

News Highlights on Current Holdings

Financial Services Companies

Barclays and Deutsche Bank have won a chunk of complex commercial mortgage securities at the heart of the controversial government bailout of AIG. The New York Federal Reserve last Thursday auctioned a slice of its Maiden Lane III portfolio which consists mostly of collateralised debt obligations backed by commercial real estate and other asset-backed bonds, acquired as part of the insurer's rescue. The Barclays/DBK consortium beat a joint bid from Citi, Credit Suisse and Goldmans. The Financial Times says that the bid was more than \$0.65 on the dollar for securities with a \$7.5bn face value.

Barclays, Britain's second-biggest bank by assets, posted 1Q profit that beat consensus estimates as revenue at its investment banking unit rebounded from 4Q. Pretax profit excluding losses on the valuation of the lender's debt rose 22% to £2.45bn from £2bn in the year-earlier period. On an adjusted basis Barclays delivered a 14.3% Return on net asset value in 1Q12. The beat was driven by stronger revenues in BarCap and a c. £200mn hedge gain in center, so the clean revenue beat is more like £200mn. Barclays Fixed Income, Currencies and Commodities revenues in US\$ were up 11% YoY compared to +2% on average at the US banks and -7% at Deutsche Bank. Management commented that trends in April had softened slightly, but that pipelines remained very strong. The cost:net income ratio in BarCap was 63%. Bad debts were also a lot better. Annualising 1Q suggests £3.1bn bad debts for the year, versus guidance of £3.9bn. While the headline numbers and Tangible/NAV of £3.81 were hit by a PPI (insurance claim) top up and gain on own debt reversal, the underlying beat and 14% RoNAV and improved impairment performance suggest that Barclays has turned a corner with management committed to £2bn of cost savings. Barclays had booked £3.3bn of hedge revenue in 2011. Concerns about how this revenue would be replaced had been a key issue. Management commented that the hedge contribution was just £400mn in 1Q12, giving an annualised level of £1.6bn. With revenues in Retail, Wealth and Commercial banking no worse than expected, despite the lower hedge income, concerns should ease, removing a significant overhang on the stock.

BBVA: Stronger revenue trends helped drive a bottom line beat (EUR1.0bn, versus consensus EUR0.95bn), but provision levels again disappointed. BBVA's emerging market exposure helped drive the beat, with Latin America and Eurasia divisions coming in ahead of our expectations. Spain continues to be the disappointment, driven by significantly higher provisions. On the more positive side in Spain, whilst the Non Performing

Loan (NPL) ratio continued to tick up (from 4.8% to 4.9%), coverage levels did at least stabilise (up from 42% to 43%). Meanwhile the Group Non Performing Loan ratio was flat QoQ at 4.0% whilst core capital came in slightly better than expected (10.7% vs 10.3% last quarter) on lower Risk Weighted Asset growth with confirmation BBVA is now meeting EBA's 9% Basel 2.5 core T1 requirement so no further dilutive capital raising needed. BBVA management encouragingly stated the bank has not increased its Spanish sovereign bond exposure QoQ. LTRO-1+2 usage EUR22bn as previously guided. Saying 2/3 used to replace short-term repo funding, 15% deposited back with ECB and 15% used to increase ALCO portfolio (but not via Spanish sovereign or other peripheral sovereign debt - which is stable QoQ). The bank is maintaining its dividend policy - EURO.42 ps share payout, with 2 cash, 2 scrip.

Credit Suisse - Clean pre-tax CHF1,484m, only a 9% beat versus consensus of CHF1,368m (US peers beat by an average of 25%). Investment Banking result was strong (pre-tax CHF993m) driven by strong Fixed Income, Currencies and Commodities. But wealth mgt businesses were relatively disappointing, both Asset Management and Private Banking (pre-tax CHF406m). Group had net asset outflows for the quarter and Private Banking margin was static at Q4 level. The suggestion from management is that the current margin (1.09%) is likely to become the "new normal" unless interest rates or client activity levels increase soon, neither of which looks likely. Capital position looks superficially good with Basel 2.5 Core Tier 1 very strong at 11.8% but this is assisted by a large adjustment for "the accounting treatment of pension plans". More importantly, "look through" Core Tier 1 guidance under Basel 3 has been downgraded again for 2013 from 9.9% to 9.8%, albeit still strong.

Deutsche Bank has reported a sharp fall in profits, in part due to weaker performance in investment banking during the eurozone debt crisis. Net income for the first 3 months of the year was €1.4bn, down 35% on the €2.1bn the bank made a year earlier. Revenue was down 12% at €9.2bn. Deutsche Bank gave more granular disclosure on their simulated Basel 3 tier 1 capital ratio of 7.2% at the start of 2013, but this remains at the low end of global peers although the CFO talked about his confidence that a capital raise is not needed due to the various options available to Deutsche Bank to increase the Basel 3 ratio.

Invesco Ltd reported adjusted EPS of \$0.44, in line with consensus. Revenues were 1.3% below consensus but Performance fees of \$20m+ were much higher than expected, from UK trusts and real estate. Invesco had inflows of \$8.1bn in the quarter, equivalent to 5.0% annualized organic growth and

well ahead of our \$1.1 forecast. Most (\$7.9bn) of the flows were to passive / ETFs or stable value. Expense control was evident as compensation rose only 0.6% vs. 4Q (0.2% on an adjusted basis) and the firm reduced variable comp costs and headcount. Invesco raised its dividend more than expected (41%) to 17.25 cents or an annual implied \$0.69 from \$0.49. This suggests a 36% payout and 2.8% yield. Invesco is trying to sell its US\$18bn wealth management business, according to a Reuters report. The Atlanta-based asset management company wants to sell Atlantic Trust Private Wealth Management, which has \$18bn in AUM, because it is not core to its business.

Lloyds Banking Group has received a £2bn bid from NBNK Investments for its "Verde" branches, which would include cash or new shares, the Financial Times reported, without citing sources. Lloyds have previously rejected NBNK's £1.5bn bid to buy the branches in favour of Co-op bank's ill fated bid. In a separate article the Telegraph says that NBNK has been able to increase its bid with the backing of Middle East sovereign wealth funds.

MetLife, the largest US life insurer, will pay about US\$500mn in a multistate settlement after regulators reviewed whether companies were holding funds that should go to beneficiaries. (Source : Bloomberg)

Nordea reported a net profit of €773m vs. €730m consensus (+6%) on the back of a solid trading quarter and better provisions (0.26%) for a Return on NAV of 13.6% in 1Q12 (13.8% 4Q). Both trends were in line with expectations. Divisionally, Wholesale banking was better than was expected but Retail Banking also looked good with Sweden and Denmark both better (costs and impairments). Also, Nordea managed to generate more capital achieving a Core Tier 1 capital ratio at 11.6% vs. 11.2% with Risk Weighted Assets flat on full year and management is focused on achieving a 15% normalised ROE against current 12%.

Swedbank reported a strong set of numbers (SEK3.4bn profit), 13% ahead of consensus with a 16.6% Return on Net Asset Value. Driven by better revenue, including strong Net interest income. Strong performance from Swedish Retail net interest income which was up 17% on Q1 last year. Asset quality continued to improve, with Non Performing Loans down 0.20% to 1.8%, and coverage was up (65%, +3% QoQ). Loan loss provisions at 0.06% were 20% lower despite SEK200m Ukraine generic provisions (management cites increased risk in retail). Capital remains strong with Core Tier 1 capital at 15.9%. Pro-forma Basel 3 Core Tier 1 capital is reported at 14.5% (incl. 40bp IAS19 deductions) and NAV/share was down to SEK74.3 following the 2011 dividend (SEK5.3). Costs were controlled,

down -1% on last year and management re-iterate target of taking out SEK1bn ex performance related costs. Outlook uncertain, but planning for a weak scenario and focusing on costs. On the conference call management talked positively about the outlook for margins, particularly SME and Large corporate.

Financial Infrastructure

Deutsche Boerse 1Q12 adjusted net profit of €191mn beat consensus of €165.7mn. Clean EBIT €278.4mn. The results was driven by:

1) Small beats across all operating segments, particularly Eurex (+2% on consensus) and Clearstream (+1% versus Consensus). This left sales revenue 2% better than Consensus at €552.4mn; (2) A small net interest income beat at €18.5mn (Consensus €17.7mn); and 3) Total costs that were 3% better than consensus expectations. DB1 has restated its earnings guidance for 2012. However, netting everything out, management are still guiding to a Group operating profit of between €1.20bn and €1.35bn, with the delta being volume related. Consistent with the updated earnings guidance given in the annual report, published last month, management suggest that the lower end of this range (i.e. €1.20bn) looks realistic given the difficult volume environment. These results are good versus market expectations and earnings guidance is little changed versus previous.

First American Financial Corporation, a leading global provider of title insurance and settlement services for real estate transactions, last Thursday announced financial results for the first quarter ended March 31, 2012. Title Insurance and Services segment pretax margin of 6.8%, the highest first-quarter margin since 2006. Title open orders up 31% compared to last year, primarily driven by refinance transactions. Commercial division revenues of \$81.5 million, up 21% compared to last year. Specialty Insurance segment pretax margin of 17.3%. Completed a new \$600 million, four-year senior secured revolving credit facility on April 17, 2012.

Dividend Paying Companies

ABB – First quarter results marginally missed the consensus expectations with net income at \$685mm versus \$692mm, as weaker demand in the Chinese construction and rail transportation markets impacted its profitability. New orders for the first quarter did, in fact beat expectations, at \$10.4Bn relative to \$10.1Bn forecast, as the slower business in the Asian markets was offset by strong demand for power equipment in North America. Orders in the European markets, down by 5%,

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were affected by softness in the Southern Europe demand. The group management showed confidence in a faster recovery in China's industrial sector, although the slowdown is likely to persist in the above-mentioned construction and rail transportation areas. The operating margins were impacted, as warned by the company in February, by a backlog of less profitable orders and aggressive price competition, reaching 13.9%, compared to 15.7% last year. The drop in profitability was more than offset by cost saving measures, which helped improve the net result on year on year basis. Going forward, the company is expecting sales in its early-cycle business, such as low voltage products and automation, to grow at a low single digit pace, while its later-cycle business, such as power transformers and sub-stations, to grow at a high single-digit pace.

Bayer – reported a strong first quarter result boosted by a better than expected outcome at its Crop Protection division, which benefited from warm weather and an early start to corn planting in the United States. The adjusted earnings before interest, tax, depreciation and amortization (EBITDA) reached €2.44Bn, up by 9.4% and materially better than the consensus expectations at €2.23Bn. Group sales for the quarter exceeded €10Bn, with the CropScience division contributing €2.6Bn or 15.6% higher compared to last year's. At its healthcare division, which has recently been the source of multi-billion dollar acquisitions rumours, sales grew by 4.2%, while sales of blockbuster-to-be drugs, such as the blood-thinner Xarelto, are expected to reach peak volumes of about €5Bn in the years to come. The Materials Science unit has continued to struggle with sluggish demand and increasing raw materials prices and, as a result, its core earnings were lower by 20%. Bayer re-affirmed its group outlook, calling for a slight rise in adjusted group EBITDA and a 3% sales progression, but it said it might re-assess the outlook, likely upwards, at the company's interim announcement.

Novartis – First quarter group sales retreated 2% to \$13.74Bn as a stoppage at a Lincoln, Nebraska, manufacturing facility, to address quality issues, affected sales in the consumer health division. The plant is planned to restart in May of this year, although it might take several months to reach full capacity. The key Pharma division delivered a good performance, with the promising new multiple sclerosis pill Gilenya reaching \$247mm in the quarter, well on its way to achieve blockbuster status. Sales of the division's new drugs grew by 16% in the first quarter, reaching 28% of the group total. Novartis maintained its guidance for a core operating margin slightly below the 2011 level, at 27.2%, under the impact of the expiration of some of its leading drugs, most importantly the blood pressure regulator Diovan, already off patent in Europe.

Novartis underlined its commitment to Switzerland by planning a CHF500mm investment in a new factory in Stein. The facility is expected to be operational by the end of 2016, it will make solid form dosages such as pills and capsules and it will allow Novartis to adapt production to meet demand more quickly. The plant would replace Novartis' currently largest facility of its pharmaceuticals division from where the company ships products to over 150 countries. The company had previously announced its plans to reduce its workforce at its Swiss facilities in Basel and Nyon by about 1,100.

Siemens – had to reduce its profit outlook for the year to €5.2Bn-€5.4Bn from its previous guidance of €6Bn, as its Power Transmission division incurred further charges related to delayed offshore wind power projects. The charge of €278mm for the current quarter (second) is in addition to the €203mm it had to recognize in the first quarter of its fiscal year. The management blamed the delays on the complex German regulatory approval process, yet it also admitted lack of competency on the part of the division chief, who was replaced. The company has allocated €100mm for the restructuring of the Power Transmission unit. The quarterly profit of €1.05Bn was also impacted by a €640mm charge related to the Nokia Siemens Networks, a joint venture involved in telecom infrastructure. Better than expected performance in the company's core industrial and healthcare businesses offset the impact of the bad news. While orders in the quarter lagged last year's by 13%, the company is confident activity should pick up in its fiscal second half, helped by emerging markets, in particular China, which should see a pick up in activity after a slow start of the year.

Syngenta – announced it had partnered with the Danish biotech company Novozymes to commercialize JumpStart, a seed applied biological technology which increases phosphate solubility in the soil and the phosphate uptake into the plant through the root system. The market potential for this technology is currently estimated at over \$100mm.

Tesco – Kantar, the market researcher, reported that Tesco advanced its share of UK grocery market to 30.7% in the 12 weeks to April 15, compared to the 30.2% level in the 12 weeks ending March 15. The improvement is credited to an aggressive couponing and promotional activity.

Vivendi – Bloomberg reported that the company is considering an overhaul of the company, which would see a break-up into a telecom company and a media company, as many investors are unhappy with the large conglomerate discount seemingly applied to the group. While the company denies the break-up

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'rumours' it admitted looking at options to reduce the company perceived discount of about 40%.

Results at Maroc Telecom, a majority controlled subsidiary of Vivendi, show very positive momentum as the Group's customer base expanded by 12.6% reaching 29.5mm, while the revenues and margins have continued to recover. Mobile revenues grew in Morocco by 2.2%, while the international (sub-Saharan Africa) business advanced by 21%. The company maintained its outlook for 2012 of an operating margin of about 38% and stable cash flow from operations.

Wesfarmers – provided a sales update for its retail divisions for the third quarter of its fiscal year, with results broadly in line with the expectations. The group's chain of supermarkets Coles recorded a 2.7% increase in sales in year on year terms, yet it slowed down relative to the previous quarter, affected by sales of fresh fruit and vegetables, a price war with arch-rival Woolworths and poor performance in liquor sales. The result though compares very favourably with Woolworths performance reported a few days earlier. Other divisions of Wesfarmers provided a mixed picture, with the home improvement chain Bunnings up by 2.6%, the department store Target lower by 6.1%, while the discounter Kmart increased by 1.6%.

Wesfarmers also updated on production at its coal division, which grew by 17.5% to 2.6mm, albeit on relatively easy comparatives. New coal contract prices for April-to-June were 5% lower than forecasted.

Economic Activity, Consumer and Business Conditions

US – The US GDP growth for the second quarter disappointed at 2.2%, as the consensus estimates were calling for a 2.5% advance, and it was a slowdown from the first quarter revised 3.0% improvement. Growth was driven chiefly by the consumer sector, which contributed 2.0% of the 2.2%, mostly through purchases of motor vehicles. Inventories build up continue to support economic growth, albeit to a smaller extent compared to Q1, while residential investment (housing) added to growth as well. A drop in business investment, as well as government spending subtracted from growth.

A consumer sentiment reading for April, measured by the University of Michigan, which indicated a sentiment improvement to 76.4 from 76.2, with both current and expected conditions improving, was not matched by an earlier reading of the consumer confidence by the Conference Board which showed a deterioration of the sentiment in April compared to March.

The productive sector surprised on the downside in March, with durable goods orders lower by 4.2%, compared to an expected

1.7% retreat and 1.9% improvement in February, with a relatively broad-based weakness, including general machinery, capital goods and computer/electronics. Durable goods orders excluding transportation (notoriously volatile) also failed to meet expectations of a 0.5% improvement, dropping 1.1% in the month.

US home prices in February showed their first monthly gain in 10 months, while new home sales for March came in above expectations. The S&P / Case-Schiller home prices index which tracks monthly changes in the value of residential property in 20 metropolitan regions across the US, showed prices rose 0.2% on a seasonally adjusted basis in February. The year-on-year price decline in February therefore eased slightly to being down 3.5% compared to 3.9% the month before.

Canadian real GDP confounded again, falling 0.2% in February, while consensus was looking for a 0.2% rise. There was no revision to the mild 0.1% rise in January or the +0.5% in December. February saw a mixed array of indicators ahead of the report, but the less high-profile sectors all took a big step back in the month. The goods-producing sector was hit hard almost across the board, with declines of 1% or more in each of manufacturing, utilities, mining and agriculture. The 1.9% slide in utilities was clearly due to the unusually mild weather. While the drop should be reversed next month, growth for all of Q1 now looks heavily challenged to even reach the 2% plateau, let alone the Bank of Canada's latest 2.5% estimate for the quarter. At the very least, the pullback in output will dampen some of the most hawkish views on the Bank of Canada for an early rise in rates and take some steam out of the Canadian dollar.

Also, February retail sales dropped 0.2%, lower than the flat reading expected and reversing a 0.2% advance in January. The main culprit was sales of motor vehicles, down by 2.6% in the month, after an impressive January reading. Retail sales excluding autos were up by 0.5%.

Spain downgrade - Last week Spain's sovereign credit rating was cut to BBB+ from A by S&P on concern the nation will have to provide further fiscal support to the banking sector as the economy contracts. Spain's short-term rating was lowered to A-2 from A-1, while the outlook on the long-term rating is negative, Moody's rate Spain A3, negative and Fitch A, negative. This is the second downgrade of Spain by S&P this year. The firm cut Spain along with France in January.

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Spanish banks may pool property in jointly owned companies under a proposal designed to get assets off lenders' books, an official at the Economy Ministry said. Taxpayer funds wouldn't be used, and no bank would have control of the property entities, meaning they wouldn't have to consolidate the companies' results and asset values on their own balance sheets, the official said today. He declined to be named as the plan is still being considered. Banks would transfer the assets at market prices to the companies, which would be run by independent managers, and will have to book a loss if that price is below the value for which an asset has been provisioned (Source : Bloomberg).

Britain is set to push back the release of details on wide-ranging reforms of its banking sector to June, given the complex issues around the separation of domestic retail banking arms. The government had planned to release a so-called white paper setting out detail of the changes in the spring, and banks had been told to expect it by early or mid-May. "I would probably say June rather than May, and certainly the first half of May is very optimistic," a Treasury spokesman said last Monday. "There is not a set date that has been pinned down yet because, obviously, these are really, really technical issues."

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 is now 1.66% and the U.K.'s 2 year/10 year treasury spread is 1.66% - 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 3.88% - (3.87% is 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 improved to 6.4 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 increase 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 misrepresented 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 23 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 17.33 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

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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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