PORTLAND INVESTMENT COUNSEL™

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News Highlights on Current Holdings

Financial Services Companies

HSBC : Profit before tax of $4.4bn was approx $1.51bn below consensus but there were some unexpected items, which depressed the result; a $589m negative fair value adjustment on its own debt – as markets normalize; a $0.1bn charge for non qualifying hedges and; provision was taken for the PPI claims of $440m (re Payment protection insurance - as all UK banks are now deciding not to appeal the adverse judgment in the Judicial Review which found in favour of the Govt. that this PPI insurance was onerous). Profits were lower as a result of a lower contribution from Global Banking and Markets. Costs were up 7% (restructuring charges, software impairments and deferred bonus acceleration cost $215m and the costs reflected 'continued investment in our business in the faster-growing markets and in Global Banking'). And revenues were down 5% (reflects run-off in the US of the Consumer finance portfolios whereas healthy growth displayed across Hong Kong, Asia and Latin America). Excluding the one-offs, the cost efficiency ratio was 55.1% compared to the reported 60.9% and in the subsequent Investor Day presentations management reiterated they would work towards lowering this ration to 50-52% over next 2 years. Core tier 1 of 10.7% on track for 11.5% full year forecast. HSBC continues to see an improvement in the US, which accounted for the bulk of the swing, though Global Banking Markets saw small write-backs too. The group's annualized return on equity was 11.4% up from 8.3% in Q1 2010. The advances-to-deposits ratio remains extremely conservative at 78.2% The shares are currently trading at about 1.2x and 1.6x prospective 2011 book and tangible book respectively against an estimated sustainable return on equity / tangible equity of 13%-14% and 17% respectively which in our view remains too cheap. On May 3, HSBC announced a first interim dividend payment of $0.09 per share – an increase of 12.5% compared with the first interim dividend in 2010.

HSBC: Held a Strategy Day May 11th - Key points (i) Target ROE 12-15% (as before); (ii) USD2.5-3.5bn of cost savings to bring Cost /Income ratio to 48-52% by 2013; (iii) Mitigating Basel 3 actions could limit impact to c120bps against 250-300bps stated before (this should improve target ROE to c14-18% but that conclusion is not yet highlighted); (iv) Dividend target payout unchanged at 40-60%; (v) Leverage strong balance sheet by growing loans to deposits from 79% to 90%.

Prudential 1Q 2011 Interim Management Statement; New business value rose 16.6% YoY to £498m, 9.2% above consensus. The star of the show was the US business, which delivered growth in both volumes and value of ~26% YoY, despite the headwind provided by a stronger £. The US numbers were 11% and 22% above consensus for new business volume and value respectively. Asia was solid overall, in our view. While volume growth was only 2%, value growth continued to progress positively at 17.5%. Within this, India was the clear weak point which has been well flagged given regulatory reforms. Excluding India, new business volumes were up 17.5% YoY with growth comfortably above 20% in China, Indonesia, Malaysia, Korea and Singapore and a decent 13% in Hong Kong. The UK figures were weak with 3.1% growth in volumes and a 5.8% contraction in value. However, this was largely in-line with consensus expectations.

Bank of America is looking to shrink its $850bn portfolio of troubled home loans by about $300bn over the next 3 years, as it seeks to quicken the pace with which it resolves problems related to the housing crisis and its ill-fated purchase of Countrywide Financial.

Barclays will receive $1.1bn in trading assets from the trustee liquidating Lehman's brokerage business. A further $2bn of assets remain in dispute. Barclays has announced it will take a £1bn provision for PPI claims in the UK as all UK banks have dropped their appeal against the PPI ruling.

BNP Paribas' CEO (and future Chairman) Baudouin Prot said the bank isn't seeking major acquisitions in 2011 and will be "disciplined" if opportunities arise for medium-sized purchases,

Goldman Sachs has stated its traders lost money on only one day in the last quarter, (it lost money on 25 trading days last year including 13 in the 4th quarter) underlining how volatile markets and investor's appetite for risk helped revive Wall Street's biggest source of revenue and as such is a positive read across for JP Morgan, Morgan Stanley, Bank of America Merrill Lynch and Barclays.

ING: Ally Financial is apparently in talks to buy ING Direct with sources citing a potential price of up to $10bn (NY Post). We would be surprised as during the 4Q10 conference call management mentioned that the disposal of ING US Direct will take time because of the complexity of the transaction (mainly relating to the Dutch state guarantee of Alt-A RMBS). A disposal in 2011 looks unlikely. A disposal at $10bn would mean 57bp increase for the fully loaded Basel III core tier I ratio and would value US Direct at about 1.1x book based on our estimates.

Northern Trust announced this morning that it had reached an agreement to acquire Omnium LLC, a hedge fund administrator with ~$70bn assets under administration. Terms of the transaction have not been disclosed and the deal is expected to close in 3Q11. Omnium will be integrated into Northern's Corporate & Institutional Services as Northern Trust Hedge Fund Services, LLC, which will provide a scalable platform to service hedge funds and large institutional investors with complex portfolios including both administrative and middle office services.

RBS is taking an additional £850m provision for PPI payments on top of the £200m they have already provisioned. The UK Treasury is considering selling a £5bln stake in RBS (13% of the govt's 83% stake), to professional investors and sovereign wealth funds from the Middle East and East Asia as early as H1 2012 according to the Sunday Telegraph. RBS declined to comment. Separately the Financial Times says that CEO Stephen Hester has told colleagues he will stay in the job for up to eight more years, contradicting rumours that he could leave within 18 months.

State Street plans to expand its securities services arm outside the US through acquisitions, benefiting from European lenders' needs to shed ancillary businesses to raise capital. State Street bought the securities services businesses of Intesa Sanpaolo, the Italian bank, in late 2009 for about €1.3bn. It also acquired Mourant International Finance Administration, a fund administrator.

Financial Infrastructure

Deutsche Bourse: Nasdaq and ICE have withdrawn their proposal for NYSE Euronext as a result of anti-trust issues. This makes the anti-trust issues in Deutsche Bourse's proposals appear more significant but also leaves the coast clear for the existing Deutsche Bourse plans.

London Stock Exchange: A consortium of Canadian financial institutions and pension funds have proposed an alternative offer for TMX Group. This consortium (Toronto Dominion Bank, National Bank of Canada, CIBC, Bank of Nova Scotia and pension funds from the provinces of Ontario, Quebec and Alberta) is called the Maple Consortium. This not as yet a formal offer but the C$48 offer is superior to that represented by the LSE\TMX merger proposals for TMX. The potential for this to come forward has been trailed in press articles and so far has been treated negatively for LSE's ambitions. LSE is widely discussed as a potential participant in consolidation with previous attempts by European and US exchanges being made to merge with it...and the withdrawal by Nasdaq to buy NYSE could now signal a return to the Nasdaq / LSE negotiating table. Also reaction to this further twist in LSE's plans may depend on the markets assessment of the willingness of Asian exchanges to consider the LSE as a partner. In terms of the LSE's success in merging with TMX, the proposals of Maple do provide a significant risk if formalised because they provide the Canadian state and federal authorities an alternative when considering applications for approval now made by LSE.

Hong Kong Exchange announced profits rose 10%.

Dividend Paying Companies

ABB – announced the acquisition of Mincom, an enterprise software business with expertise in enterprise asset management, mining operations and mobile workforce management. The company is reported to have roughly $200mm in annual sales and it will be integrated into Ventyx operations, strengthening the software offering of the Power Systems division. The total consideration for the purchase has not been disclosed.

Carrefour – is reported to be re-considering the spin-off of 25% of its property assets through an IPO, following the departure of James McCann, the Executive Director of France, and his temporary replacement by Lars Olofsson, the Chief Executive Officer. However, the French retail group, the second largest worldwide is planning to go ahead with its spin-off of Dia, the hard discount business, for which it hopes to fetch €4bn. The decision to shelve the IPO of the property business is seen mostly positively, as it would have triggered a number of one off and recurring charges, diluting the value of the deal itself. The retailer continues to focus on its efforts to turn around the hypermarket business in the home French market, as well as to strengthen its leadership position in key developing markets in Latin America, Asia and Eastern Europe.

Posco – decided to enter the last bidding round for a controlling stake in Korea Express, South Korea's most important logistics company, for an estimated $1bn. If successful, Posco would be completing its second major acquisition in less than one year, after earlier it acquired Daewoo International, the country's biggest trading firm.

Toyota Motor – released its fourth quarter and full year results last week, with sales and operating profit heavily impacted by the effects of the Japan March earthquake. The estimated impact of the earthquake for the last quarter of the fiscal 2011 is ¥110bn (roughly $1.4bn). The volume of cars sold in the last quarter was lower by 250k units, compared to the same quarter of last year, which translated in lost sales of ¥80bn, while volumes in Japan being lower by 326k units. Sales were lower by 12% in the quarter, while operating profit was halved to ¥46bn, versus the last comparative quarter. Full year operating profit reached ¥468bn, supported by a full year volume growth of 71k units and a robust result in the financing unit, of ¥358bn for the year. The company delivered ¥180bn of cost reductions and significant capital expenditure curtailments. Management provided no earnings forecast for the current business year, due to uncertainty around the recovery in production, but said output is expected to recover as much as two months earlier than previously anticipated. The company said it is committed to maintaining a solid manufacturing base in Japan, notwithstanding currency headwinds and expected increases in the cost of energy.

Vivendi – reported a strong beat for its first quarter of the 2011 fiscal year, helped largely by a more profitable than expected quarter in its video games business, Activision Blizzard. The group's earnings before interest, taxes and amortization (EBITA) reached €1.7bn in the first quarter, 7.2% higher than last year's, while the revenue was 3.8% higher, to €7.2bn. The management guided for a slight increase in net adjusted income for the full year, adjusted for M&A activities, such as the sale of the NBC Universal stake and the acquisition of the minority interests in SFR. The company forecasts an adjusted net income of over €3bn, as well as an increase in its dividend.

Results across the various media and telecom divisions varied. Activision Blizzard benefited from the strong up-take of its new 'Call of Duty: Black Ops' video game, as well as from continuous strength of the 'World of Warcraft' franchise which had reached over 12mm subscribers earlier in the quarter, delivering €502mm of EBITA. The Universal Music Group delivered €46mm of EBITA, a 32% year on year decrease, as the quarter was not punctuated by any major launches, however upcoming releases, including titles from Lady Gaga and Kanye West, are expected to improve earnings for the division. SFR, the major French telecom and broadband operator, posted an EBITA of €566mm, 11% weaker than a year ago, as the business was impacted by a hike in the VAT applied to telecom services in the quarter, but also as the competitive pressures in the market have been increasing. The surprise announcement of Numericable, which launched a mobile virtual network operator (MVNO) service on the rival Bouygues Telecom network, was downplayed by the Vivendi management, who pointed out the numerous limitations of the announced offer. Maroc Telecom contributed €266mm to the group EBITA and is preparing for more intense competition as the mobile penetration exceeded 100% in the country. GVT, the newly acquired Brazilian broadband operator, has continued the successful rollout of enhanced quality broadband services, reaching roughly 100 cities and 4.8mm lines in service. On a background of elevated rates of growth requiring significant capital improvements, the division increased it EBITA to €90mm, almost doubling the performance of the previous comparable quarter. Canal +, the pay-TV operations of the group, performed strongly as well, delivering €265mm in the quarter, and improvement in year on year terms.

Economic Activity, Consumer and Business Conditions

US – The US retail sales numbers for April came in broadly in line with expectations, 0.5% higher in headline terms, compared to an expected 0.6% improvement, while the core reading, excluding vehicle sales, was in line with the expectations, at 0.6% higher. While still growing, the retail sales for April represent a slow-down compared to previous months' performance. In our view, the consumer fundamentals are not improving fast enough, with average weekly earnings retreating 0.2% in April, while the initial US jobless claims continued to stay at elevated levels, 434,000 claims for the last week. Fortunately, the consumer sentiment, as measured by the University of Michigan, improved marginally to 72.4, ahead of expectations for a 70.0 points reading, driven by the expectations component, higher to 67.4 in May, compared to 61.6 in April. The current situation component of the index actually retreated in the month, to 80.2 points, compared to 82.5 in April.

On the inflation front, stronger food and energy pricing fuelled the headline consumer price index (CPI) to a 3.2% year on year change in April. The core reading, which strips the above-mentioned effects, was in line with the expectations, and higher 1.3% year on year. Even more significant inflationary pressures are felt at the producer level, with the producer price index (PPI) reaching a 6.8% year on year rate of growth in April, while the core PPI rose a more benign 2.1% over the same period of time. Some of the inflation is imported, as revealed by a 2.2% month on month increase in the import prices for April, ahead of the expectations. Export prices, in turn, registered a more moderate growth, of 1.1% over the same period of time. Despite a weakening dollar, the international trade deficit of the US widened in March, to $48.2bn from $45.4bn, driven chiefly by higher energy prices.

Canada –manufacturing sales for the month of March exceeded expectations with a 1.9% improvement, more than offsetting a 1.8% drop in February. The merchandise trade balance improved as well, reaching $627mm in March, ahead of the revised February reading of $356mm, and driven mainly by an improvement in raw materials pricing. However, the goods trade balance remains significantly below the pre-recession levels of about $4bn monthly as a rising dollar has a dampening effect on exports. The Canadian housing sector is showing signs of cooling off, following recent regulatory actions to prevent the formation of a real estate bubble. The new housing price index had a flat reading in March, below the expectations of a 0.3% growth and the February's 0.4% improvement. Meanwhile, the housing starts retreated in April, to a 179,000 units annual rate, compared to March's reading of a 184,700 units annual rate.

Germany – the gross domestic product rose a larger than expected 1.5% in the first quarter in Europe's economic engine. The fast recovery pace pushed the German GDP above its 2008 peak already, ahead of the forecasted 2013 timeline and ahead of other European nations such as Spain, Italy and UK. Other European countries reported GDP growth ahead of expectations for the first quarter, including France, with 1% expansion and Greece, whose economy grew by 0.8% in the quarter. While ahead of expectations for the quarter and the full year, economic growth is forecasted to slow down in the core European nations towards the end of the year.

Financial Conditions

Sovereign Farce… As if the Euro sovereign crisis has not had enough issues the chief architect of the bailouts, head of the IMF and frontrunner to succeed the President of France,(Nicholas Sarkozy), Dominique Strauss-Kahn was arrested yesterday attempting to board a plane at JFK to France. He is expected to plead not guilty today to charges of attempted rape of a hotel maid in NYC on Saturday night. He was accused of an affair with a colleague in 2008 and accused of receiving bribes while French Finance Minister in 1999. From a France presidential race perspective this will strengthen the case for Sarkozy's re-election which still looks unlikely, the most likely outcome is either Segolene Royal or Martine Aubry emerge as the strongest competitor. We think France will lobby for the French Minister of Finance Christine Lagarde to be head of IMF until the end of the original mandate of D.Strauss-Kahn (November 2012) or likely longer. There is a scheduled IMF Board meeting today where the situation will be discussed, but an emergency meeting is likely to be called. D. Strauss-Kahn will have to resign, or will be dismissed. Lagarde enjoys wide support of European Ministers of Finance (including the UK Chancellor Osborne).

US Mortgages: Two lawmakers are set to unveil legislation to replace mortgage giants Fannie Mae and Freddie Mac with at least 5 private companies that would issue Mortgage Backed Securities with explicit guarantees.

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 2.65 % and the U.K.'s 2 year/10 year treasury spread is 2.38 % - enabling financial services companies' assets booked at these levels, to be profitable.

Our concerns are mostly focused around the later cycle issues facing 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 (as identified in the European stress tests) – rather than larger more diversified global financial services companies. The number of small U.S. banks failing continues to grow (41 in 2011) compared to 157 in 2010 which was the highest annual tally since 1992 (140 in 2009). This supports our view that 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 FDIC changed the loss share arrangement on assisted deals from absorbing 95% of losses down to absorbing 80% although this is still attractive to acquiring banks it does probably lower the Internal Rate of Return.

The U.S. 30 year mortgage market has remained low at 4.63 % - (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 8.4 months supply of existing houses – much higher than what we believe is a more normal range of 4-6 months. We believe it remains premature to consider a recovery in house prices but a measure of stability from which to build is 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 17.43 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

We believe the next few years will highlight the growing polarization between strong and weak institutions. Companies that have capital strength will buy assets from those required to divest. Companies that have a strong presence in emerging markets will likely grow quicker than those that do not. Banks that have strong retail deposit franchises will take market share from those that rely on wholesale markets to fund loan growth at attractive margins. We believe the Funds we manage are extremely well positioned to benefit from the strength of their portfolios of strong, dominant, attractively priced financial services companies.

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

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Martin Pommier - Global Financials Daily (UK Banks, EU Capital, DB1, SAN, RBS, Nordic Banks, Spain, JPM, AIG, AEL, Japan, Philippines, AIA, Yuanta, Fubon, Suruga) email dated April 11, 2011

Robert Lee - IVZ: Estimate Modest Long-Term Inflows in March – email dated April 11, 2011

Thomson Reuters

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