Market Commentary

PORTLAND INVESTMENT COUNSEL™

July 25, 2011

News Highlights on Current Holdings

Financial Services Companies

Axa plans to double revenue in Asia in the next three years, the South China Morning Post reported, citing Stuart Harrison, the company's CEO in HK.

Barclays has appealed a judge's order to pay $2 billion to Lehman's bankrupt brokerage unit. Separately, Sky news reports that Barclays private equity unit is planning to sell its Global Blue tax-free shopping unit that could fetch as much as €800mn. Also, Barclays Capital has claimed the lead amongst Australian Mergers & Acquisitions after advising BHP Billiton on its proposed US$12.1bn acquisition of Petrohawk Energy Corp. According to Bloomberg data, Barclays has worked on US$29.6bn of announced mergers involving Australian companies this year. Goldman Sachs, which is advising Petrohawk, is in second place with US$27.8bn. Takeovers valued at about US$80bn involving Australian companies have been announced this year, compared with US$149bn for all of 2010, according to Bloomberg data

Bank of America : Reported EPS of a loss of $0.90, which was in line with guidance and included the following non-core items: representation/warranty expense of -$14 billion, Mortgage Servicing Rights valuation & servicing costs of -$1.5 billion, security gains of +$900 million, dividend +$800 million, gain on sale of Balboa +$800 million, Blackrock gain +$400 million, impairment of strategic investments, -$500 million, litigation expenses -$1.9 billion, assessment/waivers -$700 million, goodwill impairment -$2.6 billion, Net of these non-core items, operating EPS was $0.33. Total revenues were $13.24 billion down 50.8% from $26.9 billion in 1Q11 hurt by the rep and warranty expense, without which revenues would have been $24.13 billion – down 'just' 6.7% from 1Q11…. attributable to lower net interest margin – down 0.17% to 2.50%. Its mortgage repurchase reserve has now been significantly increased from $11.6bn to $17.8 bn… and management believe it has recorded reserves for 'a substantial' portion of its rep & warranties exposure. Loan loss provisions of $3.3B was down 14.7% from $3.8B in 1Q11, and lower than the $3.7B consensus, with its non-performing assets ratio relatively stable at 3.7%...suggesting, we believe, that the core business is stabilizing. Operating expenses were +12.7% last quarter to $22.86B from $20.28B in 1Q11 … but these included the goodwill impairment charge of $2.6 billion… and so were essentially flat…. But we'd expect to see further cost cutting in evidence in the coming quarters. Tier 1 common equity ratio was 8.23% and tangible book was $12.65 per share.

During their conference call management stated:

- they don't need a capital raise and expect to be at 6.75%-7% Basel III Tier 1 Core Capital ratio at 1/1/2013 and will get there by reducing risk weighted assets as well as earnings;
- net interest margin is now at/close to trough and noted 2Q results were hurt by some items they don't expect to recur but also the margin is not likely to grow materially from here – will be a grind,
- launched New BAC cost save initiative will begin to implement by the end of the year
- every 1% decline in home prices adds ~$125m in costs to GSE rep/warranty expense;
- Portugal, Ireland, Italy, Greece, Spain corporate and sovereign exposure - $16.7 billion, and
- Modified consumer legislation (Durbin) impact reduced slightly from $500m/qtr to $475m in 4Q11.

Bank of New York reported 2Q11 EPS of $0.59. Consensus was $0.57. Both fee income and expenses exceeded expectations (expenses more so). While its Net interest margin was lower, net interest income was in-line with expectations. The effective tax rate was 26.9%, down from 29.3% in 1Q11. The lower tax rate was due primarily to the impact of the consolidated investment management funds. Core revenues rose 15% y-o-y and increased 5% linked quarter (most categories grew, its net interest margin declined 8bps to 1.41%, primarily reflecting tighter spreads. Noninterest-bearing deposits increased 11%, while interest bearing deposits rose 8%.) compared to a 21% y-o-y and a 4% sequential lift in expenses (reflects the impact of the annual employee merit increase in 2Q11, as well as higher volume-related and business development expenses). Management commented expense growth remained high due in part to legal and regulatory costs. Still, it noted it is "taking additional actions to reduce expenses." Assets Under Custody increased 3% sequentially to $26.3trn, driven by net new business and assets under management rose 4% to a record $1.3trn. Long term flow totaled $32bn in 2Q11 ($31bn in 1Q). Money market outflows declined to $1bn. Its Basel Tier 1 common ratio increased from 12.4% to 12.6%, while Basel III Tier 1 Common Equity ratio went from 6.1% to 6.6% and it repurchased 9.8mn shares (0.8% of outstandings) during the quarter. It posted an 8.8% Return on equity and Tangible book increased 6% to $10.28. The unrealized net of tax gain on its total investment securities portfolio was $408mn at 2Q11, up from $279mn in 1Q11, driven by a decline in interest rates.

Goldman Sachs: Q2 sales evidence a reduced risk appetite and client inactivity – being much below at $7.28bn versus $8.2bn expected. Investment Banking sales at $1.45bn versus $1.3bn expected (Advisory strong at 637m vs 480m exp, Underwriting business in line at 811m with debt underwriting slightly lower and Equity Underwriting a touch higher). Commission and fees at $861m vs $890m expected, .Asset Management fees in line at $1.27bn ...weakness came from trading side. The decline was largely driven by a sharp fall in Fixed Income, Currency and Commodities trading and Equity revenues and mark to market revaluations in the firm's debt portfolio. FICC trading performance dropped 63% to $1.6 billion from $4.3 billion in Q1 2011.

Lloyds - have 'poached' Nathan Bostock who was head of the Non-core business at Royal Bank of Scotland. He had previously been CFO under CEO Horta-Osario at Santander UK so there is a prior connection as Osario strengthens further his management team. Also, Clive Cowdery, founder of Resolution, may bid for the 630 bank branches that Lloyds is selling according to the Sunday Times.

Manulife announced last week that it has entered into an agreement to sell its Life Retrocession business to Pacific Life Insurance Company.

This business no longer has an acceptable growth profile, according to management, given changes in capital requirements by Canadian regulators. Conversely, Pacific Life can operate the business with less capital. The life retrocession market has been in decline in recent years as primary insurers increased their retention of written business, thereby reducing business opportunities for life retrocession companies. Manulife, like Sun Life in late 2010, has reached the conclusion that its capital would be better utilized in faster growing businesses. The sale will have a modestly positive impact on capital.

Metlife – has announced it is exploring the sale of its MetLife Bank depository business (only 2% of earnings), although the company plans to keep its residential mortgage operation. If Metlife exits a bank holding company structure, it would likely reduce the impact of being named as a SIFI (systemically important financial institution). This potentially means Metlife would not be subject to different capital requirements simply due to its bank holding company status because Metlife is the only major life insurer to currently operate under this structure …. We would view this change as a net positive.

Morgan Stanley : Morgan Stanley and Mitsubishi UFJ Financial Group (MUFG) completed its planned conversion of MUFG's ownership of MS preferred shares into common. The bank reported a 2Q loss of (-$0.38) vs. consensus of (-$0.61). Adjusting for non-operating items ($1.02 charge on MUFG pref. conversion and $0.11 Debt Value Adjusted gain), a "clean" EPS looks like $0.52. The investment bank posted solid trading results, across both Equities and Fixed Income; with the latter benefiting from a gain on Monoline hedges of legacy positions in mortgage securities. Equity results were strong; Morgan Stanley was the only one out of the peer group to report sequential growth in Equity trading revenue- other firms reported declines of 10+% with Goldman Sachs down more than most. Investment Bank results impressed as well; franchise strength clearly remains solid with significant growth in both Advisory and Underwriting revenues. Global Wealth Management underlying results were largely stable. Margin expansion still lies ahead as platform integration continues; systems conversion process appears on schedule. Asset Management remains a work in progress, though 2Q saw significant asset inflows, particularly in core Equity products which is an encouraging sign.

Nordea reported PBT of €949m which is 1% below consensus. Income was disappointing, with both Net interest income (€1,326m) and total income (€2,342m) both coming in 2% below expectations. Costs of €1,275m (consensus €1,269m) were in line, and impairments of €118m (consensus €174m) were lower than expected. Modest income disappointment on net interest income was driven by a lower return on liquidity buffer, higher funding costs and reduced interest rate risk in Group Funding. Trading income was lower, mainly due to lower result in equities and life insurance technical provisions). Nordea says it is "finalising plans to gradually contain cost growth in the later part of 2011 and thereafter we foresee costs to be largely unchanged for a prolonged period of time". Lending volumes were up 1% from Q1 2011 and deposit volumes were down 1% q-o-q. Lending margins in Nordic Banking were down marginally to 1.28% (1.30% in Q1 2011) but deposit margins were up to 0.56% (0.46% in Q1 2011), mainly driven by Finland and Denmark. Q2 group net loan losses (excluding the Danish Bank package EUR 33m loss) were 0.12%. Impaired loans were again down 5% in the quarter. The full Q2 2011 Basel II Core Tier 1 ratio was strong at 11.0% (10.7% in Q2 2011). According to Nordea "Riske Weighted Asset decreased mainly due to improved credit quality in the corporate portfolio and the intensified focus on efficient use of RWA within the business areas. This includes a number of targeted RWA efficiency initiatives covering the processes, data and methodologies across the different exposures classes and affected RWA positively by EUR 1.7bn in the second quarter."

Standard Chartered - has no plans to sell its c4% stake of Agricultural Bank of China, the Hong Kong Economic Journal reported, citing CEO Peter Sands. StandChart's 12-month lockup period on share sale was lifted on July 16th.

State Street: reported 2Q headline # of $1.00, headline op EPS of $0.96. Further adjusting for securities gains, about 4cents below expectations. Fee income was much stronger than expected almost across the board, but especially in securities lending and asset management (+2c) and so helped compensate for lower net interest margin which fell a further 0.09% to 1.76%. But, Operating expenses were 5% higher than expectations driven by 4% increase in salaries, compared to last quarter and +7% increase in transaction processing, +6% in occupancy, and +5% in other costs (driven by regulatory costs). On balance, in our view, core business looked reasonably robust, but operating expenses disappointed and it continues to face short-term challenges posed by the slower recovery and low interest-rate environment in the U.S., the uncertainty in Europe, and increased regulatory and compliance costs. Assets Under Custody increased 1% sequentially to $22.8trn, while Assets Under Management was stable at $2.1trn. Its Basel I Tier 1 common ratio was 16.8% (-70bps), and its Basel III Tier 1 common ratio was 11.8%. It repurchased 4.9mn shares (1.0%) during the quarter. Re costs: the management provided an update of its multi-year business operations and IT transformation program. In step with the program, which is expected to be completed in 2014, it revealed it expected to expand its longstanding relationships with IBM and Wipro to support components of its technology infrastructure and application maintenance and support systems. As part of this program, 320 non-client facing IT employees are expected to transition to IBM or Wipro and another 530 non-client facing IT employees will be provided with severance and outplacement services as their roles are eliminated over the course of the next 18-20 months. As announced on Nov. 30, STT expects to achieve annual pre-tax run-rate expense savings from its business transformation initiatives of $575-$625mn by the end of 2014 and to record pre-tax restructuring charges of $400-$450mn in total over the 4-year period. It expects to record $110-$130mn of those pre-tax restructuring charges in 2H11 to accrue for the severance and related costs associated with workforce reduction and other transition costs as a result of its expanded technology relationships.

During their conference call management stated:

- initiated share repurchase program in mid-May, repurchased 4.9m shares… so full impact not yet in average shares;

- new business mandates of $280bn/105 wins (66% from U.S., 34% non-U.S. – half EMEA, half Asian, small amount Canadian) and won 38 new mandates in alternative management servicing business;

- Assets under Administration grew to $789bn from $772bn in 1Q11;

- company expects to record ~$110-130m pre-tax restructuring costs (~30% of the total $400-450m estimated) and continues to expect annual pre-tax expense savings of $575-625m by the end of 2014.

Swedbank - A very solid set of 2Q11 numbers. Net Interest Income a 3% vs cons. Pre provision operating profit beat consensus by 6%. Net profit 3% ahead of consensus with good trading number which beat estimates by 58%.The trading beat comes from positive valuation effects, mainly from basis swaps which can be volatile quarter on quarter. Core Tier 1 capital was slightly lower quarter on quarter at 14.8% - reflecting SEK3.5bn in buybacks. Risk Weighted Assets over the first half decreased by 6% to SEK509.3bn.

Wells Fargo reported 2Q11 EPS of $0.70. Consensus was $0.69 – result was up 27% from prior year and up 4% from prior quarter. Most encouragingly in our view, management have guided to expect a reduction of $1.5 billion costs saves to its quarterly operating platform by 4Q 2012, i.e, down $1.5bn from $12.5bn in 2Q2011 to $11.0 bn. per quarter (equivalent to $0.18 earnings per share per quarter / $0.72 per share per annum). Results included $128mn of debt security losses and $724mn of equity gains. It also booked $484mn of merger integration costs and $428mn of operating losses, substantially all for litigation accruals for mortgage foreclosure-related matters. It had a $242mn provision for mortgage loan repurchase losses compared with $249mn in the prior quarter. Net Mortgage Service Right gains were $374mn, in-line with 1Q11. Net these items cost it $0.02. Results reflected improving credit quality, including a $1.0bn ($0.16) reserve release, in-line with 1Q11. Its net charge off ratio declined 21bps to 1.52%, driven by lower losses in virtually every loan category and delinquency trends continued to show improvement. Its reserve/loan ratio declined 15bps to 2.78%. It expects future reserve releases. Operating revenues declined 6% y-o-y and decreased 2% linked quarter. It posted a Return on assets of 1.27%, its highest in 3 years. Its Basel I Tier 1 common equity ratio was 9.2% (+30bps), while Basel III was 7.4%, testimony to its earnings capacity to generate capital per quarter. During the quarter, it redeemed $3.4 billion of trust preferred securities and re-started its share repurchase program, buying-in 35mn shares (0.7%). It had net unrealized securities gains of $9.3bn at 2Q11, up $397mn from 1Q11. Net interest income fell 7% y-o-y and was relatively stable as its net interest margin declined 0.04% to 4.01% but average earning assets rose 1% compared to last quarter with securities up 3% and loans relatively stable. Excluding the planned runoff of non-strategic/liquidating portfolios, average loan balances increased from the prior quarter. Mortgage originations declined 24% to $64bn. but its unclosed pipeline at June 30 was $51bn, up 13%.

During their conference call management stated:

- commercial loan growth was broad based across all product types;
- modified consumer legislation costs (Durbin) update - $250 million/qtr after tax before mitigation (down from $325 million) and the company expects to recapture about 50% through volumes and product changes over time ;
- project compass (cost saves/efficiency) simplifying technology environment- expenses should reduce at a similar pace as past couple of quarters over the next 6 quarters
- PIIGS exposure is $3.2 billion – very little sovereign risk, mostly corporate and bonds

Financial Infrastructure

Global Payments exceeded revenue and earnings per share estimates. Revenue grew by 22% to $520mn, well above estimate of $482mn. Normalized EPS grew by 31% to $0.76, $0.02 better than estimates as lower than expected margins offset much of the revenue upside. All geographies posted better than expected revenue but lower than expected margins. Revenue upside reflected strong volume and some pricing benefit (UK) while margin downside reflected a number of factors (e.g. ISO dynamic in US; investments in Spain; resumption of growth in low margin UK Intl acquiring business). Company's guidance calls for better than expected revenue growth but lower than expected EPS. Revenue is expected to grow by 13%-16% while normalized EPS is expected to grow by 9%-12%.

Dividend Paying Companies

ABB – announced second quarter results which showed strong orders and revenues progression, but fell short on the operating profit side, mostly due pricing pressure in some of its divisions and weaker than expected China environment. Orders were up by 10% on an organic basis (18% as reported), with 13% growth in emerging markets. The important (and usually more profitable) base order (below $50mm) were up by 8%. Earnings before interest and tax (EBIT) were somewhat lower than expected at $1,307mm or an EBIT margin of 13.6% compared to 14.7% for the last comparative period, as the more commoditized areas of low voltage products and discrete automation suffered due to raw materials inflation (mostly silver). The company revealed that it is urgently implementing price increases in its Discrete Automation and Low Voltage business. The company managed to deliver $270mm of cost cutting programs and is sticking to its $1bn target for the year. Going forward, ABB sees recovery in the power transformers market and improved utilities capital expenditures momentum.

BHP – announced the all cash acquisition of Petrohawk Energy of Houston for $38.75 a share or an enterprise value of about $15.1bn including the assumption of roughly $3bn of debt. The agreed offer represents a 50% premium versus the average trading price over the previous 30 days. Petrohawk's assets include about 1 million acres in Texas and Louisiana, with proven shale gas reserves of 3.4Tn cu ft of natural gas equivalent spread over the highly prospective and liquids reach basins of Eagle Ford, which is known to be delivering the best project return in US domestic on-shore exploration and production, as well as Haynesville and Permian. Together with the earlier acquisition of Fayetteville assets from Chesapeake, the recent additions would in fact triple BHP's oil and gas risked resources. At the same time, the recent foray of BHP in the energy sector, requires significant capital expenditure additions, to be able to bring production to higher levels and improve the economics of the deal. BHP has had a successful history of acquiring Tier 1 assets (large reserves, low costs) and the recent US shale gas additions are in line with the company's history of leveraging its operational excellence.

BHP up-dated on its last quarter of the 2011 fiscal year production results last week, with most minerals exceeding previously undemanding production targets, including the highly demanded and priced iron ore, metallurgical and thermal coal as well as petroleum. Copper production was flat, with progress at Olympic Dam in Australia been offset by well known grade issues at Escondida in Chile. Going forward, the company noted that production of metallurgical coal will be below full potential due to the impact of flooding in Queensland, while petroleum production in Gulf of Mexico continues to be impacted by delays in obtaining drilling permits.

The company announced it had received ministerial approval for the development of the Jansen potash project in Saskatchewan after the Ministry examined the submitted Environmental Impact Statement. The next step is for the mine design and engineering to be completed, as well as for the initial surface construction and the first 350 meters of shaft sinking to be put in place. The final approval to proceed with the project is expected to be required from the BHP Billiton's Board during the 2012 calendar year.

BHP announced the completion of the expanded $10Bn share buy back program with 146.9 million shares of BHP Billiton Ltd and 94.9 million shares of BHP Billiton Plc purchased and cancelled on settlement. With the newly announced acquisition and the capital expenditure commitments resulting, no further buy back programs are expected in the near future.

Johnson Matthey – revealed strong first quarter of the fiscal year growth in its Interim Management Statement (IMS) last week, as a good mix in precious metals business helped improve profitability. The underlying pretax profit was 19% higher at £98mm, as sales were 12%, with a key growth driver being demand for truck catalysts. Its light duty catalyst business was however affected by the car manufacturing interruption stemming from the Japanese disaster. The outlook for the second quarter and first half of the year is good with group's performance being expected to be significantly ahead of the one for the previous comparable period.

Novartis – reported a good set of second quarter results, standing out in a sector battered by a large number of key drug patent expiries, as its pharma division managed to offset some of the generics 'erosion' of its sales and profits by successfully introducing a number of innovative drugs. Its newly launched multiple sclerosis oral pill, Gilenya managed to provide revenues of $79mm in the quarter, significantly ahead of expectations. Tasigna, a drug which treats blood cancer, and was designed to replace the company's leading blood cancer treating franchise, Glivec, also met strong demand, with sales higher by 79% in the quarter. Other successful new products include Lucentis, an eye drug. Sales erosion was relatively modest for the company's anti-hypertensive drug Diovan, down only 3%, but more pronounced for Femara, a breast cancer franchise. Other company divisions, which include the generics manufacturer Sandoz, a consumer health division and the newly acquired eye-care business, Alcon, also performed well in the quarter. The only laggard was the vaccines and diagnostics business, against a tough comparative period the year before. Group diluted earnings per share were ahead by 22% to $1.46. An area of particular concern are currency headwinds, as the Swiss franc has strengthened and is expected to continue to strengthen, prompting the company to take measures, mostly around sourcing and purchasing, to mitigate some of the effects. Going forward, the management continues to see growth of low to mid-single digit in the pharma unit, with overall profitability expected to improve. The company removed a restriction that limited the payment of dividends to 35%-60% of the net income, a clear signal of its willingness to return more cash to the shareholders.

Syngenta – reported a mostly in line set of results for the first half of the year with its crop protection division's profitability being marginally impacted by pricing and raw materials costs pressures. The management said though that it expects the prices to remain flat for the rest of the year and is targeting price increases into the Northern hemisphere 2012 planting season. Group's earnings before interest, tax, depreciation and amortization (EBITDA) margin slipped from 28.6% to 28.3% in year on year terms, while the seeds business recorded impressive margin progression, to 26.4% compared to 20% the year prior. The robust volumes progression and cost savings lead to a first half profit increase of 14% to $1.4bn. The company is optimistic about the Southern hemisphere plating season, starting in September, and is signalling further expansion in Asia Pacific, while we believe its long-term fundamentals continue to be very attractive.

Siemens – headed by Roland Busch, Siemens has established a new infrastructure and cities division – comprising rail systems, mobility & logistics, low- and medium- voltage networks, smart grids and building technology – in an effort to gain share in selling urban infrastructure to growing large and megacities. Currently, it accounts for E16.5 billion in revenues and some 81,000 employees.

Tesco is poised to trial a version of its successful Clubcard loyalty scheme in the US as it strives to stem losses at its fledgling 'Fresh & Easy' chain, as reported in the Financial Times. Tim Mason, CEO of Fresh & Easy said the business which has 176 stores and will have a further 38 by February 2012 was now ready for the loyalty scheme.

Vodafone reported Q1 FY2012 with group service revenue trends slightly ahead of consensus, with improvement in trend in Germany, Italy, Portugal, Ireland, Greece and the UK. Results were only dragged down by Spain which worsened by some 220bps as new prices have begun to run through the business suggesting that Spain, where prices have only now really started to unwind is a unique problem and other

Southern European markets that are through a good deal of pricing pain are better off. Across Europe, service revenues declined by -1.3 % vs -0.8% last quarter. If we exclude Spain the trend overall actually improved, from +0.6% to +1.1%. Americas and Asia Pacific was again strong, with growth slowing only slightly to +8.7%, driven by strong performances in both India and South Africa.

Li Ka-Shing's Cheung Kong Infrastructure (and part owner of Hutchision Whampoa) has made an indicative cash offer to buy Northumbrian Water in a deal which would give that company an enterprise value of £4.7bn. The acquisition highlights Li Ka Shing's preference for developed-economy regulated utilities.

Economic Activity, Consumer and Business Conditions

US – Most economic data points released South of the border last week evolved around the housing and construction sector and they were largely encouraging. A broad housing market index released by the National Association of Home Builders (NAHB) is pointing towards a stabilization in housing trends, with the actual housing index reading of 15, higher than the expected 14 with both current conditions and future intentions improving in July. However, we need not forget that the index is still sitting dangerously close to historical lows. Another housing reading, which got the markets excited last week, was the housing starts, improving an impressive 14.6% in June to 629,000 annual rate, from 549,000 in May and way better than the expectations for a 575,000 units annual rate level. Part of the same report, the building permits also improved in June, to a 624,000 units annual rate, compared to expectations for a 600,000 units annual rate level. On the flip side, the existing home sales dropped 0.8% in June, to 4.77mm units annual rate from 4.81mm units annual rate in May and disappointingly low against expectations for an improvement to a 4.9mm units annual rate level. The disappointment was that much greater, given that the pending home sales, usually a good indicator of existing home sales, had signalled an improvement.

Last Friday July 14, banks and credit card issuers released master trust data for the month of June 2011. Credit quality improved, reflecting a continuation of positive trends. Credit card losses appear to have peaked in late 2009, with a steady improvement since then. Bank of America, Citigroup, and JPMorgan Chase released monthly credit card master trust results. Net charge-offs (NCOs) decreased significantly month on month at Bank of America, Citigroup, and JPMorgan Chase (following a 0.07% m/m increase in May at JPMorgan Chase). JPMorgan Chase passed its target for losses of 5.50% in June, and guided to 4.50% in 3Q11. Late-stage delinquencies rates declined m/m at all three banks.

Canada – A key development last week was the Bank of Canada's decision to maintain the benchmark interest rate at 1%, as it had been widely expected, yet apply a slightly more hawkish tone in its statement. A couple of days later, the consumer price inflation (CPI) indices surprisingly showed a more tempered level of inflation in Canada, with the headline CPI retreating to a 3.1% year on year level, from 3.7% in May, while the core CPI (which excludes some of the more volatile price series, such as food and energy) retreated to 1.3% from the relatively elevated 1.8% in May. With reduced inflationary pressure BoC has more discretion in implementing its monetary policy, yet the recent volatility in the rate of inflation provides for little confidence in guessing the central bank's next moves. The Canadian consumer, meanwhile, is showing more appetite than expected, with the core retail sales for May higher by 0.1% compared to a reduction of 0.3% expected, while the retail sales excluding motor vehicles moved higher by 0.5% compared to expectations for a 0.3% improvement.

Spain: Bankis, the largest of Spain's unlisted savings banks has raised approx $4.6 billion in a deeply discounted share issue which is a crucial step in both reforming the banking system – and doing so with privately raised funds.

Financial Conditions

EU : EU ministers agreed new aid packages for Greece. The European Financial Stability Fund (EFSF), the EUR440bn rescue fund, was empowered to buy debt across the stressed nations for the first time. Leaders also pledged a EUR160bn aid package for Greece with private institutions expected to foot €50bn - where debt buy-backs will generate €12.6bn, and €37bn will be provided by four different financing offers: i) par bond exchange into 30yr, (ii) par bond offer rolling into 30yr, (iii) discount bond exchange into 30yr, (iv) discount bond exchange into 15yr. The principal on options 1-3 will be collateralised with AAA zero coupon bonds and option 4 is partially collateralised using funds in an escrow account. All four options expected to produce a -21% Net Present Value hit.

This removes Greece from the funding markets for an extended period as the proposal is for bond swaps for all Greek government debt falling due for repayment up to the end of 2019. The terms of the EFSF loans will be extended from 7 to 15 years and the interest rate reduced to c. 3.5%. This will apply to Portugal, Ireland and Greece. There is also expected to be some form of "marshall plan" to spur Greek investment and growth. The Euro-area leaders effectively delivered a package of measures designed to help prevent contagion spreading throughout the euro-zone. The size of Greece's debt/GDP will be reduced by the bond exchange and debt buyback parts of the plan, and the cost of the EFSF support loans is being made cheaper to make it more sustainable.

The overall Net present value of Greek debt is expected to be cut by 21% through a variety of options including debt swaps and bond buy backs…and so will almost certainly trigger the rating agencies to declare a selective default – the first on eurozone bonds since the creation of the single currency – but in our view a more realistic sustainable debt management for Greece and orderly default was always the lesser evil. Near-term the requirements on banks is expected to trigger an approx EUR16bn write-down from the 90 banks in the stress test.. but is modest across those banks in which we invest. Thus the expectations are that the overall package reduces Greece's debt burden by just 7.5%. These changes still have to be pushed through the individual country governments.

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 2.60 % and the U.K.'s 2 year/10 year treasury spread is 2.34 % - 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 (58 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 4.52 % - (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 9.5 months supply of existing houses – a 7 month high and 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 17.52 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

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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.

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PIC11-0071-E(07/11)