared to the BoC's target of 2.00%, when compounded over a decade it has had the cumulative effect of substantially raising Canadians' cost of living. In my opinion, the BoC's failure to meet its inflation control target has been compounded by its failure to take responsibility. The BoC has the tools needed to do its job, including setting short-term interest rates and control of the money supply. Instead of blaming external factors like the COVID-19 pandemic and global supply chains, the BoC should admit that its own policies, namely ultra-low interest rates and money printing (known as quantitative easing, or "QE"),[64] have caused the BoC to miss its inflation target. The implications of doing so have been profound. For example, the table shows that in the last decade, the annualized returns of both bonds (+1.82%) and cash (+1.59%) were below the rate of inflation (+2.62%). *In other words, over the full decade, investors in both bonds and cash lost money in real (i.e., inflation-adjusted) terms, even before considering the impact of taxes.* Bonds and cash are commonly (although mistakenly, in my view) thought to be low-risk asset classes. For the last decade, however, instead of providing risk-free returns, bonds and cash have provided return-free risk.

Given the BoC's sorry track record over the past decade, all investors, including me, must plan for the possibility that the future long-term rate of inflation will be higher than the BoC's target of 2.00%. In fact, inflation is so important that one prominent member of the investment industry has been trying to convince the Ontario Securities Commission that asset managers should report their returns net of inflation.[65] While that seems unlikely to happen, I have always emphasized that investors should focus on their after-tax, real (i.e., inflation-adjusted) returns.[66] If investors generally and fully understood the ravages that taxation and inflation wreak on nominal asset values and returns, I believe that they would hold much less than they do in supposedly safe investments like bonds and cash (and conversely much more in equities). In the words of the German polymath Goethe, "the dangers of life are infinite, and among them is safety."[67]

Long-term projections such as those in the table above were used to devise the Funds' investment strategy, which might be described as "triple long", i.e.: i) be long equities (in investment parlance, being "long" means to own an asset); ii) be even longer in equities than is permitted by one's net assets, by using leverage; and iii) have a long-term investment horizon. Adherence to this philosophy has delivered the Funds' strong returns since their inceptions; I believe that it will continue to do so over the long term.

Finally, at the beginning of this section, it was stated that the purpose of the 50-year forecasts in the 2014 Letter was to guide investors who had then just turned 18 (the minimum age for having a TFSA) on how to invest their TFSAs. The 2014 Letter showed how an investor who made his first TFSA contribution at the end of 2014, who thereafter made the maximum TFSA contribution at the beginning of every year, and who earned a compound annual rate of return of 8.5% (which was the long-term rate of return then estimated for Canadian bank stocks), would by the end of 2064 build a TFSA with a value of $5.52 million (equivalent to $2.05 million in real (i.e., inflation-adjusted) 2014 dollars).[68] I'm pleased to report that I know of an actual TFSA, created in 2014, that at the end of 2024 (at its 10-year mark) has exceeded the forecast market values (for the 10-year mark) of the hypothetical TFSA described in the 2014 Letter. That has been because the actual TFSA, which in recent years has been entirely invested in the Trust, has achieved higher annualized returns than the 8.5% used as an example in the 2024 Letter. Thus, with 10 years or 20% of the original 50-year horizon having expired, that investor is on track to be able to fund a comfortable retirement from his TFSA alone. In short: be long and carry on.

Capital Gains Taxation

The 2024 Canadian federal budget proposed an increase in the capital gains inclusion rate (i.e., that percentage of capital gains that is included in taxable income) from one-half to two-thirds for corporations and trusts, and from one-half to two-thirds on the portion of capital gains realized in any year that exceed $250,000 for individuals, for capital gains realized on or after June 25, 2024.[69]

The legislation to give effect to the proposed capital gains tax changes had not yet passed into law, however, before the prime minister prorogued Parliament until March 24, 2025. That brought all legislative activity to an end until then.[70] In view of that and the considerable uncertainty about how taxpayers should prepare and file their tax returns, on January 31, 2025, the Government of Canada announced that the effective date for the proposed capital gains tax changes had been deferred from June 25, 2024, to January 1, 2026.[71]

In my opinion, the capital gains tax changes as proposed will not become law. That is because I expect that there will be a federal election in 2025, likely in May. Further, I expect that the new government, no matter who forms it, will not proceed with the proposed capital gains tax changes (which are highly controversial). The LP's T5013 tax slips for 2024 are expected to be issued to the LP's investors in late March 2025, as usual Please note that the slips may have two boxes for capital gains: one for sales before June 25, 2024, and one for sales on or after that date. On tax returns, the two amounts will be combined, and a 50% inclusion rate will be applied.[72]

Outlook

Similar to the outlook stated in the 2023 Letter,[73] I believe that the future long-term returns of the Funds will continue to be positive, partly for the following reasons:

- ***Lower rates of inflation.*** As stated earlier in this letter, the year-over-year change in the U.S. core PCE price index for December 2024 (the most recent data reported) was 2.8%. I believe that it will continue to decline and will approach the Fed's target of 2.0% by about mid-2025. I expect core PCE to decline primarily because of base effects (i.e., previously reported high rates of inflation in the first half of 2024 will drop out of the 12-month data);
- ***Lower short-term interest rates.*** I believe that, as core PCE approaches 2.0%, the FOMC will further reduce its target for the federal funds rate. I expect that the FOMC will ultimately seek to target a nominal federal funds rate of about 3.0%. Given that the FOMC's target rate for the federal funds rate is currently 4.25% to 4.50%,[74] in my estimation, U.S. interest rates will likely be cut by about a further 1.25% to 1.50% over the next year or so. The BoC is also expected to reduce interest rates further. These expected interest rate cuts will, in my opinion, be very beneficial both to economic growth and to equity market valuations (although long-term interest rates, if they rise further, may pressure 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 positive total returns (i.e., dividends plus share price appreciation);

- ***Existing use of leverage.*** At December 31, 2024, the LP's equity weight was 234.0% (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 the Funds' 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.[75]

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, 2025

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. 2022 Letter, pp. 7-8.
7. https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/
8. https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm
9. Bond yield data in this paragraph for 2023 and 2024 are from Refinitiv Eikon.
10. Current yield data is from https://www.marketwatch.com/
11. https://www150.statcan.gc.ca/n1/daily-quotidien/250121/dq250121a-eng.htm
12. https://www.bea.gov/data/income-saving/personal-income
13. https://www.federalreserve.gov/economy-at-a-glance-inflation-pce.htm
14. 2023 Letter, p. 7.
15. See factsheets 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.
16. https://newsinteractives.cbc.ca/elections/us/2024/results/
17. https://www.cnbc.com/2024/12/10/insurance-stocks-down-since-unitedhealthcare-ceo-brian-thompson-killing.html
18. https://en.wikipedia.org/wiki/Favourite-longshot_bias
19. Hodges, S.D., Tompkins, R.G. & Ziemba, W.T. “The Favorite / Long-shot Bias in S&P 500 and FTSE 100 Index Futures Options: The Return to Bets and the Cost of Insurance.” EFA 2003 Annual Conference Paper no. 135, 23 July 2003, p. 2.
20. 2023 Letter, pp. 8-10.
21. Officially, there are 68 teams initially. Eight teams compete in the “First Four” games, thus reducing the field to 64 teams (on which betting pools are typically based). See https://en.wikipedia.org/wiki/NCAA_Division_I_men%27s_basketball_tournament
22. https://quoteinvestigator.com/2015/06/04/race-swift/
23. https://investors.thecignagroup.com/financials/quarterly-results/default.aspx
24. 2024 adjusted EPS of $27.33 is cited at the webpage immediately above. 2014 EPS of $7.43 is from Value Line Investment Survey.
25. https://www.tcenergy.com/investors/liquids-spinoff/
26. https://www.kraftheinzcompany.com/brands.html
27. Kraft Heinz March 22, 2024, proxy statement, p. 56, available at https://ir.kraftheinzcompany.com/financials/sec-filings
28. See TD’s Q4/FY’24 press release, p.5, available at https://www.td.com/ca/en/about-td/for-investors/investor-relations/financial-information/financial-reports/quarterly-results
29. https://stories.td.com/ca/en/news/2025-01-17-td-bank-group-accelerates-ceo-transition-3b-announces-board-an
30. https://www.verizon.com/about/investors/quarterly-reports/4q-2024-earnings-business-update
31. Value Line Investment Survey.
32. https://ir.elevancehealth.com/investors/default.aspx
33. https://www.magna.com/stories/news-press-release/2024/magna-announces-fourth-quarter-2023-results-and-2024-outlook
34. Scotia FY’24 annual report, note 30.
35. https://www.scotiabank.com/ca/en/about/investors-shareholders/investor-day.html

36. Nutrien 2023 annual report, note 1.
37. https://www.nutrien.com/investors/financial-reporting
38. https://en.wikipedia.org/wiki/CK_Hutchison_Holdings
39. CKKH 2023 annual report p. 4 and Cenovus Energy Inc.'s Management Information Circular dated March 6, 2024, p. 5.
40. CKHH 2023 annual report, p. 132.
41. https://investors.att.com/financial-reports/quarterly-earnings/2024
42. https://www.citigroup.com/global/investors/quarterly-earnings
43. https://en.wikipedia.org/wiki/CVS_Health
44. https://www.cvshealth.com/news/company-news/cvs-health-reports-fourth-quarter-results.html
45. 2024 Letter, pp. 16-27 (especially the table on pp. 25-26).
46. 2019 Letter, pp. 9-11.
47. Actual returns have been sourced as follows. The returns of the S&P/TSX Canadian banks index and the S&P 500 Index in US$ are from S&P Dow Jones Indices (a division of S&P Global). The returns of the S&P 500 Index ETF in Canadian dollars (C$) are those of the iShares Core S&P 500 Index ETF (symbol XUS). The returns of the Canadian bond index ETF are those of the iShares Core Canadian Universe Bond Index ETF (symbol XBB); the returns of another large bond ETF, the BMO Aggregate Bond Index ETF (symbol ZAG), were very similar. The returns for cash are those of the iShares Premium Money Market ETF (symbol CMR), which to my knowledge is the largest ETF investing exclusively in cash and short-term cash equivalents that has a track record of at least 10 years. The annual inflation rate is according to the Bank of Canada's inflation calculator at https://www.bankofcanada.ca/rates/related/inflation-calculator/
48. 2014 Letter, p. 16.
49. https://en.wikipedia.org/wiki/Two_Out_of_Three_Ain%27t_Bad
50. The source is Portland's internally produced valuations, prior to subscriptions and redemptions on the respective dates. The Trust's weights in banks were similar.
51. https://www.cnbc.com/2024/12/31/magnificent-7-stocks-responsible-for-more-than-half-of-the-sp-500s-2024-gain.html?__source=newsletter%7Cprocomm%7Cpropulse%7C20241231
52. See, for example, https://markets.businessinsider.com/news/stocks/stock-market-outlook-sp500-future-returns-decade-forecast-goldman-sachs-2024-10?utm_medium=referral&utm_source=yahoo.com
53. CIBC Mellon Global Securities Services Company.
54. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1010000201&cubeTimeFrame.startMonth=12&cubeTimeFrame.startYear=2014&cubeTimeFrame.endMonth=12&cubeTimeFrame.endYear=2024&referencePeriods=20141201%2C20241201
55. Annual Financial Report of the Government of Canada, 2023-24, p. 10.
56. For example, the highest individual federal income tax rate has been increased from 29% to 33%; corporate income tax rates have been increased for financial institutions; a new tax has been imposed on share buybacks; alternative minimum tax calculations have changed to make them more punitive; a federal "carbon tax" has been imposed; and the federal government has proposed to increase the capital gains inclusion rate from 50% to 66.67%.
57. For example, Bill C-48 (*"Oil Tanker Moratorium Act"*), which banned oil tankers from British Columbia's north coast (but not from ports in vote-rich Québec); Bill C-69 (*"Impact Assessment Act"*), which has become known as the "No More Pipelines Act"; and Bill C-59, which passed amendments to the *Competition Act* which made it illegal for businesses to make statements with which anyone may disagree (see https://www.justice.gc.ca/eng/csj-sjc/pl/charter-charte/c59.html and https://calgaryherald.com/opinion/columnists/varcoe-an-egregious-overstep-private-sector-launches-lawsuit-against-ottawas-bill-c-59).
58. https://ca.finance.yahoo.com/news/statistics-canada-release-third-quarter-090008421.html
59. 2014 Letter, pp. 26-27.
60. For example, on January 29, 2025, the BoC reduced its target for the overnight rate by 0.25%, from 3.25% to 3.00%. See https://www.bankofcanada.ca/2025/01/fad-press-release-2025-01-29/
61. 2014 Letter, p. 26.

62. https://www.bankofcanada.ca/rates/indicators/key-variables/inflation-control-target/
63. 2014 Letter, p. 27.
64. https://en.wikipedia.org/wiki/Quantitative_easing#:~:text=Quantitative%20easing%20(QE)%20is%20a,order%20to%20stimulate%20economic%20activity.
65. https://www.theglobeandmail.com/investing/markets/inside-the-market/article-former-bay-street-executive-leads-push-to-require-firms-to-account-for/
66. See, for example, the inaugural 2013 Letter, pp. 15-17.
67. https://www.leadershipnow.com/risktakingquotes.html
68. 2014 Letter, pp. 32-34.
69. https://www.canada.ca/en/department-finance/news/2024/06/capital-gains-inclusion-rate.html
70. https://www.theglobeandmail.com/investing/personal-finance/article-uncertain-fate-of-capital-gains-tax-hike-leaves-taxpayers-facing-two/
71. https://www.canada.ca/en/department-finance/news/2025/01/government-of-canada-announces-deferral-in-implementation-of-change-to-capital-gains-inclusion-rate.html
72. https://financialpost.com/personal-finance/taxes/why-complicated-tax-form-when-capital-gains-unchanged
73. 2023 Letter, pp. 14-15.
74. https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm
75. 2022 Letter, pp. 9-11.

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Offering Memorandum and the information contained herein is a summary only and is qualified by the more detailed information in the Offering Memorandum.

Portland believes the following risks may impact the Funds' performance: concentration, leverage, currency and exchange rate risk and equity risk. Please read the "Risk Factors" section in the Offering Memorandum for a more detailed description of all the relevant risks.

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