Market Commentary

PORTLAND INVESTMENT COUNSEL™

July 18, 2011

News Highlights on Current Holdings

Financial Services Companies

JPMorgan Chase reported 2Q earnings per share of $1.27 beating consensus of $1.21 and excluding one-time items the core looks $1.34 so even better. Total revenues were $27.4bn. Investment bank had good results with revenues at $7.31bn versus estimates of $6.7bn (fees good but trading didn't fall as much as expected) the compensation ratio was lower than expected at 35% resulting in a bottom line beat in the division of 32% at $2.06bn. It remains the #1 investment bank in fees generated and has increased its market share to 8+%. Credit generally better with non performing assets down 11.7% to $13.24bn with the total loan loss ratio down 0.14% to 4.16%. Estimated Basel III Core tier 1 of 7.6% (up from 7.3% inQ1) is testimony to the capital generation ability of this bank and this 'excess' capital generation is expected to increase over the next 12 months with $3.5bn of stock repurchased in the quarter at an average price "a bit below" $44 per share. Jamie Dimon is expecting further share buy backs at this stage rather than capital build – he expects significant capital build capability over next 12 months but will only look to increase Basel III tier 1 capital ratio to the 9.5% level by 2019 as required, rather than have excess capital on the balance sheet earlier than necessary.

On the conference call Jamie Dimon, CEO, remains adamant the bank is over-capitalised and the industry does not need all the capital it is being asked to hold by regulators.

1) Investment Bank compensation to revenue target remains at 35-40% and prime servicing continues to grow.

2) Investment Bank backlog is "strong" and will depend on market conditions,3Q is seasonally slow. Market share has risen this year to date.

3) Retail banking – the consumer protection (Durbin legislation) gross impact is expected to be $1 billion per year with no mitigation expected by 4Q2011, thereafter fees will be raised to fill in that lost revenue gap, Dimon indicated there has already been some repricing in consumer business due to regulation but not yet in wholesale businesses

4) modest Net interest margin pressure if current rates hold and the 0.26% decline on loan yields was from loan mix (ie more lower margin trading assets) as middle market lending spreads remain strong and credit line usage in this segment increased slightly.

5) Mortgage repurchase losses were lower in 2Q11 due to timing and will likely go higher in 3Q. Credit quality continued to improve but no changes to the Loan Loss Reserve levels- the $1.2 billion real estate net charge off guidance in 3Q11 may be conservative. The CEO indicated JPM may be over reserved in mortgages. Current mortgage reserves include a 5% decline in home prices from today's levels and an additional 5% fall would be $1.5 billion. The reserves for foreclosure expenses also include some potential fines for the Attorney General settlement. For problematic mortgage repurchases – Dimon believes the reserving for GSE exposure is done, could have a little more for foreclosures, Mortgage Servicing Rights, and private label. The AGs settlement will likely take a while.

6) JPM maintained its Portugal, Ireland, Italy, Greece, Spain net exposure is of the order of $15 billion, with most of this in Spain and Italy and from corporate. This number is net of collateral (non sovereign) and hedges (includes some country Credit Default Swaps). Jamie Dimon maintained its worst case loss estimate of $3 billion..

7) "higher capital levels are not a huge drag on returns" but over time business and asset mixes will change as final capital rules are determined. .

HSBC is believed to be selling its UK motor underwriter for £68.5m cash to Soros backed Syndicate Holding Corp. Completion expected 3Q11. Small enough to make very little difference but signs of follow-through on strategic plan to exit under-delivering businesses. Also, Capital One Financial and Wells Fargo are among the bidders for HSBC's US credit card portfolio, whilst First Niagara Financial, KeyCorp, and M&T Bank are among the bidders for the bank's upstate New York branches, Reuters says. The sales are part of HSBC CEO Stuart Gulliver's plan to focus on the bank's core businesses

ING - The Netherlands plans to guarantee the stability of the country's biggest banks, including ING, by ensuring that different units can be separated in times of crisis. The government said it favors making the banks safer as whole entities, rather than splitting them now. The bank is also understood to be in talks to sell its Latin American pension business, which may fetch $3 bn or more, to a group including Chilean entrepreneur Alvaro Saieh and Mexico's Grupo Bal.

Lloyds – The UK newspaper, The Times reported that Virgin Money, Co-operative Group and NBNK Investments plc are among the parties to have expressed interest in buying the 632 branches from Lloyds and are understood to have submitted bids. Bidders will be informed whether they have been selected for the second round of the sale process within 10 days and thereafter a decision is expected in August.

National Australia Bank has ‘poached’ Michael Saadie from Australia and New Zealand Banking Group, placing him in the role of general manager for NAB Corporate. NAB’s direct asset management business, nabInvest, has made its first investment in a global equities manager, acquiring a minority interest in Altrinsic Global Advisors which manages over US$12bn.

RBS - Terra Firma is understood to be considering a bid for RBS’s aircraft leasing firm, RBS Aviation Capital, that could be as much as £4bln according to the Sunday Times. Also, the Asset Protection Scheme administrators have estimated that the loan losses from the wind-down of the lender’s most toxic loans covered by the APS may reach £45bn, 20% less than the £57bn predicted a year ago. This is still considerably above the level that the market believe cumulative losses on this portfolio will reach but is now some way below the £60bn loss level which triggers payments under the APS.

Santander UK has moved its call centres back to the UK from India in response to customer complaints. CEO, Ana Botin said that the relocation was one of several initiatives to improve customer service. Separately Francisco Luzon, head of the bank’s Latam unit said in El Economista that Santander may make acquisitions in Colombia within 3 years and in Peru in the next 5 years.

Standard Chartered Korea is paying for taxis to bring customers to alternative branches as the strike by staff, that has closed over 10% of branches, looks set to drag on into a fourth week. The union members, who account for about half the bank’s 6,500 staff in the country, are protesting at an attempt to introduce performance related pay rather than have pay determined by seniority / length of service. Standard Chartered says it needs to improve the profit of its Korean operations, which last year accounted for approx. 6% of the group’s global $6.1bn pre-tax profit

Financial Infrastructure

Deutsche Boerse exceeded the minimum threshold of 75%+1 shares needed to approve the merger with NYX (preliminary acceptance rate at above 80%). Estimates are that the synergies from the merger are between €5 and €7 which may now, we believe, become increasingly reflected in the company’s share price.

Dividend Paying Companies

Carrefour – announced its second quarter and first half of the fiscal year trading results, which were broadly in line with relatively low expectations. Sales in the first half were driven by emerging markets, in particular Latin America, as business in France and core European markets was as weak as expected, while business in China disappointed, impacted by new regulation introduced in April which prohibits markdowns. In current exchange terms and including petrol, sales were up 2.7% relative to the first half of last year, while like for like sales excluding petrol and at constant exchange rate were up by 0.1%. Like for like sales in Latin America were up 6.9%, while China was up 2.2%. Like for like in the home market of France were down by 0.6%, due to a tougher than expected competitive climate as some competitors delayed passing on some of the increased input costs. Hypermarkets were down 3.3%, supermarkets advanced 1.3%, while convenience stores were ahead by 5.5% all on like for like terms. Southern Europe has continued to be affected by the ongoing austerity measures. The company continued its organic expansion, opening 305 new stores, with an emphasis on emerging markets, including three Atacadao hypermarkets in Brazil, five hypermarkets in China and 45 convenience stores in Poland. The company stuck to its original full year guidance of an improvement in the operating profit, although it admitted that it enters the second half of the year with a serious handicap. With a new management team in France, an action plan is to be implemented to tackle short term priorities such as rebalancing the promotion, loyalty and price ‘equation’, accelerate on-line activities and to continue the roll-out of Carrefour Planet (the company’s revamped hypermarket concept). The company guided for a €760mm level of operating profit for the first half, with details, as well as a comprehensive up-date on the roll-out of the Carrefour Planet, to be provided in the next earnings announcement, on August 31st.

The company also announced that the proposed merger with Pao de Acucar in Brazil fell through, as a necessary condition of participation by BNDES (the Brazilian state controlled development bank) had not been met.

Toyota – announced its intention to re-organize its Japanese manufacturing business, which accounts for about 40% of its global vehicle production. Critics have been pointing out the lopsided nature of the company’s manufacturing relative to its key markets, which, conceivably, has a negative impact on company’s profitability. Toyota aims to merge Kanto Auto, Central Motor and Toyota Motor Tohoku. At the same time, the global leading car maker is also planning to de-list its Toyota Auto Body and Kanto Auto Works subsidiary, for what is estimated to cost around $1.3bn. Through these measures, the company hopes to give each of its subsidiaries more autonomy and a bigger role which would incorporate activities all the way from development to production. The Japanese operations have also been affected by relative record high levels of its currency, the yen.

In a separate development, Toyota revealed that its Etios model, which it developed especially for India, has seen results which outpaced expectations. Toyota managed to sell about 37,000 units in the first six month of the year of the sedan, which is mostly made with components source in India and is priced starting at Rs390,000 ($8,770). The Indian market is estimated at just over 3 million vehicles a year, but expected to reach 4 million by 2015.

Economic Activity, Consumer and Business Conditions

U.S. has had its Aaa bond rating placed on review for possible downgrade by Moody's Investors Service, which cited the "rising possibility" that the debt limit won't be raised on a timely basis. "There is a small but rising risk of a short-lived default," Moody's said. S&P then joined Moody's in placing the US credit rating on negative watch pending a resolution to the debt ceiling crisis. S&P says there is at least 50% chance the US rating will be cut by 1 or 2 notches within 3 months

Ireland - Moody's downgraded Ireland's government bond ratings by one notch to Ba1 from Baa3. The outlook on the ratings remains negative. In a statement the ratings agency said that the key driver for the downgrade is the growing possibility that at the end of the EU/IMF support at year-end 2013 Ireland is likely to need further rounds of official financing before it can return to the private market, and the increasing possibility that private sector creditor participation will be required as a precondition for such additional support, in line with recent EU government proposals.

Italy – has now been brought into the net of sovereign debt concerns with speculators, early last week, focusing on the Italian banks – with Unicredit's falling share triggering halts to its trading for 3 days running. However the issuance of EUR6.75bn of Treasury-bills at 3.67% (vs 2.147% in June) subsequently helped to calm the credit markets.

Financial Conditions

European Bank Stress Tests: Eight Banks have failed the Stress Test with $3.5 Billion Capital shortfall. As expected the banks that have failed comprise those smaller 'savings' banks with poorer risk management and comprise: 5 SPANISH BANKS, 2 GREEK, and 1 AUSTRIAN BANK. These banks were found to have insufficient reserves to maintain a core tier 1 capital ratio of 5 percent in the event of an economic slowdown, the European Banking Authority said. The assessments are the first by the European Banking Authority since it was set up earlier this year. Banks that fail the stress test must present a plan to raise more capital within three months.

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 2.53 % and the U.K.'s 2 year/10 year treasury spread is 2.32 % - 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 (55 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 4.51 % - (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 21.07 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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Sources: KBW - EuroAsian Daily, TD: Morning FX Outlook ,Thomson Reuters, Global Financials Daily (JPM, SEB, Asian banks, VR, Italy, STB, UBS, CS, ASHM, PAY, TNN, RBS, HIG, SIFI, Mortgage, DBS, RHB, Mizuho, JGBs), Credit Suisse - MONEY NEVER SLEEPS, Eight Banks Fail Stress Test With $3.5 Billion Capital Shortfall

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