



News Highlights on Current Holdings

Financial Services Companies

Bank of America said last Monday that it plans to eliminate 30,000 jobs, the first phase of cost savings will save \$5bn per annum by 2013 (around 7% of the cost base). BofA has already disclosed plans to eliminate a total of 6,000 jobs this year and it recently announced a management shakeup that effectively will split the bank into two units: one serving consumers and one serving commercial clients. The bank said it expects a "significant portion" of the reduction in headcount to occur through attrition and the elimination of unfilled positions. BofA had a total of 287,000 employees as of June 30.

Barclays - CEO Bob Diamond, speaking at the Barcap Financials Conference last week, gave an upbeat assessment on their prospects despite the challenging market conditions. He maintained the bank is on track to meet its 13% ROE target by 2013 even after the ICB ringfencing proposals and said that Vickers plan was a "welcome step" to clarity.

BNP Paribas and Societe Generale rebounded in Paris trading mid-week after rejecting concerns over their access to funding. Societe Generale, CEO Frederic Oudea said in an interview with Bloomberg Television in New York that the bank's exposure to European sovereign debt was "manageable" and that it could do without access to U.S. money-market funds.

Credit Agricole / BNP Paribas : Moody's had downgraded the credit ratings of Societe Generale and Credit Agricole one notch each. SocGen was reduced to Aa3 from Aa2. They say SocGen has a capital level that can absorb potential losses it is likely to incur over time on its Greek government bonds and that SocGen would remain capitalised at an adequate level even if Irish, Portuguese government bonds deteriorate further. Moody's assessment incorporates loss assumptions "significantly higher" than impairments SocGen has already recognised and they are extending the review to focus on funding and liquidity challenges. Credit Agricole was reduced from Aa2 from Aa1. A negative outlook on long-term ratings was retained. BNP's rating was not downgraded but the review for possible downgrade was extended. Moody's said BNP has adequate cushion for Greek exposure and unlikely to lead to a cut of more than one notch. Separately, BNP issued statement at the Barclays Conference in New York with a deleveraging plan/Corporate Investment Bank cost reduction which adds 1% to Core Tier 1 capital by 2012 (versus 30/6/2011). The Group's fully loaded Basel 3 common equity Tier 1 ratio objective is 9% as of 1/1/2013. The asset optimisation plan to add 1% of additional Core Tier 1 capital

by end of 2012 (versus 30/06/2011), is equivalent to €70bn risk weighted asset reduction, equivalent to 10% deleveraging.

HSBC – is seeking to sell its general insurance business for about \$1bn as part of CEO Stuart Gulliver's plan to divest some assets, the UK Times reports. Information may already have been sent to interested parties, including private equity groups, the paper reports. A deadline for initial bids has been set for mid-October. HSBC's nonlife insurance division includes policies written for individuals and corporations worldwide, including cover in property, aviation and motor insurance. Last month HSBC said it will eliminate 30,000 jobs worldwide by end 2013, about 10% of staff and cut expenses by as much as \$3.5bn to stem rising salary costs and prepare for stricter capital rules.

JPMorgan Chase & Co's trading revenue is running 30% lower this quarter than the previous period, while investment banking fees are likely to fall by about 50%, JPMorgan's head of investment banking, said at the Barclays New York conference. With just three weeks left in 3Q11, global investment banking fees for all of Wall Street amounts to US\$11.2bn, 51% less than for all of the 2Q11, according to Thomson Reuters/Freeman Consulting. Reuters

Lloyds Banking Group will not be told to lose more than the 632 branches it has already been ordered to sell by the EU following the publication of report from the ICB. The Commission previously suggested in its interim report that it would recommend Lloyds increase the number of branches sold as part of the European-enforced sale to address competition concerns. Tim Tookey is to resign as Finance Director of Lloyds to take up a position with Friends Life, given he was one of the few remaining executives associated with the ill-fated acquisition of HBOS this announcement was expected.

Royal Bank of Scotland : Bloomberg reports that RBS has received more than five offers for its aircraft-leasing division, including ones from Terra Firma Capital Partners.

Santander: Financial Times reports that plans to IPO UK business has been put off until 2013, citing challenges of implementing Vickers' ICB proposals (ring-fencing).

Swedbank have halted the repurchase of their own shares. This unexpected development will decrease the timing of excess capital return, and also lower RoE The logic for halting the buyback: 'During the past weeks, the situation in Europe has worsened significantly. We see today no altered risk in our portfolio, but the perception of our buyback program is not supporting Swedbank's brand in the current market situation'.



TD Bank issued 9.2 million common shares at \$76.50, for total proceeds of \$704 million. The issue was expected as the bank had announced on August 15 its intention to issue shares prior to the closing of the MBNA Canada acquisition.

UBS announced in a statement yesterday that its loss from unauthorised trading amounted to \$2.3bn. The loss came from trading in S&P 500, DAX and EuroStoxx index futures over the past three months and UBS said the extent of the risk exposure escaped detection because fictitious, forward settling, cash exchange traded fund positions had been placed into the bank's systems allegedly by Kweku Adoboli. "The positions taken were within the normal business flow of a large global equity trading house as part of a properly hedged portfolio," the bank said. The positions were unwound by the end of last week. "I and the rest of the firm's management are fully focused on thoroughly investigating this issue, and will do all it takes to determine how this happened and what we need to do to ensure that it does not recur," Gruebel, CEO said. "Ultimately, the buck stops with me." No further update on likely Q3 group loss which is likely to be CHF0.25-0.75bn. From a capital perspective this rogue loss will have reduced Core Tier 1 capital by about 0.5% although the group remains very strongly capitalized at about 13%, compared to regulator's desire to see at least 10%. The timing of the rogue-trading incident last week was particularly unfortunate as the Swiss parliament was scheduled on the same day to start debating ring-fencing proposals, similar to the UK initiative whereby investment banking would be outside.

UniCredit - In an interview with the Financial Times, CEO Federico Ghizzoni talks about his first year of running the Italian bank following Profumo's resignation last September after a long-brewing bust-up with the board over strategy. He is preparing his first strategic plan to be presented to the group before the end of the year. He says to those fearing a liquidity crunch, Unicredit has 100% of its funding for Italy in place at least for this year and on a group basis, the bank has covered about 95% of its funding needs until end 2011. He downplays the growing concerns among investors that Italian banks are feeling the strain in the overnight interbank market and says "we have an ambition to be a strong bank in terms of capital ratio" and he says "the possibility for us to increase capital one way or another (a rights issue, risk weighted asset reduction and asset sales) is there and it is achievable". Ghizzoni also says how UniCredit "will continue to be a commercial bank because this is what we do better. Inside the concept of a commercial bank I can put investment banking but it must entirely support the corporate business".

Financial Infrastructure Companies

Deutsche Bourse /New York Stock Exchange – the Financial Times reported that Deutsche Boerse and NYSE have significantly raised their estimate of savings by banks from the proposed merger, saying customers would save about \$1bn more than previously estimated. NYSE CEO Duncan Niederauer, said customers collectively would not have to post about \$4bn in money as "margin" in the clearing process where previously they had estimated customers would be able to post \$3bn less than they do now. He said customers would also make further cost savings of \$75-\$100mn by not having to connect to both derivative and exchanges clearing houses, this comes on top of previously announced, merger related synergies of €100mn, a figure itself raised from €80mn back in February.

Pearson has announced its second-largest acquisition since selling the IDC financial data business in 2010, with a \$400m cash offer for Connections Education, an operator of online-only US public schools. The deal represents the latest move by Pearson, which also owns the Financial Times, to change its education business from a print textbook publisher into a supplier of digital learning materials and educational services, selling direct to students and parents, as well as to state school bodies.

Dividend Paying Companies

BHP – A drilling success was announced by BHP in its Gulf of Mexico located Mad Dog field (23.9% working interest). The estimated total oil in place at Mad Dog has now reached 4 billion barrels of oil, making it one of the largest Gulf of Mexico (GoM) fields. The well was drilled by BHP, as BP, holder of the majority working interest and the operator of the field, is still unable to drill in GoM following last year's oil spill. With an increased energy related earnings stream, following the acquisition of the Fayetteville and Petrohawk oil and gas assets, this recent technical accomplishment reinforces BHP's place as a major exploration and production company.

Novartis – During an investor day in London, the company updated on prospects for the newly acquired Alcon business, a global leader in eye-care. Sales growth is seen in the high single digits to low double digits, while the cost savings target has been raised to \$350mm by 2013 from the previously announced \$300mm figure. The growth is expected to be driven by an increased penetration in the emerging markets, as well as a switch towards pricier lenses.

Siemens – Announced the postponement of its plant listing of Osram, its lighting subsidiary, blaming the recent increased



volatility for the decision. The IPO had been initially set for the fall of 2011. The delay is being perceived as a clear sign of the weakness in the mergers and acquisition universe. Osram is responsible for €1.7bn of revenues and €34mm of earnings before interest and tax of the German engineering group. Siemens had planned to remain an anchor investor in Osram with a target holding of 25% plus one share in order to have a say on strategic issues.

Vivendi – Initiated a strategic partnership involving Bolloré's free channels, giving the French media and telecom giant access to the fledgling digital terrestrial TV (DTTV) market. Canal +, the pay TV division of Vivendi, would acquire a 60% stake in Bolloré Group's television business, including the Direct 8 and Direct Star channels. The transaction values the business at €65mm (€79mm for 60%) and it is to be paid for with Vivendi shares. The Canal + Group would take over the operational management and the advertising sales of the two channels. Vivendi sees a strategic fit between its existing pay TV business and the free TV offering through Bolloré's channels, which would allow the group to extend its presence in all broadcasting media and enhance content. Three year put and call options at €86mm have been swapped for the remainder of 40% of the business.

France's telecom regulator announced it had received four bids for 4G mobile licenses from France Telecom, SFR (Vivendi), Bouygues Telecom and Iliad. There were no details offered on the number of frequencies bid or the pricing offered. Decisions are expected by mid-October. The first batch of frequencies, currently auctioned, are in the 2.6GHz band, with the better quality ones, also costlier, in the 800MHz band, due to be auctioned in mid-December. The French government hopes to raise €2.5bn, with €700mm coming from the 2.6GHz band and €1.8bn from the 800MHz frequency band.

Economic Activity, Consumer and Business Conditions

'BRICs' to debate possible eurozone aid : Officials from the leading emerging market economies will meet in Washington this week to discuss potential joint action to help the crisis-hit eurozone, according to Brazil's finance minister. The countries involved are Brazil, Russia, India and China plus South Africa. ... marking a further symbolic shift in the momentum of the global economy towards the largest emerging markets.

Greece – Eurozone ministers over the weekend delayed the tranche aid payment to Greece until October with demands they fulfill its fiscal and reform pledges. Greek PM Papandreou cancelled a trip to the US in this "particularly crucial" week

with Greek Finance Minister Venizelos to announce a fresh set of fiscal consolidation when meeting representatives from the so called Troika today. Greek officials estimate they have enough cash for the remainder of this month, the Financial Times reported...the BBC report expects Greece to be required to announce a further 100,000 job cuts from Greece's bloated civil service.

India : as expected, the Reserve Bank of India continued tightening, raising the policy repo rate by 25bps last Friday. The decision comes amidst (still) elevated inflationary pressures even as domestic growth moderates and concerns regarding external growth escalate.

USA – the US Census Bureau now estimates that the median US household income has fallen to US\$49,500 pa (compared to \$51,500 in 2007) and that 46.2 million Americans live in poverty – 15.1% of the population - with current expectations it will rise to 16% by 2014.

Macro-economic news coming out of US last week revolved around the state of the American consumer. Retail sales for the month of August came in flat, against expectations of a 0.2% improvement and a 0.3% growth rate in July. To blame are sales of auto vehicles, as well as department stores, clothing, furniture and even food and drink services. The retail sales excluding sales of motor vehicles inched higher by 0.1% in the month, against expectations for a 0.3% improvement and a 0.3% rate of growth in the prior month. At the same time, headline consumer price index (CPI) rose in August, to 3.8% year on year, ahead of expectations and prior month's rate of 3.6% year on year. The core CPI (which excludes volatile series, such as food and energy) also exceeded expectations, reaching 2.0% in year on year terms, ahead of consensus, at 1.9% and July's 1.8%. Although a bit on the high side, the current CPI reading are not expected to worsen as there is still, we believe, a significant amount of slack in the economy and commodities have recently seen a pricing pull-back. The producer price indices (PPI), announced earlier in the week, came flat at the headline level, while the core PPI was actually lower. To complete the picture, the consumer sentiment, as measured by the University of Michigan, was higher in September, at 57.8 compared to August's 55.7 level and ahead of expectations for a 56.5 level, being driven by an improvement in the current conditions subindex, offset by a retreat in the expectations component.

US industrial output inched higher by 0.1% in August, as expected, though much lower than July's 1.0% rate of growth, as despite's manufacturing's decent performance, higher by 0.5%, the utilities 3.0% drop weighed more. The US capacity



utilization moved a bit higher as well, to 77.4%, ahead of July's 77.3% level.

Financial Conditions

Major central banks around the world are cooperating by offering three-month U.S. dollar loans to commercial banks in order to prevent money markets from freezing up in the wake of Europe's sovereign debt crisis (Reuters)

Treasury Secretary Timothy Geithner is discussing with European finance ministers the possibility of leveraging the euro zone's bailout fund to make it more effective in fighting the debt crisis. (Reuters)

Policymakers continue to accommodate a recovery in bank profits, albeit less than 12 months ago. The U.S. 2 year/10 year treasury spread is 1.81% and the U.K.'s 2 year/10 year treasury spread is 1.86% - 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 with no new failures this week (74 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 reached a new low at 4.09 % - (the lowest rate since the Federal Reserve began tracking rates in 1971), 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 30.98 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

Market Commentary



PORTLAND
INVESTMENT COUNSEL™

September 19, 2011

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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david.bailey@credit-suisse.com]
Sent: Monday, September 12, 2011 5:29 PM
Subject: Credit Suisse - MONEY NEVER SLEEPS

From: Wong, Walter [mailto:wwong@kbw.com]
Sent: Tuesday, September 13, 2011 7:58 AM
Subject: KBW - EuroAsian Daily

From: Cordukes, James [mailto:james.cordukes@credit-suisse.com] On Behalf Of Ellis, James
Sent: Tuesday, September 13, 2011 5:30 PM
Subject: Credit Suisse - MONEY NEVER SLEEPS

From: Kari Ensor (Macquarie Securities) [mailto:Kari.ENSOR@macquarie.com] On

Behalf Of Martin Pommier (Macquarie Securities)

Sent: Wednesday, September 14, 2011 8:12 AM

Subject: Global Financials Daily (ECB, STAN, NDAQ, HKEx, French Banks, SWEDA, UK Banks, Senate meeting 2pm, BBT, NTRS, HBAN, JPM, CMA, BK, SNV, ALL, AF, MS, SBS, SGx, OCBC)

From: Wong, Walter [mailto:wwong@kbw.com]

Sent: Wednesday, September 14, 2011 7:38 AM

Subject: KBW - EuroAsian Daily

From: Wong, Walter [mailto:wwong@kbw.com]

Sent: Thursday, September 15, 2011 7:44 AM

Subject: KBW - EuroAsian Daily

From: Bailey, David [mailto:david.bailey@credit-suisse.com]

Sent: Thursday, September 15, 2011 5:35 PM
Subject: Credit Suisse - MONEY NEVER SLEEPS

From: Kari Ensor (Macquarie Securities) [mailto:Kari.ENSOR@macquarie.com] On Behalf Of Martin Pommier (Macquarie Securities)

Sent: Friday, September 16, 2011 8:01 AM
Subject: Global Financials Daily (Liquidity, TRH/AWH, IBKR, MSCI, Thai Banks, HSB, UBS, UCG, SAN, GLE, CBG, INVP, Capital Market, ACAS, JPM, PGR, SCHWAB, Korean Non-life)

From: Kari Ensor (Macquarie Securities)

[mailto:Kari.ENSOR@macquarie.com]
Sent: Monday, September 19, 2011 7:28 AM
Subject: Global Financials Daily (Greece, IBKR, LRE, AWH, ALTE, Thai banks, UBS, CSGN, BNP, LLoyds, HBAN, China Property, BOK, Australian Insurance)

From: Wong, Walter [mailto:wwong@kbw.com]
Sent: Monday, September 19, 2011 3:12 AM
Subject: KBW - EuroAsian Daily

Financial Times – “US Wealth gap raises concerns” dated September 13, 2011.

Financial Times – “Pearson steps up push into online schooling” dated September 15, 2011

Source: Thomson Reuters, Bloomberg,

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PIC11-0104-E(09/11)