News Highlights on Current Holdings

Financial Services Companies

Barclays: Sir David Walker has been announced as the new Chairman, and will replace Marcus Agius later in the year. Walker, who's early career was spent at the Treasury, IMF & BoE (and more recently Chairman of Morgan Stanley Internataional) also co-led the independent review into the failure of Royal Bank of Scotland: His appointment is likely to be seen favourably by regulators. Given his investment banking background, may increase speculation that Barclays could appoint a CEO without a strong IB background.

Standard Chartered - Following last week's news of discord among the US regulatory institutions responsible for investigating Standard Chartered' potential Iran-related violations their legal advisers say a case could possibly be made to claim U.S. regulators damaged the bank's reputation with the allegations. CEO, Peter Sands, issued a strong rebuttal to the claims yesterday saying he saw "no grounds" for revoking their US license.

Wells Fargo - the potential losses from legal and mortgage-related issues rose in the second quarter—a sign residual trouble from the financial meltdown is easing but not over. So called "reasonably possible potential litigation losses" in excess of the bank's second-quarter legal reserves rose 30% from the first quarter, to as much as $US1.2bn, the San Francisco bank said in a quarterly filing.

Two of the Canada's largest life insurers, Manulife Financial and Sun Life Financial, posted poor second-quarter results Thursday, underscoring the damage being done to global insurers as falling financial markets hurt their profit. Manulife posted its third loss in four quarters and warned its target of C$4bn in earnings in 2015 is a "stretch" because of "unfavourable economic conditions." (Source: Wall Street Journal)

Dividend Paying Companies

Nestle – The most recent results, covering the first half of 2012, confirmed the largest global food company's pricing power, as the group managed to pass on the cost of its increasingly expensive raw materials to consumers. As global food prices are close to near record highs, Nestle's most important ingredients, such as coffee, sugar and dairy products, compared to grain based foods. First half sales moved higher organically by 6.6% as sales volumes also improved, which contrasted with results at other multinational food companies reporting recently. Growth was supported by strong demand from emerging markets, but also by a solid performance in Europe, were it sold more affordable products, such as Nescafe 3-in-1 soluble coffee, KitKat chocolate bars and new peelable banana ice cream. Nestle is expecting raw materials inflation of low to mid-single digits for the rest of the year, in line with its earlier forecasts. While cocoa prices have been appreciating recently, coffee prices have tempered on expectations of a strong harvest in Brazil and so have sugar prices. Net profit for the first half improved by 8.9%, to CHF5.1Bn ($5.25Bn), which exceeded the consensus expectations of CHF4.9Bn. Going forward, the company confirmed its outlook for organic growth of 5% to 6% and improvement in its operating earnings margin, in line with the famed 'Nestle model'.

Toyota – announced it will invest about $500mm in a new Brazil based engine factory, following the recent opening of a factory making Etios compact cars, built at a $600mm cost. Another factory, making Corolla is also located in an industrial corridor in the state of Sao Paulo. The new investment, which is set to initiate production in late 2015 will increase the Brazilian content of Etios and Corolla to 85%, from the current 65% level, a requirement following the imposition of a steep tax increase on vehicles with significant foreign content to protect local jobs.

Toyota is reportedly considering moving some production of its Lexus brand to the United States, to alleviate the impact of a strengthening yen. The company has significant engineering capabilities in the US with more than 1,100 engineers being employed at its Ann Arbor, Michigan center. Currently, Toyota manufactures in North America about 70% of the inventory it sells there.

Jim Lents, the Toyota US CEO said he has been driving a fuel cell Highlander SUV that was produced as a test vehicle and has been getting 300 to 320 miles per refueling of hydrogen. It takes about four to five minutes to refuel the vehicle.

Economic Activity, Consumer and Business Conditions

US – A relatively light week in macro-economic announcement in the United States featured slower than expected growth in consumer credit for the month of June, with an addition of only $4.57Bn compared to expectations for a $11Bn level and a May consumer credit growth of $17.12Bn. The slower growth in consumer is likely to have had an impact on slowing retail sales and a lower contribution to economic growth coming from the all important consumer growth, as attested by the most recent retail sales and GDP reports.

On the bright side, US labour productivity returned to growth, to the tune of 1.6% for the second quarter, ahead of the expected 1.3% rate, while the US goods and services trade deficit shrank to a $42.9Bn level in June, compared to $48.0Bn in May and expectations for a modest retreat to a $47.5Bn level, as growth in exports was not matched by imports, down 1.5% in the month. The later could be seen as another foreteller of weak retail performance as most of the import retreat came for a drop in imports of consumer goods excluding autos.

Canada – The highly anticipated employment report issued Friday failed to match the expectations, as the Canadian economy shed 30,400 jobs in July, compared to the forecasted 8,000 jobs additions, while the headline unemployment rate moved up a notch to 7.3% as a result. All of the job losses though were of the part-time variety, as full-time positions increased by over 21,000 in the month. Industries affected included retail and wholesale trading, manufacturing and natural resources. Given the marked slowdown globally and in the US, such less than upbeat reports for Canada should not come as a big surprise though. Another weak report was the international visible goods trade report, which showcased a larger than expected $1.8Bn deficit in June on top of a higher revised reading for May. Exports were virtually flat, as a growth in volume hardly offset the pull-back in commodity prices during June, while imports were higher by 2.3%. Fortunately, much of the imports growth was due to additions of productive machinery and equipment and not just consumption.

On the Canadian housing front, the housing starts for July slowed, as expected, down to a 208,500 units annualized, from May's 222,100 units annualized, while new housing pricing continued to push higher by 0.2%, as expected, for the month of June.

UK - The Bank of England's governor Sir Mervyn King hinted at further action to boost the ailing UK economy after the Bank slashed its 2012 growth forecast to zero and said inflation was under control. King said there was no urgent need for fresh stimulus, but signalled more money creation through the Bank's quantitative easing (QE) programme in response to an economic performance that has "continually disappointed expectations of a recovery". (source The Guardian)

Financial Conditions

US – UK: US Federal Reserve policymakers remain 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 extension 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 until mid to late 2014. The U.S. 2 year/10 year treasury spread is now 1.39% and the U.K.'s 2 year/10 year treasury spread is 1.45% - 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 3.59% - (3.49% end of

July was 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 is at 6.6 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 40 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 14.74 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

Source: Thomson Reuters, Bloomberg, Company reports

Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel.:1-888-710-4242 • www.portlandic.com • info@portlandic.com

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