News Highlights on Current Holdings

Financial Services Companies

Barclays - has completed the sale of contingent capital notes raising ~$3bn. Investors in the 10yr instrument will lose all their money if Barclays incurs losses that reduce its Core Tier 1 equity to 7% or lower. The 7.625% bonds yield 6.037 % more than similar-maturity Treasuries.

Goldman Sachs is quitting the South Korean asset management business just five years after entering the highly competitive market, the firm's Hong Kong-based spokesman said last Tuesday. South Korea, Asia's third-biggest asset management market, is dominated by domestic institutions and wafer-thin profit margins have made it difficult for companies with sub-scale operations to make an impact.

Goldman Sachs, the fifth - biggest US bank by assets, would have $728bn in risk- weighted assets under new capital rules, a 67% jump from the amount it had under earlier regulations. The investment bank plans to cut the figure to $700bn by the end of next year, CEO Lloyd Blankfein, said. About $18bn of the reduction will come from cutting credit risk, and $11bn from market risk, Blankfein said. (Source : Bloomberg).

HSBC - Bloomberg reports HSBC in talks to sell Ping An stake. HSBC own a 15.57% stake according to statement to the Hong Kong Stock exchange and is valued around $9.5bn. HSBC say they will make a further statement if or when appropriate. Chief Executive Stuart Gulliver, when announcing large cost savings last year, said they had no plans to sell any of its big stakes in Chinese financial institutions. Financial Times reports that according to the Hong Kong Economic Journal, a Chinese-language newspaper, Thai billionaire Dhanin Chearavanont, who controls the Charoen Pokphand Group, is among the possible buyers.

Royal Bank of Scotland has kick-started the process to dispose of the 316-branch business rejected by Santander, formally appointing investment bank UBS to run the sale. The Sunday Telegraph wrote that within the last 2-3 weeks Stephen Hester, the bank's CEO, has asked UBS to assess a number of options as to what to do with the parcel of assets.

The Federal Reserve Board Comprehensive Capital Analysis and Review (CCAR): last Thursday the Fed released the economic and financial market scenarios that will be used in the next round of stress tests for large financial institutions.. Each scenario includes 26 variables, including economic activity, unemployment, exchange rates, prices, incomes, and interest rates. In general, the "severely adverse" scenario is roughly in line with the supervisory stress scenario in 2012. The 2013 severely adverse scenario calls for peak unemployment of 12.1%, home price declines of 21% and equity market decline of 52%. This compares to the 2012 stress scenario with a peak unemployment rate of 13.05%, home price declines of 21%, and equity market declines of 52%. The 2012 CCAR stress scenario resulted in ~$650Bn of loss. Importantly, Basel 1 Tier 1 common equity has increased $78Bn year on year for the 19 banks subject to these stress tests.

The main qualitative difference between this year's severely adverse scenario and last year is the stress-testing of a much more substantial slowdown in developing Asia.

This year's severely adverse scenario includes a sharp slowdown in economic activity in China with spillovers to the activity in developing Asia. This compares to the 2012 CCAR with an assumption of a moderate slowdown in economic activity in Asia. Of the larger cap US banks Citi could be most negatively impacted by this revision, given its relative exposure. Based on filings, its estimated that exposure to Asia (both developed and developing) represents about 22% of 2011 revenues at Citi, while it represents 13% for Goldman Sachs, 12% for Bank of America, 10% for Morgan Stanley and 6% for JP Morgan. Nonetheless, given the stress scenarios are roughly in line with the 2012 CCAR combined with improved capital positioning, we would expect that capital distributions relative to earnings to improve modestly from last year, noting that JP Morgan had already gained approval to re-start its share buy-back program.

Dividend Payers

ABB – appointed Eric Elzvik, a company veteran, as its new chief financial officer to replace Michel Demare, who stepped down in order to take over as the Chairman of Syngenta. Elzvik, who is 52, is currently in charge of finances at ABB's discrete automation and motion unit. He joined the company in 1984 and has worked in Sweden, Singapore and Switzerland, including positions such as the head of mergers and acquisitions. ABB announced it had won orders worth $170mm in Saudi Arabia for the expansion of the kingdom's power grid.

Bayer – Schiff Nutrition International Inc., a US vitamin maker that Bayer agreed to acquire for $1.2Bn, is the subject of a higher offer from the UK consumer products conglomerate Reckitt Benckiser Group Plc. Reckitt tabled a $1.4Bn bid, the equivalent of $42 in cash for each Schiff share, a 23.5% premium over Bayer's $34 per share offer. Both Bayer and Reckitt see considerable potential in adding a portfolio of vitamins and supplements, such as MegaRed for heart care and Move Free for joints, as they are searching for stable sources of growth. Reckitt Benckiser enjoys a strong track record of been able to extract big synergies from acquired companies and its higher bid is, presumably, based on such ability. We perceived the initial Bayer transaction positively, as it would allow the company to take advantage of its impressive footprint and brand recognition worldwide, while strengthening its product portfolio, however, Reckitt's new offer values Schiff rather richly and we would not be holding it against Bayer's management should they decide to not match it. Under the terms of the Bayer deal, Schiff is allowed to entertain superior offers, yet it would have to pay a $22mm break-up fee if it decides to go with another offer.

BHP – announced it had agreed to sell its controlling stake in the EKATI diamond mine to Harry Winston for $500mm, a deal which marks BHP's exit from the diamond industry, as planned, as the company is trimming down non-core assets in order to focus on larger, long-life assets that it can expand. EKATI is Canada's oldest diamond mine and has produced in average around $750mm of rough diamonds per year over the last five years, or about 6% of the world's rough diamonds by value. Its remaining mine life is estimated at just seven years. Harry Winston, the Canadian jewelry maker, saw an opportunity to secure access to gems. Others, including the private equity group KKR and De Beers showed interest.

BHP revealed that it expects to expand its iron ore capacity by almost 20% by just making improvements to its current mines, rail lines and port facilities as it looks to control costs in a softer iron ore market. The company now expects to reach 260 mm tonnes of iron ore annual production, 40 mm tonnes more than the previous target, that is to be reached with the nearly completed expansion of its inner harbour expansion at Port Hedland and the opening of the Jimblebar mine.

Carnival Corp – has announced that the board of directors declared a special dividend of $0.50 per share, which is in addition to its previously announced regular quarterly dividend of $0.25. The additional dividend is a reflection of the company's stated strategy of returning excess free cash flow to shareholders and the company re-iterated its commitment to increasing shareholder returns through a combination of dividend distributions and opportune share repurchases. The timing of the dividend is also likely tied into concerns about raising US tax rates on dividends and capital gains into the new year.

Novartis – received the European drug agency's recommendation for its meningitis B vaccine, Bexsero, meaning that the vaccine is likely to get approved formally next year. The firm's vaccine division, which has been struggling since its 2006 acquisition, had already won approval for another meningitis vaccine, Menveo. Bexsero's success relies on convincing government healthcare systems affected by austerity to add the shot it their vaccination programmes, which is likely to be difficult as the meningitis B disease, while serious, is becoming rarer. Analysts are currently estimating sales of up to $1Bn.

Siemens – An order for 675 Siemens locomotives from the Russian Railways was one of the key achievements of German Chancellor Angela Merkel's visit to Russia last week. Delivery is set over the 2016 to 2020 time period and the order is estimated to be worth €2.5Bn ($3.2Bn). The company also signed a cooperation agreement with the Federal Grid Company for the joint development of facilities for mass producing of high-voltage equipment and agreed to reserve transformer production capacity for the stat-controlled grid operator for 2013 to 2017. The transformer order is estimated to be worth €350mm.

Syngenta – divested its US flowers distribution and brokerage business, Syngenta Horticultural Services (SHS), which was acquired by Griffin Greenhouse Supplies for an undisclosed amount. SHS had sales of $96mm in 2011. While non-material, we see the transaction as a good move, meant to focus the company on its core genetics and plant protection capabilities. Syngenta signed, at the same time, a long-term agreement with Griffin to distribute and broker Syngenta Flowers genetics throughout the USA.

Syngenta received European Union approval for isopyrazam, the first active ingredient from its strong pipeline of next generation fungicides. The company intends to register a range of products containing isopyrazam in major EU markets for use on cereals and other crops such as canola, vegetable and pome fruits. The active ingredient boasts best-in-class performance against Yellow Rust and it has been used for the past two growing seasons by British and Irish cereal farmers in wheat and barley.

Vivendi –reported third quarter results which exceeded expectations mostly due to its smaller than expected drop in profits at its SFR French telecom key business. Most other division's results had been known prior to the announcement, due to the company's conglomerate structure. SFR, which has been under intense competitive pressure due to the entrance of Iliad, a discount operator, on the French market, saw its operating profit dropping by 17% in the third quarter, to €537mm. However, the management sees the division adapting to the new competitive environment better than expected and improved its full year outlook for SFR to a reduction in earnings before interest, tax, depreciation and amortization (EBITDA) of close to 12%, against the previous target of 12% to 15% drop in the EBITDA. At the group level, third-quarter revenues, at €6.67Bn, were broadly in line with the expectations, while the EBITA, at €1.39Bn, and the adjusted net income, at €665mm, were ahead of the consensus expectations, at €1.27Bn and €602mm respectively. Vivendi raised its annual profit target by 8%, to €2.7Bn, mostly because of strong video game sales (the Call of Duty: Black Ops franchise), but also better than expected results at SFR.

A couple of days later after announcing its third quarter results, Vivendi held a briefing on its future strategy in Barcelona. The group admitted that there are 'no taboos' in its search for a new direction, having realised that its hybrid bundling of telecom, music, pay-TV and video games units lacks synergies and is unattractive to shareholders. The company has been reviewing its structure since April, but it said it was under no immediate pressure and gave no specific calendar for its re-structuring. Management did state that the company is likely to act in the coming quarters. Vivendi has been working on sales of its Brazilian alternative telecom operator GVT and Maroc Telecom.

National Grid : The first half results were 7% ahead of consensus, providing additional confidence in National Grid's ability to deliver. Adjusted EPS of 23p is up 20% principally driven by regulated revenue allowances and the absence of last year's H1 US storm costs. The beat comes largely from lower interest and tax, despite new costs associated with IT system implementation. 1st Half Dividend per share PS is +4% to 14.49p, in line with policy. The company has confirmed that 2nd Half P&L costs relating to Superstorm Sandy are estimated at less than £100m (c3% EPS) which is lower than last year's total £116m storm charge.

Vodafone : Vodafone's 1st half 2012/13 service revenues and EBITDA fell short of consensus by c0.7% and c1.5%, respectively. Group EBITDA has deteriorated (2nd half 2011/12 : -1.2%, 1st half 2012/13: -2.9%), with weakening top-line trends implying, we believe, worsening 2nd half EBITDA. While there are some concerning EBITDA trends at Vodafone UK (H2: +4.4%, H1: -7.5%) and Italy (H2: -9.4%, H1: -16.6%) we believe Italy was not as disappointing as many observers had feared. Vodafone German EBITDA was held back by restructuring costs (H2: -3.4%, H1: -3.4%) - indeed, German EBITDA was flat, excluding restructuring costs. South Africa and Indian EBITDA growth remain very strong.

Vodafone will receive a US dividend of c£2.4bn. from its 45% stake in Verizon. The payment highlights we believe both the sustainability of US cash dividends from Verizon but also the likelihood of increasing dividends. As widely anticipated, Vodafone has opted for a share buyback (£1.5bn - 3p/sh), rather than an exceptional dividend per share (DPS) (last year: 4.0p/sh). The buyback is EPS-accretive (1%+) and enhances the company's normalised DPS coverage (cost of DPS falls from £5.0bn to £4.9bn). The buyback offers technical support as does the positive messages from management.

Economic Activity, Consumer and Business Conditions

US – US retail sales failed to excite in October, much as expected, given the impact of hurricane Sandy towards the end of the month. The headline sales were down by 0.3%, while the core sales, which exclude the effect of vehicles and gas sales, were flat in the month, short of the expected 0.2% advance. Auto sales retreated in the month, while sales at the gas stations actually improved as consumers likely stockpiled. Other retail categories have also seen a deterioration, including electronics and appliances, home furnishings and building materials. Thankfully, price inflation turned out not to be a problem in October, as the consumer price index year on year rate was changed was broadly in line with the expectations and at similar levels to the month prior. The headline rate of inflation was 2.2% in the month, just ahead of the expected 2.1%, with increases in food and housing costs being offset by weaker gasoline pricing. The core reading, which excludes the effects of food and energy pricing, revealed a 2.0% rate, as expected and matching September's rate.

Industrial production saw an unexpected pull-back in October, down by 0.4%, compared to an expected 0.2% advance and more than reversing September's 0.2% improvement, with much of the blame, once again, going the hurricane Sandy. Capacity utilization fell to 77.8%, below the expected 78.3% level, which would have been an improvement compared to September's 78.2% value.

The US housing market continues to provide up-beat updates, such as a larger than expected value for the existing home sales in October, equivalent to an annualized level of 4.79 million units, boosted by improvements in the multi-units segment. In addition, the National Association of Home Builders' Housing Market Index is flirting with 'optimistic' levels, as, at a 46 index points level in November, while it still indicates that home builders have a rather pessimistic outlook (an index level of 50 is seen as neutral), it is the highest in more than five years and on a clear improving trend. The index reading is up from 41 for October and way ahead of the expectations for a flat reading.

Canada – Sales of existing homes were down by 0.1% in October, though a significant improvement from September's 15.1% drop. Sales were dragged down by a cooling condo market in Toronto and a frigid housing environment in Vancouver.

Greece - Eurozone finance ministers granted Greece 2 more years until 2016 to cut the deficit to 2% of GDP, however, yesterday postponed a final decision on disbursement of Greece's next €31.5bn aid tranche, though Eurogroup Chairman Jean-Claude Juncker said a decision should be made at the next meeting, November 20th. Divisions between the IMF chief Christine Lagarde and Juncker on debt sustainability became public, with Mr. Juncker stating in a post meeting press conference, Greece would be given an extra 2 year deadline on their 2020 debt target of 120%, yet Ms Lagarde insisted the IMF was sticking to its original timeline of 120% debt to GDP by 2020.

The 2 year extension to 2016, Troika say would cost an additional €32.6bn to the bailout. The 20th November meeting should determine how to provide this relief without taking official haircuts on public sector debt holdings. Options purportedly under consideration include (i) removal of 150bps spread above financing costs on €53bn bilateral loans; (ii) maturity extensions, and (iii) buyback of €50-60bn on privately held debt.

Some quick math on the options above:

(i) Bilateral Loans. 53bn x 1.5% spread savings = 795mm pa x 8 years = 6.36bn savings to 2020, or 7.95bn by 2022

(ii) Privately Held Debt. Assume 60% acceptance at 70% par x 55bn = 9.9bn gain

The above implies €16.26bn savings (~8% debt reduction) by 2020 and €17.85bn savings by 2022 (~9% debt reduction). A maturity extension could conceivably be structured in a way to allow Greece to optically meet 120% 2020/2022 debt target (eg. no principal repayments for next 10 years). IMF estimate Greece's debt/GDP will reach 190% in 2013 before reducing to 120% by 2020. Reports (from Reuters) are the Troika is estimating 144% debt/GDP for Greece in 2020 and 134% in 2022 if current policies do not change…. meantime its expected the Greek population will endure at least two more years of depression.

World trade will stage a modest recovery in 2013, with businesses more confident than some politicians that slow economic growth will not spawn protectionism, HSBC said last Monday. The bank said it expected trade to expand about 5% next year, picking up to a range of 6-7% in 2014-2016, driven by ever-closer commercial links between emerging markets. The 2013 projection is broadly in line with that of the WTO, which expects growth of 4.5%, up from just 2.5% this year. (Source : Reuters)

Financial Conditions

US – UK: US Federal Reserve policymakers remain determined to flatten the yield curve as much as possible, having indicated they expect 'exceptionally low levels of interest rates through 2015 which is still an "exceptionally low level" in the grand scheme of things. Fed Reserve Chairman Ben Bernanke has indicated 1% or less would be considered exceptionally low. The extension of the US 'twist' (whereby the Federal Reserve is selling 3 year and less maturities to buy 6 years and longer) means all parts of the yield curve will benefit from a near-zero anchor until mid to late 2014. The U.S. 2 year/10 year treasury spread is now 1.37% and the U.K.'s 2 year/10 year treasury spread is 1.50% - meaning investment banks can no longer profit from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above their costs of capital. It seems the top tier 8-10 investment banks will continue to command their market and possibly increase their share – as barriers to entry for newcomers have in our view been raised.

Influenced by the US 'twist', the U.S. 30 year mortgage market remains very low at 3.34% - (3.34% the lowest rate since the Federal Reserve began tracking rates in 1971), as the Federal Reserve effectively continues to give priority to incentivising home ownership. Existing U.S. housing inventory is at 5.4 months supply of existing houses. So the combined effects of record low mortgage rates, near record high affordability, a more promising economic recovery, job creation, and low prices are finally supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now in a more normal range of 4-7 months. While we still believe it remains premature to consider a recovery in house prices prospects of a measure of stability are likely to increases as a result of the Fed actions – which is welcomed…. particularly for those financial services companies holding such assets in their portfolios.

A concern which is easing is the extent to which mortgage foreclosures have been properly documented, thereby enabling mortgages to be "put back" to the originating bank and whether bank's have mis-represented the quality of those assets sold to Freddie Mac and Fannie Mae. Such legal debates are likely to drag on for years but from recent bank investor relations presentations it does seem the rate of "put backs" are now beginning to decline and that litigation reserves should suffice, enabling banks to continue to post increasing earnings per share (as credit improves) over the next 18 – 24 months by when we expect more normalized earnings power to have returned. 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.

As concerns have swung from commercial real estate and unsecured consumer loans/credit card loans to European sovereign debts the number of small U.S. banks failing continues to grow, albeit at a more moderate pace with 50 in 2012 (compared to 95 in 2011 and 157 in 2010 which was the highest annual tally since 1992). Franchises are being acquired/absorbed as convergence of the financial services industry accelerates – favouring we believe the stronger, better managed banks.

The VIX (volatility index) is 16.41 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 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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