



News Highlights on Current Holdings

Financial Services Companies

BNP: FT Deutschland reported that BNP Paribas is in exclusive talks with Lone Star to buy IKB. IKB is a small German bank with approximately €20 billion loans, EUR7.7 billion deposits, €2m net income and a return on equity of 5% in the fiscal year 2010/11. The German State bailed out IKB and sold it to Lone Star for €37m but continues to provide a €6.6bn guarantee. Lone Star is understood to be keen to sell IKB, as the funding guarantee expires next year. Potential buyers are limited, giving the funding position of IKB.

Intesa San Paolo may keep their Banca Fideuram unit, scrapping plans for an IPO. according to Milano Finanza

ING - Moody's said last week that the ING Direct USA sale is credit positive for ING Group. ING is selling its car leasing business to BMW for €700m. The deal will release around €30m of capital and adds 0.17% to core tier 1 capital. The deal is expected to close in 4Q 2011 and is another incremental positive for ING.

JP Morgan has agreed to pay \$228m to settle allegations that it rigged the muni-bond tender process some 5+ years ago – the staff involved have all long since been removed from the bank.

Royal Bank of Scotland : Private equity group Blackstone is believed to have agreed a discount of about 30% to book value on its stake in RBS's £1.4bn portfolio of toxic UK commercial property loans (as reported by Reuters). Blackstone's real estate mezzanine fund and RBS plan to set up a vehicle for the portfolio, nicknamed Project Isobel, which Blackstone will manage, and will aim to close the deal in the next 90 days.

UBS is not planning a sale of Its U.S. Unit, according to the head of the bank's supervisory board Kasper Villiger in SonntagsZeitung last week.

Dutch banks - The Dutch banking industry has attacked government plans to impose a €00mn annual tax on Dutch banks, arguing that any such levy should be introduced across the European Union rather than by individual countries. The move is meant to compensate for the planned lowering of the Dutch tax on house purchases, from 6% to 2%, in order to free up the Netherlands' frozen housing market. The government said on Friday it would introduce the banking tax, on either January 1st or July 1st 2012.

State Bank of India – the country's largest bank –increased its base rate by 0.25% but increased its deposit rates up to 1% for domestic term deposits. Rates on term deposits between 7-90 days have gone up by 0.75%. An increase in competition for deposits could put pressure on margins for the sector. The Reserve Bank of India has hiked rates 10 times since March 2010 due to high inflation, which may slow down loan growth. India contributed 19% of Standard Chartered's pre-tax profit in 2010 and has US\$13.5bn deposits and a loan to deposit ratio of 84% in India...and so although this news has no big negative for Standard it does show that the environment in its key Indian market is becoming more challenging.

Financial Infrastructure

Western Union : announced it will acquire Travelex' Global Business Payments division (TGBP) for £606MM or approximately \$1B in cash. With ~35K customers in 14 countries, TGBP provides international payment services to small businesses, corporations, financial institutions and other third parties and should complement Western Union's Custom House offering in the B2B space (~7% of total revenues post TGBP). TGBP's projected 2011 sales of ~\$240MM and normalized EBITDA margins of ~30%, implies a purchase price of ~4x revenues (roughly in-line with the Custom House acquisition) and over 13x 2011E EBITDA. The deal will be predominantly funded with international cash (currently over \$1B), and should not in our view impact Western Unions ability to return cash to shareholders. The deal is expected to close in late 2011 and be dilutive to earnings per share by ~\$0.02 in 2011 and ~\$0.04 in 2012 due to deal and integration costs and non-cash acquisition-related amortization (~\$40MM beginning in '12). On a cash basis the deal is expected to be modestly accretive in 2012 and thereafter. Post-integration, Western Union expects synergies of ~\$30MM annually from efficiencies in IT, operations and real estate. The acquisition should help Western Union gain share and scale in the B2B space, with much of the opportunity coming from taking share from banks and expanding into new geographies. TGBP approaches the market through several channels including online, financial institutions, law firms, universities and a 450 person sales force. Separately, during discussing the acquisition, management mentioned 2Q 2011 business trends appear to be in-line with its expectations.

Dividend Paying Companies

BHP : as reported in the Financial Times, the price of iron ore is expected to remain above \$150 per tonne for at least the next 5



years, as miners struggle to meet Asian demand, according to Vale, the top miner of the commodity...if this proves to be the case then we believe BHP as one of the world's 3 largest mining groups would stand to benefit.

Australian prime minister, Julia Gillard, unveiled a long due and highly contested carbon tax, which would value a ton of carbon emissions at \$23 and is applicable to 500 big polluting firms starting from mid 2012. The tax is set to rise by 2.5% a year and is meant to be replaced by a carbon trading scheme in 2015. The aim of the tax is to reduce emissions by 5% off the 2000 level by 2020. Many industry observers point out that the impact on large businesses profitability would be limited, with some estimating an additional cost of only A\$1.80 for a tonne of mined coal valued at over \$300. A combined bid from Peabody and Arcelor Mittal for Macarthur Coal announced this morning, comes as a confirmation of the coal mining profitability, even after the inclusion of the new tax effects.

Bayer – lost its European patent for its women's health pill Yasmin, following an appeal from Hexal, a unit of Novartis, against a 2006 decision that had confirmed the patent. Yasmin had lost patent protection in the United States as well, however it managed to achieve total global annual sales of €1.1bn in 2010 due to franchise strength. Bayer's management declared that 'a decision on possible next steps will be taken by the company after studying the reasons for the decision'. The company is confident in being able to maintain its leadership position in the European women's health market as it possesses a number of late stage promising prospective products.

Bayer announced positive results in a trial investigating the active ingredient alpharadin in prostate cancer, with better than expected overall survival and benign side effects.

Nestle – is on a path to increasing its Chinese exposure, most recently through the proposed acquisition of Hsu Fu Chi, a Chinese confectionery leader, estimated to be worth \$3.2bn. Nestle will acquire 60% of the company shares for \$1.7bn, a 9% premium, with the remainder of 40% of the shares staying with the founding Hsu family. The company will be set up as a de-listed joint venture. Nestle targets a share of revenues from emerging markets of 45% by 2020, from the current level of 38%. Hsu Fu Chi's current annual revenues are around Sfr560mm.

Nestle is also rumoured to be interested in acquiring Arizona Beverage Co, the iced tea maker, a privately held company. Valuations for Arizona range from \$3bn to \$4.25bn. Other

companies interested are reported to include Tata Global Beverages.

Novartis – Afinitor, the company's existing kidney cancer drug, is showing encouraging results in treating other types of tumours. A late-stage study showed success in Afinitor reducing the size of a type of benign brain tumour, known as subependymal giant cell astrocytoma (SEGA), associated with tuberous sclerosis. A pivotal phase III study (BOLERO-2) in refractory breast cancer showed higher than expected efficacy for Afinitor.

POSCO – agreed to buy 3.98mm shares of Thainox, a Thai stainless steel maker, representing about 51% of the outstanding shares, for \$287mm. Posco already owned 15.39% of Thainox and plans to buy more through a tender offer between September and October.

Posco signed a resources deal with the Democratic Republic of Congo (DRC), as a result of President Lee Myung-bak's high level visit in the DRC.

Seven&i Holdings – announced first fiscal quarter results of ¥68.32bn, higher by 30% year on year, as the initial negative effects of the triple catastrophe were more than offset by strong demand for its basic necessities products marketed through its dominant convenience store franchise Seven-Eleven. The company also lifted its outlook for the rest of the year, forecasting an operating profit of ¥274bn (\$3.4bn), some 11% higher than its previous guidance. Profitability improved as well in its supermarket and department store businesses, Ito-Yokado and York-Berimaru, as a result of earlier restructuring efforts.

Vivendi – is rumoured to be interested in acquiring a 56% stake in TVN, a leading Polish broadcaster and the second largest East European media group. The consideration for the stake is estimated at about \$1.1bn. Vivendi is already present in Poland through its controlling interest in Cyfra Plus, a pay-TV platform and has recently exited a stake in PTC, a Polish mobile phone operator. Other company's mentioned to have an interest are Time Warner, Bertelsmann, News Corp, Discovery Communications and ProSieben.

Economic Activity, Consumer and Business Conditions

US – A dismal employment report Friday set off another round of equities sell off around the world. The US nonfarm payrolls managed to only add 18,000 jobs in June, the fewest in nine months and well below the expected 90,000 jobs additions. The unemployment rate moved higher, to 9.2%, even as people actually left the labour force during the period. One of



the main drags was the government sector, which reduced its employment by 39,000 jobs, a direct result of the precarious fiscal situation at both federal and state levels. The private sector added 57,000 positions, not enough to tip the balance meaningfully. The construction employment fell by 9,000 jobs in June. Part of the same report, the average weekly earnings were flat in the month, against expectations for a 0.2% improvement, a sign of the amount of slack in the economy. The day before, the weekly report of the initial jobless claims moved lower by 14,000, yet still above the 400,000 level – so remaining inconsistent with a sustainable net job creation picture.

The non-manufacturing PMI retreated more than expected in June, to 53.3 compared to 54.0 and with a 54.6 level in May, reversing in fact a similar magnitude improvement in the month prior.

On the positive side, the US consumer credit managed to grow another \$5bn, higher than expected, adding to a relatively long string of improvements in the recent months.

Canada – The employment report was a lot more up-beat in Canada compared to its Southern neighbour, as the country managed to add 28,400 new jobs in June, ahead of the expectations for 15,000 additional positions and on top of a strong 22,300 job additions in May. The unemployment rate held steady at 7.4% as previously discouraged workers returned to the labour force.

Other up-beat numbers came out of the Canadian housing sector, including a 20.9% rise in building permits for May, all but erasing a 21.5% drop the month prior. The housing starts in Canada for June moved to 197,400 units annual rate, ahead of expectations for an 184,000 units annual rate level. Meanwhile, the Canadian new housing price moved higher by 0.4% in May, ahead of the expected 0.3% appreciation.

ECB – has raised interest rates again to 1.5% - with current expectations of no further raises this year. Eurozone inflation rate in June was 2.7% - above its target of 1.5%-2%.

Portugal: Moody's downgraded the Long term debt rating 4 notches to Ba2 (below investment grade) versus Baa1 with a negative outlook. The rating agency said last week that Portugal will likely need a second bail-out package before it can raise money in capital markets. Based on what has happened in Greece, Moody's believes a bailout deal would need "private sector participation" (i.e. debt rollover) as a precondition. Moody's also questioned Portugal's ability to achieve deficit reduction targets and described them as "formidable

challenges". Our expectation is that the debts of Portugal, Greece and Ireland will be restructured in an orderly fashion with European governments buying all or most of their bonds and with the banks 'volunteering' to take up reduced holdings on terms similar to those being discussed by Germany and French banks re Greece.

Greece - ECB president Trichet has last week escalated his conflict with finance ministers over the future of Greece by saying Eurozone governments should not assume the private sector will participate in a new Greek bail-out deal, adding that the Eurozone should follow "global doctrine" on bail-outs for crisis-hit nations. "If you depart from that global doctrine, you are weakening what you are aiming at, namely financial stability in Europe and the euro area as a whole." This is the closest Trichet has come to suggesting publicly that governments abandon attempts to involve commercial banks without rating agencies declaring a selective default, reports the Financial Times. Separately, Axa SA founder Claude Bebear and Frederic Bonneval, an associate at Anthera Partners, proposed in a Le Figaro article, hiving off of productive Greek government assets into a separate structure as a method of solving the country's debt crisis. The assets, such as land and transport infrastructure, could be used to underpin the creation of new long-term bonds, which would be exchanged for existing sovereign bonds and the ECB could supply bridging loans to help the process.

Greek Bailout - The IMF late on Friday approved the disbursement of €2.2bln to Greece under a joint bailout package with the EU. Greece's fiscal plan has "no margin for slippage," according to an IMF statement following the agreement. Separately, the Financial Times says this morning that EU heads are prepared to accept that Greece should default on some of its bonds as part of a new bailout plan that looks to put total Greek debt levels on a sustainable footing. This new approach could also include new concessions by European lenders to reduce Greece's debt, including further lowering interest rates on bailout loans and a broad-based bond buyback program.

Sweden's central bank has raised interest rates for the 7th time in the past year to 2% from 1.75% as the Scandinavian country continues to experience the fastest economic expansion in western Europe.

Financial Conditions

The European Banking Authority said it had received all the extra information it wanted from banks, paving the way for publication of its sector health-check this month. The European Union watchdog is stress testing 91 lenders to see whether they



can still stand on their own feet in the face of scenarios such as the economy shrinking for two consecutive years or big fall in house prices.

About 10% of European insurers would fail to meet future minimum capital requirements in an adverse macroeconomic scenario, but the sector's overall capitalization is robust, Europe's insurance regulator has stated – as reported in the Wall Street Journal.

Policymakers continue to accommodate a recovery in bank profits, albeit less than 6 months ago. The U.S. 2 year/10 year treasury spread is 2.59 % and the U.K.'s 2 year/10 year treasury spread is 2.36 % - enabling financial services companies' assets booked at these levels, to be profitable.

Later cycle issues continue to challenge financial services companies – particularly commercial real estate and unsecured consumer loans/credit card loans. However, commercial real estate exposure is more acutely held by US, Spanish and German regional banks – rather than larger more diversified global financial services companies. The number of small U.S. banks failing continues to grow, albeit at a more moderate pace (51 in 2011) compared to 157 in 2010 which was the highest annual tally since 1992 (140 in 2009). Franchises are being acquired/absorbed as convergence of the financial services industry accelerates – favouring we believe the stronger, better managed banks. Typically banks acquiring collapsed bank franchises from the Federal Deposit Insurance Corporation (FDIC) are paying little or no premium for deposits, assets are purchased at a discount and are covered by loss sharing agreements – so that such deals can be expected to be immediately accretive to earnings per share.

The U.S. 30 year mortgage market has remained low at 4.60 % - (the lowest rate since the Federal Reserve began tracking rates in 1971 was 4.17% on Nov. 11, 2010), as the Federal Reserve effectively continues to seek to incentivise home ownership. Existing U.S. housing inventory has increased to 9.3 months supply of existing houses – much higher than what we believe is a more normal range of 4-7 months. We believe it remains premature to consider a recovery in house prices but a measure of stability would be welcomed...particularly for those financial services companies holding such assets in their portfolios.

A concern which remains is the extent to which mortgage foreclosures have been properly documented, thereby enabling mortgages to be “put back” to the originating bank. However, from recent bank investor relations presentations it does seem the rate of “put backs” are now expected to decline, suggesting current levels of provisions should suffice. For the larger

franchises the quantum of proactive provisioning continues to act as a differentiator of quality which we believe has still to be fully appreciated.

The VIX (volatility index) is 17.29 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

Closed-End Funds

Spreads on the closed-end funds remain, in our view, very attractively priced to purchase.

The Portland Investment Counsel's 2011 First Quarter Fund updates are now available on the web site.

At the close of business on Fridays and at the end of each month we publish the Net Asset Values (NAV) of our funds onto our Portland website at http://www.portlandic.com/Info.aspx?disp=weekly_pricing NAV for the AIC Global Financial Split Corp, Copernican World Financial Infrastructure Trust, Copernican World Banks Split Inc. and the Copernican International Financial Split Corp. can be found on the Manulife website at <http://pricesandperformance.manulifemutualfunds.ca/manulife/ce/en/html/>.

The details published last Friday are replicated here below from which you can see we also highlight whether the funds share prices are trading at a premium or discount to their respective Net Asset Value.



Closed-End Funds

Spreads on the closed-end funds are narrowing but remain, in our view, very attractively priced to purchase.

The Portland Investment Counsel Inc. 2009 Closed End Annual Reports are now available on the web site. Below you can find the link to access the closed end annual report.

http://www.portlandic.com/Info.aspx?disp=Financial_Reports

At the close of business on Fridays and at the end of each month we publish the Net Asset Values (NAV) of our funds onto our Portland website at <http://www.portlandic.com/Funds/WeeklyPricing.aspx>. The NAV for the AIC Global Financial Split Corp. can be found on the AIC/Manulife website at <http://www.aic.com/EN/PricePerformance/AICClosedEndFunds/Pages/Price.aspx> and the Copernican World Financial Infrastructure Trust, Copernican World Banks Split Inc. and the Copernican International Financial Split Corp. can be found on the Copernican website at <http://www.copernicancapital.com/Funds/WeeklyPricing.aspx>.



Chris Wain-Lowe
Executive Vice President
Portland Investment Counsel Inc.
Phone: 905-331-4250 Ext. 4232
Fax: 905-331-4368
www.portlandic.com

Market Commentary



PORTLAND
INVESTMENT COUNSEL™

July 11, 2011

Sources: KBW - EuroAsian Daily, TD: Morning FX Outlook ,Thomson Reuters

The content of this document is for informational purposes only and, in no way, should be construed as financial advice. Please consult a professional advisor for advice related to your specific situation.

Certain statements included in this document constitute forward-looking statements, including those identified by the expressions “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend” and similar expressions to the extent they relate to the Fund. The forward-looking statements are not historical facts, but reflect the Portfolio Management team’s current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Portfolio Management team has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise.

PORTLAND INVESTMENT COUNSEL and the Clock Tower Design are registered trademarks of Portland Holdings Inc.
