Market Commentary

PORTLAND INVESTMENT COUNSEL™

August 2, 2011

News Highlights on Current Holdings

US National Debt

In the last minute possible the US Democrats and Republicans got to an agreement in regards to raising the government debt ceiling and passed a bill through the House of Representatives, thus virtually (the Senate still has to vote later today and President Obama needs to sign the bill into law) removing the imminent danger of default that had been hanging on top of the capital markets and financial institutions for the last couple of months. Needless to say, neither of the political party is satisfied with the compromised solution, which saves the entitlement programs (at least for the time being) and avoids raising taxes. Key decisions regarding the above have been deferred to a national bipartisan panel (congressional committee), which is supposed to identify some $1,500bn of deficit reduction spending cuts over the next 10 years, in addition to the $917bn already agreed upon, for a total of some $2,400bn. The national debt ceiling is raised in a couple of steps, with roughly $900bn (in two tranches, $400bn now and $500bn more in the fall) in the first step, while the second step will provide a sufficient amount of debt ceiling increase to allow the government to function through the beginning of 2013. In the absence of an agreement inside the new committee, automatic spending cuts would kick in, with the scope of generating an additional $1,200bn of spending cuts over the next decade. While, the House vote provided the much needed relief from potential default, at the time of writing this, it is still not clear what the view of the credit agencies is on the deal and whether a US credit rating downgrade is still in the books, with potential adverse effects on the capital markets.

Financial Services Companies

Ameriprise : 2Q earnings of $1.31 versus consensus of $1.33. Underlying trends in key businesses strong as is AMP's capital position. Asset Management net flows +$0.5B versus -$4.8B in 1Q11 on reinvested dividends and improved institutional flows. Advisor productivity at new record ($99K), even with modest growth in advisor count. Excess capital over $2B (versus $1.5B in 1Q), despite $366MM in buybacks in 2Q.

Barclays Capital is setting up a 500 million pound infrastructure fund that will use debt to finance projects in cooperation with the British government. Barclays has approached pension funds and insurance investors about the fund, which will invest in projects ranging from healthcare and education, to renewable energy and electricity transmission.

BBVA - Net profit came in at EUR1,189m, 9% ahead of consensus. The beat was helped in large part by a lower tax rate in the quarter (assisted by the higher dividend income in 2Q11), although provisions also came in slightly better than expected. Spanish profits fell 12% QoQ, but this was in line with expectations. Meanwhile Mexico reported profits in line with expectations, whilst the US and other Latin American operations booked slightly better than expected results. Group Non Performing Loans trends continue to look decent for BBVA with the NPL ratio falling to 4.0% from 4.1%. Core Tier 1 capital improved QoQ to 9.0%.

Credit Suisse - Q2 Net profit CHF0.77bn. Net revenues CHF6.33bn (consensus CHF7.0bn, Q1 CHF7.8bn) Pre-tax profit CHF1.09bn (consensus CHF1.47bn, Q1 CHF1.63bn) Operating divisions (pre-tax profit): Investment Bank CHF0.23bn (consensus CHF0.61bn, Q1 CHF1.34bn); Wealth Management CHF 0.60bn consensus CHF0.58bn, Q1 CHF0.62bn); Corporate & Institutional CHF0.25bn (consensus CHF0.22bn, Q1 CHF0.23bn), Asset Management CHF 0.20bn (consensus CHF0.12bn, Q1 CHF0.17bn). The entirety of the earnings miss came in fixed income trading - where we believe the market was primed for disappointment post-Goldman. Wealth Management is 3% ahead at the pre-tax level although its result was inflated by CHF72m real estate gains. Ex these the gross margin is 111bps not 115bps – still robust in our view.

Deutsche Bank reported a Q2 pre-tax profit of €1,778mn. After adjusting for a number of exceptionals (mainly €132mn Greek bond impairment), the underlying pre-tax profit of EUR 1,897 m is broadly in line with consensus. On the back of lower than expected sales & trading revenues, Corporate Banking & Securities (CB&S) reported a pre-tax profit of EUR 982 m, 21% lower than consensus. This was offset by better than expected results in 'stable divisions' Global Transaction Banking and Private Clients & Asset Management. CFO Stefan Krause reiterated Deutsche's €10bn target but due to the deterioration of market environment, achievability of CB&S's €6.4bn is highly dependent on the return of client confidence in the second half of this year. Management believes it could offset lower CB&S profits with 'stable divisions' profits, which are ahead of plan. Deutsche improved its Core Tier I ratio by 0.54% bps to 10.2%, through retained earnings and a €8bn reduction in its Risk Weighted Assets. Mr. Krause commented that Deutsche plans to operate on a cushion on top of the 2.5% 'SiBs' buffer (systemically important financial banks) , putting its targeted Basel III medium term capital ratio "north of 10%". Deutsche Bank's current CEO Josef Ackermann will become the bank's Chairman in 2012, Ansu Jain & Juergen Fitschen will become Co-CEOs. Fitschen contracted to 2015, Jain to 2017.

ING is to sell its insurance operations in Latin America for €2.68bn to Colombia's Grupo de Inversiones Suramericana. The deal moves ING closer to meeting European Commission demands that it split its banking and insurance operations. The transaction excludes ING's 36% stake in Brazilian insurer Sul America SA.. The deal is being done at 16x 2011 Earnings per share and 1.8x book value. The transaction will be used to reduce leverage for the insurance business by about EUR 2.8bn. Equity for ING Bank will remain unchanged. The leverage ratio for ING Insurance will go down from 39% in 1Q11 to 31% after the transaction. This compares to European insurance peers of around 25-35%. The group continues to achieve reasonably good pricing for its assets – which ultimately we believe will necessitate the market to recalibrate favorably its value of the remaining core business.

Invesco reported 2Q11 EPS of $0.44, $0.01 above consensus on an operating basis with positive inflows. The company also repurchased 11.3mn shares during the quarter. We attribute the higher reported earnings largely to lower non-operating expenses. Long-term net inflows of +$3.1bn equivalent to 2.6% annualized organic growth, were above forecasts, certainly the active long-term flows of $2.9bn were an improvement over the prior period's outflows . Institutional inflows eased to $0.7bn due to lower gross sales, though without thinning the pipeline, said management Overall the company achieved both sequential and YoY margin improvement and so in our view retains its above average potential operating leverage and benefits of scale from its global platform. Invesco announced an 18-month initiative to build marketing capabilities, enhance its product offering, and outsource its European transfer agency, partly to address potential regulations. By completion in late 2012, project expenses are expected to reach $40mn, as annual cost savings of $13-15mn ($0.02/sh) should begin. Having completed its integration of Van Kampen and related fund mergers, Invesco now offers a range of equity products solidly in the top half of peer performance, with significant presence in Asia ($51bn AUM) and continental Europe ($38bn). While real estate, commodities and international have maintained traction, renewed inflows to US equity products remain key to improved organic growth.

Royal Bank of Canada as reported by Bloomberg, may spend as much as C$1bn to buy asset managers outside Canada as the country's largest lender seeks to triple profit from wealth management in the next four years.

Saint James's Place - Profits before tax of £55.3m compares to consensus of £55.9m. Dividend well ahead, rest in line, new business 15% growth. Annual Premium Equivalent was in line with expectations at £335.6m (+15%). Assets under management £29.1bn versus consensus of £28.8bn. The interim dividend growth is key though with 58% growth to 3.2p well ahead of expectations at 2.7p (33% growth).

Santander: Net profit of EUR 1.4bn impacted by unexpected PPI (principal protected insurance policies in UK which the authorities have regarded as being too aggressively sold) of EUR620m. Excluding that impact, results in the quarter stand at EUR2bn, below consensus of EUR2.2bn. Looking through the divisions the results look weak with Spain, Portugal and Brazil all disappointing. Ex the PPI charge, the UK division looks slightly better than expected, with consumer finance also strong. Capital, the other closely watched area for Santander, was in line with expectation - core Tier 1 at 9.2% following the polish BZW BK acquisition. But asset quality deterioration continues - the Group non performing loan ratio rose to 3.78% from 3.61% and coverage fell to 69%. Dividend is maintained at 60c but with 50% coming in the form of a scrip dividend. As expected the UK IPO will be delayed from 2011.

UBS In November of 2009, prior to the release of Basel III capital rules, UBS presented the market with "3-5 year" medium term targets. Last week, UBS acknowledged that its targets are "unlikely to be achieved in the time period originally envisaged." Consensus 2013 pre-tax profit forecasts are 27% below UBS' target at a group level and between 17% and 38% below targets on a divisional level. Therefore, management abandoning earlier targets should be no big surprise to the market. UBS' Q2 numbers were weak versus consensus. Revenues of CHF 7.1 bn were 8% below consensus, operating expenses were 7% below consensus, and pre-tax profit was 15% below consensus. The bulk of the miss is explained by the always volatile investment bank (pre-tax profit -45% vs consensus). The increasingly more important and core, division, Wealth Mgmt, used good cost control to overcome weak asset gathering and beat consensus by 13%. Noteworthy is that UBS' tangible book value per share grew from CHF 9.7 to CHF 10.2 in the quarter, increasing the likelihood of some capital return in the next 1-2 years which should, in our view, be a positive catalyst to support the current price.

Financial Infrastructure

Aon - Adjusted operating EPS from continuing operations of $0.83 beat consensus of $0.82. Currency helped by approx $0.03. A lower-than-expected tax rate that aided earnings by about $0.06 per share was mostly offset by accelerated amortization of financing costs and some unusual items in corporate investment income. Organic revenue growth in the brokerage segment was +2%, in line with the 1Q growth rate. The Americas organic growth was +4%, a slight deceleration from the 3% growth in the 1Q. Organic growth in reinsurance broking continued its modest negative trajectory. Adjusted for items, the margin was 19.6%. Aon bought back 5.8 million shares in the quarter, a slight slowdown from the 6.8 million shares pace of the 1Q. We would expect a fairly aggressive buyback program as the company tries to offset the dilution from share issuance related to the Hewitt deal.

Chicago Mercantile : reported second quarter EPS of $4.38, well ahead of expectations ($4.17). We believe this quarter's results were solid—the beat was broad-based as stronger revenues, lower expenses and a lower tax rate all helped. Total revenues of $838 million were up 3% yr/yr and up 1% from first quarter levels. Operating margins expanded to 64% this quarter. Tax rate was lower (42%) CME recorded average daily volume of 13.5 million contracts per day, down 2% from first quarter levels as volatility remained elevated across asset classes. We believe CME Group remains a primary beneficiary of ongoing macro uncertainty given its diverse suite of global benchmark products. With regard to venue mix, a record 85% of volumes were executed electronically through the Globex platform during the quarter. Despite the better than expected top-line results, management reduced its expense guidance and indicated it now expects full year operating expenses of approximately $1.235 billion (down from prior guidance of $1.26 billion), capex of $165 million (down from $180 million) and an effective tax rate in 3Q and 4Q of 42.5% (down from 43%). At June 30th, the company held $749 million of cash and short-term investments on its balance sheet, up from last quarter and in excess of management's stated desire to maintain at least $700 million in cash. Outstanding debt held steady at $2.1 billion, implying a current debt-to-EBITDA ratio of 0.88x. During the quarter, CME Group repurchased $65 million of stock (220,000 shares). In May, CME authorized a $750 million share repurchase program—we expect more active return of capital to accelerate over the next few quarters now that the company has reached its target leverage ratio of less than 1.0x.

Deutsche Börse - 2Q11 revenues were weaker than expectations (Eurex and Clearstream), though costs better. Earnings are in line at the PBT level but a miss on headline due to higher tax charge (non deductibility of NYSE related merger costs).

Western Union reported better than expected 2Q11 results and bumped up guidance for the full year. Adjusted EPS grew by 11% to $0.40. Revenue grew by 7.2% (on a constant currency basis, revenue grew by 5%). Adjusted Operating Margin was 26.8% and management raised guidance for constant currency rev growth to 4-5% from 3-4%. Ex- restructurings, the company raised 2011 EPS guidance to $1.53-$1.58 from $1.47-$1.52.

After some deceleration across some major corridors in 1Q, most corridors in 2Q were stable to better. Domestic US continues to outperform expectations with China (+7%), India (+8%), and Asia Pacific (+12%) transactions accelerated sequentially while Middle East (+4%) was stable.

Dividend Paying Companies

Bayer – announced second quarter results broadly in line with the expectations, as a stronger than expected performance in the Bayer Crop Science business was offset by weaker than expected results in the Bayer Materials Science business. Sales at the group level reached €9,252mm, up by 0.8% or 5.4% higher in constant currency.

Health Care division sales of €4,305mm were 2% lower, mostly as a result of adverse currency effects. The pharmaceutical business delivered €2,666mm worth of sales, up by 0.5% organically, as sales growth of Kogenate, a blood-clotting medicine, Mirena, women's health device, and Aspirin Cardio offset the reduced sales of Yaz, oral contraceptive, Levitra, erectile dysfunction treatment, and Avalox, antibiotic. Sales in the pharma business, as in the overall Health Care division, were boosted by strong performance in developing markets in Asia/Pacific, Latin America and Middle East, as North America and Europe lagged, impacted by health system reforms.

Bayer Crop Science sales were 3% higher, reaching €1,943mm, as very positive farm economics, stimulated by robust soft commodities pricing, led to a favourable business environment and increased crop protection products volumes. The North American sales posted an impressive 19.2% growth in sales in constant terms, while Europe reported a 6.4% advance under same terms. The growth in crop protection products sales was provided by seed treatment products and fungicides. In the Bio Science business (seeds) Bayer recorded improved sales in canola, cotton and rice.

The Materials Science division, responsible for the production and marketing of high performance plastics and foams used chiefly in automotive and construction, increased sales by 3.5% to €2,782mm, as the division was able to increase prices across business units and geographies. Growth however was more muted than expected, as volumes in Asia/Pacific and North America declined.

Profitability improved in the quarter, with group level earnings before interest and tax (EBIT) of €1,273 being 25.9% higher than the same period of the last year. Reported earnings were 40% higher year on year, while normalized earnings advanced by 11.2% in the year.

The management maintained its guidance for full year sales higher by 5% to 7% and improved core earnings per share by about 15%. The healthcare subgroup is expected to increase sales by low to mid single digit and improve its EBITDA, the crop science business is expected to continue its positive trend and improve sales by high single digit, while the material science division is still expected to grow both sales and EIBTDA by high single digit, although this last objective is seen as 'increasingly ambitious'.

BHP – approved an expansion of the GEMCO manganese operation in the Northern Territory of Australia, which involves a capital expenditure of $167mm relative to BHP's 60% interest in the business which it shares with Anglo American. The production capacity at GEMCO would increase from 4.2mm tonnes yearly to 4.8mm tonnes yearly, with the expansion expected to be completed in late 2013. GEMCO is currently the world's largest and lowest cost production of manganese ore, a key ingredient in the production of steel.

The company's copper operations at Escondida, Chile, the largest copper mine in the world, have been interrupted for 11 days as a wave of labour actions is sweeping through the cash reach resource industry. The strike at Escondida comes only days after a similar labour action ended at Codelco, the state run Chilean producer leading the copper extraction globally. In the most recent development, the union at Escondida lowered their bonus demands, signalling increased flexibility, as the mine operator, BHP, threatened with locking out the workers.

GEA Group – of Germany reported a very strong set of results for its second fiscal quarter, on Friday, posting a 25% order intake increase to €1,462mm, including the effect of the newly acquired Convenience-Food Technologies (CT) or 17% higher when removing that effect. Revenues were also 17% higher, while the underlying earnings before interest and tax (EBIT) margin expanded by 150bps to 8.4%. The growth was broad based with all divisions adding to orders and sales, most notably the Process Engineering and the Mechanical Equipment businesses. Geographically, orders in Western Europe, Asia Pacific and Latin America provided a boost, while other areas showed robust results as well. Importantly the base orders (below €5mm) were responsible for most of the increase, which bodes well for future profitability. The end industries that contributed the most to business growth for GEA were beverages and solid food processing, as well as oil and gas and chemical industry. Going forward, the group raised its forecast for the full year, expecting an order intake of €5.1bn to €5.3bn, while the operating EBIT margin is expected to be in the 8.5% to 9.0% range (including the new Convenience-Food Technologies segment).

Siemens' – third quarter of its fiscal year fell short of expectations, as a relatively robust core operating result was hit by a number of one off charges, including a charge pertaining to the group exiting a joint venture with Areva and a charge for stopping a particle therapy project it had been developing inside its healthcare business. The group experience weakness in some of its divisions, such as building technologies, mobility, transmission, distribution and diagnostics, while core businesses, such as industry automation, drive automation and fossil power continued to perform strongly. The management warned against a levelling off the growth momentum in Europe and North America, yet pointed out it still sees good demand in the emerging market factories. Plans to spin-off the lighting unit Osram could be delayed due to the uncertainty in the capital markets, while search for a buyer of its Nokia Siemens Networks telecom gear joint venture has stalled. The company maintained its guidance for a net profit from continuing operations of at least €7.5bn

Toyota – announced its intention to double its production capacity in India to 310,000 vehicles per year in 2013, by spending some $220mm. A first facility, responsible for building the Innova and Frontrunner, will increase its capacity from 80,000 units to 100,000 units, while a second plant, which now builds Etios and Corolla, will manufacture 210,000 vehicles, up from the current 80,000 cars capacity. Toyota's announcement coincides with Ford's announcement of a $1bn dollar investment in a plant in Gujarat, a north-western Indian state well known for its pro-business attitude.

Shell reported clean net income of $6.55bn, in line with consensus. Importantly, the key 2011 project start-ups (Pearl GTL, Jackpine and Qatargas) are on track and contributed to production and earnings in 2Q. Their impact on cash flow was minimal this quarter at c.$100m, but this should rise in 2H11 as the projects ramp up. Lower maintenance in Refining and Chemicals should also help to boost 2H profitability. Strong Integrated Gas results show that Shell is well placed to benefit from LNG arbitrage opportunities, with Qatargas 4 now at plateau. Shell has we believe delivered a solid performance in first-half 2011 with $25.4bn of operating cash flow, despite a limited cash contribution from the big 3 projects. Their combined output of 170kbd in 2Q was less than half planned peak production of 400kbd. The projects' steady ramp-up is we believe putting Shell firmly on track to meet its 2012 cash flow target ($43bn at $80/bbl), when they should be firing on all cylinders.

Vodafone and Verizon Communications have announced that Verizon Wireless (45% owned by Vodafone) will distribute a cash dividend of $10bn in Jan 2012. Vodafone will receive $4.5bn (£2.8bn). An exceptional Dividend per share (4.0p/share) will be paid to Vodafone shareholders in February 2012 (with £800mn used for forthcoming spectrum auctions in Italy, the UK and Spain). The choice of a one-off Dividend Per Share payment gives Vodafone greater flexibility for the use of future US cash receipts (DPS, buyback, M&A for market repair). Vodafone still intends to increase Dividend Per Share by 7% per annum in Mar 2012 and Mar 2013.

Economic Activity, Consumer and Business Conditions

US – Business activity indicators in US last week continued to depict a weak manufacturing environment and provide confirmation that the economy is struggling through a 'soft patch'. The US durable goods orders dropped 2.1% in June, significantly below expectations which were calling for a 0.3% advance, mostly due to the volatility in the transportation sector, but even when removing the effects of transportation, durable goods orders were virtually flat (+0.1%). The Institute for Supply Management's (ISM) Purchasing Managers Index (PMI), a manufacturing leading indicator, surprised on the negative side as well with a 50.9 reading in July, barely indicating any growth and ways below the expected 54.9 reading.

Weakness in the economy and the never-ending debate around the debt ceiling have also dampened the consumer optimism, with the Consumer Sentiment Index by the University of Michigan retreating to 63.7 from 71.5, as a result of a drop in both the consumer expectations and their views on the current conditions. Earlier in the week, the Consumer Confidence Index reading by the Conference Board for the month of July managed to advance to 59.5 from the June's 57.6 level, ahead of the expectations for a 56 level. Earlier today, the personal income and spending report for June revealed that incomes grew only 0.1%, short of the expectations for a 0.2% advance.

Part of the same report, the all important core personal consumption expenditure (PCE) price index, the Fed's preferred inflation gage, kept steady at the 1.3% year on year rate of change, providing more breading room for the regulators as the economy is coping with sluggish growth. The economic output data at the end of last week revealed a weaker than expected GDP growth rate in the second quarter of the year, up only 1.3%. The final sales growth, the GDP growth minus the effects of foreign trade, was 1.1% in the second quarter from an absolute flat reading (+0.0%) for the first quarter.

The housing and construction sector continues to struggle, as the Case Shiller home price index, down 4.5% year on year for the 20 metropolitan areas, is indicating. June's new home sales unexpectedly retreated to a 312,000 annual rate level, short of expectations for a 320,000 units annual rate level and still dangerously close to its all time low. The only ray of light came from the pending home sales report, up by 2.4% in June, against expectations for a 2.0% drop, a definite good sign for the existing home sales, given that this is the second month in a row of robust pending home sales growth.

Still on the bright side, the US initial jobless number managed to fall below 400,000 last week to 398,000, the first time since April, a long awaited and well received performance.

Canada – The economic output on this side of the border was disappointing as well, retreating by 0.3% in May, on top of a 0.0% growth the month prior, chiefly as a result of a drop in the output of the extractive industries.

Raw materials pricing retreated by 2.2% in June, while still maintaining an impressive 23.0% year on year rate of improvement, while the producer prices retreated by a more modest 0.3% in the same month, which leaves the year on year change at a 5.2% level, a sign that there is still enough slack in the Canadian economy to impede the transmission of the inflationary pressures.

Reserve Bank of India raised the benchmark rates by 50bps compared to the expectation of 25bps. If one looks at the policy rates, the repo rate has moved up by close to 325bps from the bottom whereas deposit rates have already been hiked by 325bps from the bottom. The reason why banks went ahead and hiked deposit rates aggressively was that the gap between deposit growth and loan growth was very high and that has come down very sharply with deposit growth now at 18.5% and loan growth at 20%. With credit growth itself expected to slow down, we don't think banks will hike deposit rates as deposit growth is good enough to suffice a 17-18% credit growth. If banks further hike lending rates, growth will likely slow.

Financial Conditions

Global Systemically Important Banks (GSIBs) – last week Moody's listed 28 probable G-SIBs based upon Basel Committee proposed methodology. They include: Deutsche Bank, Goldman Sachs, BNP Paribas, Morgan Stanley, JPMorgan, Credit Suisse, Natixis, Nomura, CACIB, Citigroup, UBS, Bank of America, Barclays, Societe Generale, Royal Bank of Scotland, Mitsubishi UFJ Financial, HSBC, Mizuho Financial, Commerzbank, Unicredit, Macquarie, Royal Bank of Canada, Santander, Wells Fargo, Itau-Unibano, ICBC, Toronto Dominion & Standard Chartered.

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 2.36 % and the U.K.'s 2 year/10 year treasury spread is 2.15 % - 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 (61 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 4.55 % - (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 23.66 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.

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

Market Commentary

PORTLAND INVESTMENT COUNSEL™

August 2, 2011

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

PIC11-0087-E(08/11)