Market Commentary

PORTLAND INVESTMENT COUNSEL™

February 13, 2012

News Highlights on Current Holdings

Financial Services Companies

Aviva's asset management unit is one of six bidders for €900mln worth of Bank of Ireland's project finance loans according to Irish paper the Sunday Business Post, without citing sources.

Axa's Investment Managment unit is looking to raise several billion euros which it will lend to Small and Medium Enterprises according to Le Figaro, citing head of structured finance Laurent Gueunier. The fund will aim to exploit the need of banks to reduce lending to businesses for regulatory reasons, according to the newspaper and hopes that banks will cooperate by referring businesses with which they have a prior relationship.

Barclays reported PBT FY2011 of £5.9bn and adjusted of £5.5bn compared to £5.8bn consensus. Revenue was about about in line with expectations. Barclays Capital was principle weakness (Annual revenue of £10.3bn and PBT £3.0bn v consensus £3.2bn). Q4 revenue £1.8bn v £2.3bn Q3. UK Retail also somewhat disappointing (PBT £1.4bn v consensus £1.6bn). However, Increased dividend of 6.0p against 5.9p consensus (i.e. up 9%) and Core Tier 1 capital stronger at 11.0% against 10.5% expectation. Very low Risk Weighted assets at £391bn v Q3 £390bn despite additional £30bn for Basel 2.5. Outlook – management expect challenging environment to continue in 2012, they have dropped 13% ROE target by 2013 but it remains the long term objective. As group bad debt trends have improved and not deteriorated as earlier feared and if capital markets revenue remains robust Barclays could now be in an upgrade cycle…and the strengthening capital base and reducing bonus payouts are both directionally positive.

BBVA and Santander, Spain's biggest lenders, will take a combined €6.9bn in provisions after the government ordered banks to recognize more property losses. The rules will generate €4.1bn of gross additional provisions for Santander. BBVA said its gross new provisions will be €2.8bn.

BBVA reported a 4Q11 net loss of €139m, slightly below consensus which was hoping for break-even, due to higher Loan losses and other provisions. Excluding the €1bn net goodwill impairment in its US franchise, Compass, net profit came in at €872m, up 8% QoQ, albeit still 7% below 4Q10. Factoring in the impact from the new regulation on Real Estate provisions mentioned above, its 2012 profit is likely to be sufficient to exceed the provisioning requirement of €2.8bn pre tax. The 9% European Banking Authority Core Tier 1 target (8.7% as of 4Q11) leaves limited room for an early clean-up ahead of June, but the provision shortfall seems manageable by year end, the required deadline to comply.

Goldman Sachs : The Federal Reserve Bank of New York has sold $US6.2 billion worth of residential mortgage-backed securities to Goldman Sachs, its second major sale this year of assets acquired when it saved AIG.

ING : Dutch financial-services company ING expects only a weak economic recovery in 2012 after reporting that its 4Q results were dented by fallout from the euro-zone crisis. ING said net profit rose to €1.19bn from €130mn a year earlier, lifted mainly by gains from asset sales and a debt transaction. Excluding the impact of these items, the group reported a loss of €516mn.

Intesa San Paolo has announced a buyback of Tier 1 hybrids. The total amount would be €3.75bln, which at the proposed price would translate into a €260mn capital gain based on 100% acceptance. The impact to Core Tier 1 would be a gain of 8bp.

Invesco reported January ending Assets Under Management of $648.3bn up 3.7% month on month and long term Assets Under Management of $575bn up 4.3% month on month. The company announced that long-term flows were modestly positive in the quarter, and its estimated they may have been around +$2bn.

JPMorgan, Bank of America, Citigroup, Wells Fargo, and Ally Financial, have agreed in principal with a number of state and federal agencies to a settlement relating to the servicing and origination of mortgages. The overall settlement includes a $5 billion penalty, payable to borrowers, states and the Federal Government and to provide $20 billion in principal reductions and refinancing for borrowers who are current, but underwater, on their mortgages. Oklahoma was the only state not participating in the settlement. As an example, Wells Fargo's share of the settlement will be $5bn, which breaks down as $1.0bn in foreclosure assisted payments paid in cash, $3.4bn in consumer relief given through mortgage modifications and principal forgiveness and $900mn in loan refinancing. In 8K filings released last week, JPMorgan and Wells Fargo have indicated that they have "fully accrued" for their $5.3 billion shares of the settlement and further noted that the impact on future results will not be material and we expect a similar filing from Bank of America that it has accrued for all or most of their $11.8 billion share, which represents the largest of the involved parties. Government officials unveiled these agreements last Thursday, worth as much as US$26bn with five major banks, capping a yearlong push to settle federal and state probes of alleged foreclosure abuses by lenders. The deal represents the largest government-industry settlement since a multistate deal with the tobacco industry in 1998.

Lloyds Bank last Tuesday said it is cutting close to 1,000 U.K. positions and closing some offices, as the bank continues to reduce costs and streamline its business.

Macquarie's full year 2012 result is expected to be lower than 2011. Based on current market conditions, management anticipate 2012 result to be approximately 25% lower than 2011. Group capital surplus on a proforma basis under Harmonised Basel III, is expected to be approximately $A3.7 billion at 31 March 2012 and the common equity Tier 1 ratio for Macquarie Bank Limited is expected to be 11.2% at 31 March 2012 (excluding capital surplus held in the non-banking group). Capital surplus is expected to allow commencement of a share buyback of up to 10% of Macquarie Group ordinary shares in the first half of 2013, subject to regulatory approval. Appreciation of Maquarie in our view, continues to be predicated on value and scope for market, financial and operational leverage…with the latter two of these now in the process of being activated through cost and capital management initiatives…but value is only likely to be unlocked in a "risk-off" environment.

Manulife: reported a loss of $0.05 per share (including the $0.37 goodwill write-down), which Was better than consensus estimated loss of $0.19. Manulife's Minimum Contingency Capital Solvency Ratio of 216% was below the expected range of 220%-225% but still ok although we expect management will prioritize capital strength over earnings growth in the current market environment. Better than expected results were due to better-than-expected investment gains ($0.10 EPS better than expected), a better-than-expected impact from interest rate and equity market movements in Q4/11 ($0.05 better than expected), offset by weaker core EPS ($0.02 weaker than expected at $0.31), $0.05 EPS in one-timers (restructuring costs, reversal of a gain and tax items). Sales were generally good, with insurance sales targeted for growth up 13% YOY. Wealth management sales targeted for growth were down 12%, hurt by volatile markets, but were up 11% in 2011 and 40% in 2010. The company announced the CFO, Michael Bell, will be leaving MFC for family reasons (his family moved back to Philadelphia in June 2011). MFC re-affirmed its $4 billion earnings target by 2015, but noted several caveats including: (1) there are no longer any buffers built into this figure; and (2) incremental negatives could cause this target to be reduced.

National Australia Bank: announced 1Q12 cash earnings of circa $1.4bn (consensus $1.45bn); Net interest margin 2.19%; Bad debt charge 1Q12 $545mn, 45bp ; 90+ days past due and gross impaireds % Gross Loans : 1.78% ; Tier 1 ratio 1Q 2012 10.02%. It's encouraging to see : (i) positive revenues growth (predominantly Wholesale sale & trading revenues, but also higher MLC Funds under Management), with Business and Personal flat, UK lower; (ii) Positive cost / revenue growth jaws was an impressive 3.8% and (iii) Tier 1 ratio 10.02% - all better than expected. However, it was disappointing to see a broadly based increase in bad debts with the Group charge rising from 0.38% to 0.45% (UK, Personal, Wholesale SGA higher, Business stable, NZ lower) driven mostly out of the UK (macro economic deterioration, lower collateral values) - consequently NAB has announced a strategic review of the UK with the outcomes to be announced by the time of the 10 May interim result. Also, the group's net interest margins were lower, declining in Business, Personal and the UK (NZ stable). However, with year-end (September 2011) book value per share of A$16.92, equating to a price/ book of about 1.4X and a dividend yield about 7% the value and strength of this bank remain attractive in our view.

Prudential reported 4Q 2011 operating EPS excluding integration expenses of $2.09 which was well above the consensus ($1.76). However, the results in the quarter were boosted by net positive items and, assuming a 35% tax rate on these items, it's estimated that adjusted operating EPS was $1.69 Asset Management and International Insurance are Prudential's highest multiple businesses, in our view, and the earnings performance was mixed in the 4Q. International Insurance earnings were below forecast, largely as a result of a miss in the Life Planner business on mortality and higher expenses. Sales more than doubled at Gibraltar Life, but Life Planner sales were up only 4%. In total, earnings from these high multiple businesses were less than $0.01/share below forecast and accounted for 61% of total segment operating income. The loss in Corporate & Other was $0.07 worse than forecast. A portion of the higher-than-anticipated loss relates to the announced sale of the company's real estate and relocation services business (now a discontinued operation). Prudential repurchased 1% of shares outstanding in the 4Q for $250 million. Full-year 2011 buybacks were $1 billion and an equivalent amount might be bought back in 2012.

Santander - Expansion reports that Santander is in advanced talks to sell real estate assets for €700mn to Morgan Stanley. Original plans to sell €3bn of real estate assets were delayed because of funding access difficulties and asset prices.

UBS said 4Q profit dropped 76% after its investment bank reported a second consecutive quarterly loss. Net income fell to CHF393mn from CHF1.66bn in the year-earlier period. That missed the CHF721mn mean estimate of analysts. UBS Wealth Management Division: pre-tax of CHF471mn was below consensus of CHF526mn after a disappointing -6bp QoQ drop in the gross margin to 91bps from lower client activity. Wealth Management inflows of CHF3.1bn (0.4% of AUM) were down versus the prior quarter (3Q11 CHF3.8bn) but in line with consensus expectations. A key positive was the increase of the Tier-1 ratio Basel 2.5 to 16% (from 13.2%) and Basel III Risk Weighted Assets (RWAs) has been reduced by CHF 20bn (Nov 2011: set target on group level to reduce from CHF 400bn to CHF 340bn by end of 2012, now at CHF 380bn). UBS could be lowering their RWAs (Basel III) faster than previously guided by the company which could free up capital and accelerate an increased dividend payout for 2012. Furthermore, the bank is in the middle of the restructuring and has already reduced headcount by approx. 26% of the final target of 3500 positions. The cost benefit should start to come through in 1Q 2012. Headcount decreased by 1101 employees in 4Q11 (Investment Bank: 622, Wealth Management: 403). Taking into account the restructuring announcement in August of approx. 3500 headcounts, approx. 2600 headcounts are still to be cut in 2012. In 4Q11 overall restructuring costs were CHF 10mn on top of the 3Q11 restructuring costs of CHF 387mn. UBS guided for the total cost of the August announced restructuring program to be CHF 550mn leaving approx. CHF 150mn of restructuring costs for 2012. The restructuring should lead to a CHF 2bn cost benefit to be fully taken into account in 2013. Management stated “from January 2012 we should already see 50% of the cost reduction coming in”.

Financial Infrastructure

NYSE Euronext reported 4Q EPS of $0.43. Reported results included $0.07 per share of one-off items (merger charges, BlueNext tax settlement). Adjusting for these, core EPS is estimated at $0.50 about two cents ahead of consensus. As of December 31st, the company held $0.4 million of cash/short-term investments with $2.4 billion of debt outstanding. Debt-to-EBITDA now stands at 1.6x. NYSE declared a $0.30 per share cash dividend for the fourth quarter, consistent with its historical $1.20 per share annual payout. As previously announced, the company completed a $100 million tactical share repurchase program during the fourth quarter, capitalizing on recent weakness in the firm’s share price. Looking forward, management is speaking to unveiling a two-year financial plan aimed at delivering earnings growth during their upcoming April Investor Day. Results were marked by a sharp pullback in transaction-based revenues (-21% qtr/qtr) as a slowdown in volumes was compounded by generally weaker revenue capture and currency headwinds. Non-transaction revenues (listings, market data, technology) were up 6% yr/yr and stable qtr/qtr. Baseline expenses of $416 million were some $10m below estimates—results were stable from year-ago levels and up 2% from last quarter. The revenue headwinds drove negative operating leverage this quarter—operating margins compressed to 34% from 41%.

Visa reported Q1 2012 EPS of $1.49, beating consensus of $1.45 . Net revenue was up 13.8% y/y, driven by stronger-than-expected transaction processing fees and lower incentives. Global payment volume trends remained healthy, though slowed somewhat as US debit growth witnessed some Durbin related impacts and international debit growth declined modestly. A higher operating margin (63.5%) was due to the timing of expenses, with investments and marketing spend expected to ramp in Q2 and Q3. Visa delivered strong Q1 results, demonstrating the strength and resilience of its business model and its ability to grow in a challenging economy. Overall, volume growth continued to show momentum in credit, cross-border and signature debit, with a mild slowdown in the growth rate of transactions processed associated with slower growth in PIN debit transactions. Management raised its outlook on both revenue and EPS growth, in part due to anticipated higher revenue yield than was expected (associated with a strong shift toward higher revenue-yielding credit card products). During the quarter Visa bought back 800K shares, funded its escrow account by $1.6B, and announced a new $500M share repurchase authorization.

Dividend Paying Companies

BHP – announced the a half year profit of $9.94bn, a 6% reduction compared to the previous comparative period, as its operations were affected by labour disputes and relatively weak commodity prices. Results for the group’s iron ore business were a standout, as both volumes and prices rose year on year, leading to a 42% operating margin, roughly double the industry average. The petroleum division results also surprised on the up-side, due to higher realised prices and derivative gains. However, other divisions, including metallurgical coal and base metals, performed below expectations, as weakness in Europe and slower growth in China put downward pressure on commodity prices in the second half of the calendar 2011. The management is confident that its ambitious expansion projects at Escondida (cooper, Chile) and in the Gulf of Mexico oil business would drive solid growth over the next 12 months and further. The company is also showing continued faith in

Chinese growth, though it pointed out that the steel use intensity is likely to decelerate. The group warned of industry wide rising labour costs and indicated that it would make up for weaker natural gas pricing, affecting its newly acquired shale gas business, by focusing on stepping up production from shale gas with liquids at this stage.

Syngenta – revealed a 14% rise in full year profit to $1.57bn, beating the average estimate as good volume progression, price hikes and cost cuts more than offset the impact of strong Swiss franc and the raw materials price inflation. The company estimated it had reached its goal of growing its market share in the crop protection and commercial seeds markets, with a $1.2bn volume growth across the combined business. The group also flagged good crop protection price momentum, with a more than 4% quarter on quarter price increase in Q4. Group sales were up by 14% (or 12% in constant currency) to $13.3bn for the year, while profitability exceeded expectations, with the earning margin before interest, tax, depreciation and amortization (EBITDA) reaching 18%. Of note, the seeds business operating margin improved to 17.1%, significantly ahead of expectations, while market share in the important US corn market improved by 1% to 11%, boosted by the success of the insect resistant trait Viptera, in a market dominated by Monsanto and Pioneer. The company posted record free cash flow of $1.5bn and raised its dividend by 14% to 8 Swiss francs per share, signalling confidence in businesses' fundamentals. For 2012 the company expects an expanding market and increased underlying profitability as the focus will be maintained on accelerating the development of integrated offers (crop protection and seeds).

Toyota – announced third quarter results of ¥149.7bn in terms of operating profit, significantly ahead of the consensus expectations, raising, at the same time, the full year operating forecast to what is still perceived as a conservative ¥270bn level. The guided level would still be some 42% below the previous year's results, as the company was impacted by the twin Japanese disaster (earthquake/tsunami) as well by the flooding in the key producing country of Thailand later in 2011. The group estimates its sales would improve by more than a fifth in calendar 2012, to a record 9.58 million vehicles, including its subsidiaries Daihatsu Motor and Hino Motor, as production in most of its car factories is back at full speed. A key development is expected in the Chinese market, where Toyota targets sales in excess of 1 million vehicles, a 14% improvement. Competition elsewhere, in particular in North America, is expected to be tough. The Japanese yen's strength continues to put tremendous pressure on Toyota's domestic operations, which account for roughly 3 million vehicles. Toyota has been pushing for increased efficiency in its Japanese plants and is counting on Japan's re-instatement of the cash-for-clunkers subsidies and an extension of tax incentives to boost domestic demand.

Vodafone : the day after the India supreme court cancelled 122 mobile licences, the Financial Times reports that Vodafone took out a series of newspaper adverts with the message " everybody's welcome to the network you can depend on". The message is clear that as many competitors are likely being forced out, Vodafone sees a chance to win market share as part of a long anticipated consolidation. Also Verizon, 40% owned by Vodafone, has this week announced a joint venture with Coinstar, owner of the Redbox DVD rental service to compete in the growing subscription video services and challenge Netflix.

Vodafone has confirmed that it is in the 'very early stages of evaluating the merits of a potential offer for Cable & Wireless, stating that it would likely pay in cash and acknowledged that, in accordance with the Takeover Code, it must declare its intentions by 5pm on 12 March 2012. There are a number of reasons for Vodafone to be interested in Cablr & Wireless – not least its considerable tax losses (£4bn of capital allowances, gross). Gavin Darby (CEO of Cable & Wireless, ex-Vodafone) provides a link between the two companies. It would be a relatively modest acquisition for a company of Vodafone's scale but the poor operational performance at Cable & Wireless should be a major hurdle / concern for Vodafone.

Economic Activity, Consumer and Business Conditions

US – In a relatively light week for macro-economic releases the continued improvement of the US consumer credit, which shot up by another $19.31bn in December, on top of the revised November $20.38bn, is giving some reasons for optimism in terms of the expected contribution of consumer expenditures to the US economic growth. Unfortunately, the abovementioned development is at odds with a weakening of the US consumer sentiment, as measured by the University of Michigan, which unexpectedly dropped to 72.5 in February, from a 75.0 index points level, mostly as the consumers became more worried with the current conditions. The expectations component of the sentiment index, also retreated in the month, albeit to a lesser extent.

The US goods and services trade balance widened in December to $48.8bn from $47.1bn, as an improvement in US exports, on the heels of a weaker greenback, was more than offset by an increase in imports, driven by consumer goods, auto parts and capital goods.

Canada – In contrast with the evolution of the US trade balance, the Canadian visible goods trade balance improved to a surprisingly high $2.69bn in December, ahead of expectations for a $0.6bn surplus, as an broad based improvement in exports, including autos, machinery and resources, was not matched by the growth in imports. We see the recent trade balance developments as an encouraging sign that foreign trade will turn out to be a key contributor the Canadian economic growth for Q4.

News in the housing sector point out to a deceleration of activity and pricing as housing starts pulled back to a 197,900 units annualized in January, from a revised 199,900 units level in December, while the new housing price index grew a less than expected 0.1% in December. The level of building permits however saw a strong rebound during the same month.

Greek political leaders agreed to a package of austerity reforms Thursday, marking the first step toward securing much-needed bailout funds. Greek PM Lucas Papademos said in a statement that there was “general agreement” on measures aimed at cutting public spending. The reforms are a precondition for Greece to receive a second bailout worth €130bn from the EU, IMF and ECB. However, European finance ministers have held back the Greek rescue package in order to “persuade” Greek leaders to endorse the new austerity plan or exit the euro. In exchange for signing off on the loan, lenders are demanding €325m in further cuts to this year’s budget. Jean-Claude Juncker said “In short: no disbursement without implementation,” He set another extraordinary meeting for Feb. 15 where if those conditions are met, finance ministers would sign the loan agreement. Greek Finance Minister Evangelos Venizelos said the endorsement vote this weekend now amounts to a ballot on euro membership. “If we see the salvation and future of the country in the euro area, in Europe, we have to do whatever we have to do to get the program approved,” he said.

On Sunday, Prime Minister Papademos won parliamentary approval for austerity measures to secure an international bailout by 199 votes to 74 during riots in Athens. The second aid package now looks more likely to be approved at a euro finance ministers meeting on Wednesday however implementation concerns will remain with such huge public unrest in Greece.

Financial Conditions

The Bank of England has agreed to keep interest rates at the record low and extend its quantitative easing (QE) programme by £50bn to give a further boost to the UK economy. When completed, it will bring the total amount of QE stimulus to £325bn and suggests that despite signs that the UK economy is picking up after a trough last autumn/ fall, the Bank’s policymakers do not feel confident there is enough momentum for demand to build on its own.

The ECB has left its benchmark interest rate unchanged at 1.0%. ECB president Mario Draghi said the final three months of last year had been very weak, but there was recent evidence of stabilisation among countries that use the euro.

European regulators said the Continent’s banks are well on their way to replenishing their capital cushions, but concerns persist that the lenders aren’t taking sufficiently drastic actions to fortify themselves. The European Banking Authority (EBA) last December ordered 31 banks to come up with a total of nearly €115bn of new capital by June. The EBA said Thursday that banks collectively have submitted plans to more than cover the shortfall.

The ECB has announced the new collateral rules (to facilitate banks accessing its 3 year loans) which at first appear to be much more conservative than some were expecting (probability of default on loans must be below 1%, some were expecting 1.5%). In addition the haircuts on loans are also set to be large (can be up to 80%). It was already known that Austria, France, Italy, Ireland, Spain, Portugual and Cyprus put forward proposals to accept the additional loans whereas the Bundesbank said they will not allow the wider rules. Mr Draghi said widening the collateral eligibility rules would allow an additional €600-€700bn-worth of collateral to be accepted in exchange for loans from the ECB. However, once haircuts are applied, banks could only access between €200bn and €300bn in additional funds from the central bank. National central banks are off the hook for risk unless the sovereign itself defaults, as such the Eurosystem then becomes liable. France accepts USD denominated loans and mortgage loans, Ireland accepts pools of secured (including mortgages) and unsecured loans and Spain accepts non-Euro loans as collateral - but not mortgages.

Short selling bans : AMF market regulator has lifted the short selling ban on French financials in effect since August 11. This should increase liquidity on 10 institutions (Axa, April, BNP, CNP, Credit Agricole, Credit Mutuel-CIC, Euler Hermes, Natixis, Scor, and SocGen). The ban on Italian financials is scheduled to expire on February 24, unless extended. Short selling bans remain in effect until further notice on financials in Belgium, Denmark, Greece, and Spain.

Federal Reserve policymakers appear determined to flatten the yield curve as much as possible, having indicated they expect 'exceptionally low levels' of interest rates "at least through late 2014". which is still an "exceptionally low level" in the grand scheme of things. Fed Reserve Chairman Ben Bernanke has indicated 1% or less would be considered exceptionally low. The advent of the US 'twist' (whereby the Federal Reserve is selling 3 year and less maturities to buy 6 years and longer) means all parts of the yield curve will benefit from a near-zero anchor for essentially the next 3 years. The U.S. 2 year/10 year treasury spread has been falling and is now 1.73% and the U.K.'s 2 year/10 year treasury spread is 1.76% - meaning investment banks can no longer profit from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above their costs of capital. It seems the top tier 8-10 investment banks will continue to command their market and possibly increase their share – as barriers to entry for newcomers have in our view been raised.

Influenced by the US 'twist', the U.S. 30 year mortgage market remains very low at 3.87% - (the lowest rate since the Federal Reserve began tracking rates in 1971), as the Federal Reserve effectively continues to give priority to incentivising home ownership. Existing U.S. housing inventory fallen / improved to 6.2 months supply of existing houses. So the combined effects of record low mortgage rates, near record high affordability, a more promising economic recovery, job creation, and low prices are finally supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now in a more normal range of 4-7 months. While we still believe it remains premature to consider a recovery in house prices prospects of a measure of stability are likely to increases as a result of the Fed actions – which is welcomed….particularly for those financial services companies holding such assets in their portfolios.

A concern which remains is the extent to which mortgage foreclosures have been properly documented, thereby enabling mortgages to be "put back" to the originating bank and whether bank's have mis-represented the quality of those assets sold to Freddie Mac and Fannie Mae. Such legal debates are likely to drag on for years but from recent bank investor relations presentations it does seem the rate of "put backs" are now beginning to decline and that litigation reserves have been increased suggesting overall current levels of total provisions should suffice, enabling banks to continue to post increasing earnings per share (as credit improves) over the next 2 years by when we expect more normalized earnings power to have returned. For the larger franchises the quantum of proactive provisioning continues to act as a differentiator of quality which we believe has still to be fully appreciated.

As concerns have swung from commercial real estate and unsecured consumer loans/credit card loans to European sovereign debts the number of small U.S. banks failing continues to grow, albeit at a more moderate pace with 9 in 2012 (compared to 95 in 2011 and 157 in 2010 which was the highest annual tally since 1992). Franchises are being acquired/absorbed as convergence of the financial services industry accelerates – favouring we believe the stronger, better managed banks. 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 VIX (volatility index) is 20.79 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

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