Market Commentary

PORTLAND INVESTMENT COUNSEL™

November 5, 2012

News Highlights on Current Holdings

Financial Services Companies

Barclays Q3 'Adjusted' PBT of £1.7bn in 3Q12 (ex -£1.1bn own credit and £0.7bn PPI (Principal Protected Insurance charges) was in line with the pre-release and consensus. Income was c£0.2bn lower than consensus, with Barcap responsible down 13% on 2nd Quarter. The incremental negatives were:

(1) disclosure of two additional legal/regulatory cases (the bank faces a record $470m fine over alleged energy market manipulation. The US Federal Energy Regulatory Commission (FERC) last Wednesday proposed a fine of $435mn and $34.9mn disgorgement from Barclays for violating the anti-manipulation rule in the power trading market from late 2006 to 2008). Barclays have vowed to "vigorously defend this matter" and said it was disappointed with the "one-sided" allegations made. The bank and the traders have 30 days to appeal against the regulator's decision, and

(2) a downgrade of Basel 3 capital projections on higher expected deductions and £15bn slotting/operational Risk Weighted Asset additions, which in combination with 3Q12 PPI charges are clearly unhelpful. However, set against that, current Capital position was better with Core Tier 1 11.2% against 10.9% expectations driven by 3% reduction in Risk Weighted Assets compared to 2nd Q and Tangible Book Value per share is 379p, flat on the half year. The stock trades at 0.6x 2012E Net Asset Value and its estimated will retain £3-4bn of post dividend (c£0.9bn) earnings per annum in 2013/14E. Near-term revenue growth will remain subdued, but with a focus on costs continuing to show through.

BBVA: 3Q12 net profit of €146mn is below consensus of €154mn. Pre-provision profit €2,865mn (-12.4%QoQ/+32.5% YoY) is only 2% ahead of consensus. The bank has carried out a more intense Real Estate clean-up (€1,600mn) than expected (€1,300mn) partly offset by the badwill recognition from Unnim (€320mn) higher tax credits. By geographies, small miss in Mexico and Eurasia offset by stronger results in Spain. Headline Non Performing Loans ratio of 4.8% slightly worse than expected. Core Tier capital 1 ratio at 10.8% was flat QoQ notwithstanding the higher provisions taken this quarter.

Deutsche Bank saw profits slip 3% in the 3Q from a year ago, as higher costs for streamlining its business and from credit write-offs offset better revenues from investment banking and trading stocks and bonds. The bank said that its net profit fell to €755mn from €77mn in the same quarter a year ago, even though revenues rose 18% to €8.7bn. Revenues were up at its investment banking operation due to improving market conditions and increasing activity by clients. Nonetheless, the reported pre-tax profits were 13% above consensus with underlying pre-tax profits 14% better than forecast. The beat is driven by revenues (+10% vs expectations). On the back of better than expected revenues, its estimated Deutsche reported a clean cost-income ratio of 74.1%. Provisions of EUR555 mn were 32% worse than forecast driven by a much higher than expected charge for assets reclassified under IAS 39.

As compared to consensus, Deutsche posted a €36 mn miss in asset management most likely driven by the €90 mn restructuring charge (partially offset by a €29 mn exceptional gain). All other operating divisions were in line to better than expected versus consensus. The most notable beat came in Commercial Banking &Sales where Deutsche Bank reported sales and trading revenues up 13% on Q2 (in US$) in line with global peers (+12%). Deutsche's CFO stated the bank's fully phased in Basel III common equity tier 1 ratio is "about 7%." That is an improvement from Q2 estimates of 6.5%, but still well below global competitors at between 7.5% & 9.3% but we expect the capital gap versus peers to close over the next 12 months.

HSBC - This morning HSBC reported strong Q3 2012 earnings, with adjusted Profit before tax 7% above consensus at £6,058m. The beat against consensus was primarily driven by 27% lower than expected impairments, with North American impairments down 26% versus Q2 2012. However the earnings beat was offset by a $700m provision against potential fines in the US against money laundering, and a further top-up of $800m. The bank commented that it booked an additional US$0.5bn of cost saves in 3Q 2012 giving US$2.2bn of cumulative cost saves (1H12 US$1.7bn), annualising at US$3.1bn (1H12: US$2.7bn). Overall despite US$2.2bn of cost saves booked so far, clean costs are flat on their 1Q11 starting point (i.e. before the cost plan started). Looking at 3Q2012, clean costs are higher than the US$9.0bn in 2Q12, despite the US$0.5bn of cost savings booked in the quarter, which is somewhat disappointing. In the US the legacy impairments in Household Financial Corp (HFC) was US$200mn better than expected at US$498mn and there was an undisclosed reserve release in Global Banking & Markets. Personal Financial Services bad debts were US$350mn lower QoQ, of which US$339mn can be attributed to HFC and Commercial banking bad debts increased c. US$42mn QoQ. Core Tier 1 capital was therefore stronger than expected at 11.7% up from 11.45 in 1st half 2012. Finally, gross group loans were US$1017bn (1H12: US$992bn) after US$16bn positive FX. Total Asia loans were up 3% QoQ and Latin America was flat.

Lloyds Bank - Respectable set of numbers with underlying Profit Before Tax Q3 £840m ahead of £546m consensus expectations due to improving impairments (c£1.3bn v expected £1.5bn). Impairment charges were much better than forecast at £1.26bn vs our £1.54bn. Below the line, the Bank took a further £1,000m charge for Principal Protection Insurance (c1p a share of value). Non-core run off remained brisk in the period, with the target now increased to a £38bn reduction for 2012. As a result, Lloyds managed to build its capital ratio in the period (Core Tier 1 went to 11.5% (up 0.7%) with estimated fully loaded Basel III Core Tier 1 of 7.7% (up 0.6%); total capital ratio of 16.6% (up 1.0%): RWAs down 8% to £323.5bn) despite booking a statutory loss of £1bn given the £1bn PPI charge in Q312. Lloyds trades at circa 0.7x Price / Book Value, which, its estimated, implies an ROE of c.7.4%. However, we believe the end of Core deleveraging appears to be within sight. Costs have further to fall but bad debts appear to be under control. The Core Return on Equity is going up not down and confidence in Non-Core is building. If we assign no value to Non-Core, with a Core Net Asset Value of 42p, generating a Return on Equity >15% the shares appear undervalued. The group's net asset value is 57p.

Manulife: Reuters reported last week that Manulife Financial said its exposure to Hurricane Sandy was manageable and within its risk tolerance. The company, is primarily a life insurer, but it also provides property and casualty reinsurance, meaning it insures insurers that have potential exposure to the devastation caused by the storm. Manulife spokeswoman Laurie Lupton said the company's exposure was limited. 'Because of the structure of our contracts, the potential impact is limited to a maximum amount that is within our risk tolerance and manageable from an earnings and capital perspective,' she said. Forecasters said the total insurance losses related to Hurricane Sandy should outdo the $4.5 billion in losses caused by Hurricane Irene, which hit the U.S. northeast in August 2011. Intact Financial, which is Canada's largest property & casualty insurer, said it has no exposure to the hurricane as it does not have any U.S. operations.

National Australia Bank reported cash earnings of $5,433mn (flat on $5,460mn FY 2011) which was in line with guidance for cash earnings "broadly in line" with FY2011 ($5,460mn). Final dividend per share of $0.90 was pre-announced. Compositionally the result was marginally weaker than expected, with 2nd Half 2012 revenues 1% short of expectations (margins) and bad debts higher than expected (2nd Half 12 60bp), offset by costs 3% better than expected. Divisionally, the UK was as expected, the key disappointment (2H12 loss $177mn) with New Zealand also marginally softer than expected; strong results from Personal and Wholesale; MLC resilient; Business earnings down less than expected (-9% 2H12). Key positives were 1) Strong cost performance (-2% 2H12); 2) Relatively stable asset quality (past-dues & impaireds 1.78% 4Q vs. 1.72% 3Q) and improving ex the UK (1.43% 2H12 vs. 1.50% 1H12) across all regions. Of concern were: 1) Flat revenues 2H12 (net interest income -2%) albeit with good lending fees; 2) Weak net interest margin -11bp 2H12 (CS -2bp) driven by deposits and markets & treasury and divisionally by the UK, Business (-6bp) and New Zealand (-3bp).

Royal Bank of Scotland: Q3 2012 Profit Before Tax total

£1,047m (pre exceptionals & Fair Value adjustments) well ahead of £700m expectations. Core £1.63 bn looks well +£0.2bn ahead of consensus. Better performances than expected look like Markets, US Retail, and unhelpfully Centrals. Non-core loss -£0.59bn against -£0.75bn consensus expectation. This is down to lower impairments and lower operating costs. The statutory loss of £-1.384bn reflects £-1.45bn of own credit, £-0.4bn of further PPI charges and £-0.45bn of other charges. However, made good progress on Risk Weighted Asset reductions which are down £6.9bn to £481bn suggesting pre-tax 8% cost of run-off which is good. Capital Core Tier 1 ratio at 11.1% despite the extra £400m PPI provision. On outlook RBS says that trends in the core book should be constant Q4 vs Q3 but that non-core losses are likely to be higher. Below the line charges are also expected to remain elevated, although own credit should be materially lower. WE recognize Management continue to make excellent progress restructuring the group.

Standard Chartered - reported another strong quarter, although with currency weakness continuing to drag (-c3% impact), YTD revenues haven't quite managed to hit the hoped for 10%+ rate. That said, costs were managed tightly around revenues and were additionally able to accommodate the New York Regulator's charge (U$340m) and legacy provision (U$80m) re dealings with Iran, and grow broadly in line with revenues. Asset quality remains benign with no repeat of the 1st Half 2012 Non Performing Loan increase. Wholesale loan impairment charges were <U$50m in 3Q12 (1H12 run-rate U$140m), but we believe highly likely to increase in 4th Quarter 2012. Korea (Consumer Bank muted) and India (currency, slower growth) continue to slow progress, while the Wholesale Bank in Singapore slowed in 3Q12 (mainly own account).

UBS reported a 3Q net loss of CHF2.2bn from a CHF1.02bn profit a year earlier, due to CHF3.1bn in write-downs for goodwill, as well as an own credit loss of nearly CHF1bn. Excluding these charges, UBS posted an adjusted CHF1.4bn profit. UBS also expects a loss for the 4Q, due to restructuring charges and losses on own credit.

Also, in a radical response to a tougher regulatory and economic climate, UBS is launching a complete overhaul of its investment banking arm, exiting almost entirely from fixed income and cutting thousands of jobs in London and the US. UBS said it plans to cut around 10k jobs by 2015 or 15% of its headcount of 64,000 today. About a quarter of the jobs will be lost in Switzerland. The rest will be spread around the world, but because a majority of the layoffs will be made at the investment bank, New York and London will be affected heavily. The plan effectively brings an end to UBS's attempts over the last two decades to build a world-class investment bank, which brought the bank to the brink of collapse in 2008, when it incurred more than $US50bn in losses from the fixed income business that it is now exiting.

Following this strategic transformation, UBS's business mix will be considerably tilted towards more stable, higher return on equity activities. Equity attributed to the investment bank will drop to 35% of total attributed equity from 65% currently. 80% of pre-tax earnings will come from the Wealth Management businesses, the Retail & Corporate unit and the Asset Management unit. These have shown remarkably stable results with pre-tax profit hovering between CHF1.1.bn to CFH1.3bn over the last 7 quarters. The remaining investment banking businesses will be more capital efficient and have relatively high returns. This should increase quality and visibility of earnings and should enable a re-rating of UBS over time.

The Financial Stability Board has released an update to its November 2011 release that identified an initial group of global systemically important financial institutions (G-SIFIs) providing provisional information on capital buffers.

In total, 28 banks were identified as G-SIFIs (down from 29 in November 2011). The banks were divided into four buckets depending on the required level of additional loss absorbency.

4 banks were earmarked for a 2.5% buffer above the 7% minimum CET1 ratio, Citi, JPMorgan, Deutsche Bank and HSBC.

2 banks were earmarked for a 2.0% buffer, Barclays and BNP.

8 banks were earmarked for a 1.5% buffer, including Bank of America, Credit Suisse, Goldman Sachs, Morgan Stanley, UBS and RBS.

The remaining 14 banks would require a 1.0% buffer and include Wells Fargo, Santander and BBVA and Standard Chartered

Canadian banks remained off the list and are not considered G-SIFIs but may be subject to a National SIFI buffer of 1.0%.

Compared with the Nov 2011 list two banks have been added (BBVA and Standard Chartered) and three banks removed: Dexia, as it is undergoing an orderly resolution process; Commerzbank and Lloyds, as result of a decline in their global systemic importance. Deutsche Bank has moved up to the 2.5% (from 2%) capital surcharge. The surcharge sits on top of the Basel III 7% requirement meaning Deutsche will have to reach 9.5% with the requirement being phased in from 2016. We believe that Bank of America (which ended Q3/12 with an estimated CET1 of 9.0%) falling into the 1.5% bucket rather than the 2.5% is positive and may improve the odds of having a 2013 CCAR (capital adequacy review) submission containing dividend increases and/or share repurchases approved. The Financial Stability Board stated that the list will be updated on an annual basis every November. Additional loss absorbency requirements for G-SIFIs will be phased in starting from 2016, initially for those banks identified in November 2014.

Dividend Payers

Bayer – reported third quarter results last week which were largely in line with the expectations. A 2.2% gain in quarterly underlying earnings was driven by a relatively strong quarter in its pharma business, offset by weaker plastics business. The group adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) increased to €1.85Bn, though the net income suffered from an increase in the company's litigation reserve of €200mm, as it is fighting claims against its Yasmin/Yaz birth control pills. The company re-iterated its guidance for revenues of €39Bn-€40Bn and is still expecting a high-single-digit percentage increase in its 2012 adjusted EBITDA.

The same day, the company announced its acquisition of Schiff Nutrition International (SHF on the NYSE), a US vitamins maker, in order to complement its more volatile prescription drugs business. Bayer offered $34 per share in cash to Schiff shareholders, a 47% premium over Friday's closing price of $23.19. The deal thus values Schiff at about 3.1 times its forecast annual sales, around the upper end of a typical deal in the industry.
We do however expect for Bayer to benefit from Schiff's strength in product development and brand recognition, while at the same time apply its own brand and distribution strength to boost vitamins sales. The Schiff portfolio includes well-known health supplements in joint care (Move Free), cardiovascular health (MegaRed) and immune support (Airborne).

BHP – briefed investors on its iron ore and metallurgical coal business, sticking by its previous production and demand forecasts. The company said its continues to expect China to grow at 7% to 8% over the next decade and, while it expects China's rate of steel demand growth to slow, it forecasts annual steel demand to reach 1Bn tonnes in about a decade, up from the current 700mm tonnes. Recent economic slowdown in China, BHP's largest customer, has driven the prices for iron ore and met coal lower. The price of iron ore dropped to a three-year low of $87 per tonne in September from the peak level of $200 per tonne, before stabilizing at around $120 per tonne. Even at $120 per tonne, BHP benefits from a robust margin, as its production costs are close to $40 per tonne, being one of the lowest cost large producers in the industry. On the production and delivery side, the company expects to ultimately be able to process and ship over 300mm tonnes per annum from the Port Hedland inner harbour, although in a first stage, an expansion to a 240mm tonnes per annum is targeted. The group also projects to lift met coal volumes by 50% by fiscal

2015. Encouragingly, cash costs in met coal appear to be falling after a sharp increase last year as the industry was confronting a number of supply bottlenecks.

Chemring – issued a profit warning last week, reducing its earnings per share expectations by 13 pence for the year, from the previously guided level of 43 pence for the year. The main culprits are the delayed award of a license to export mortar systems to a Middle Eastern customer, the delay of a contract which was expected to be awarded during the year as well as some technical problems with one of its products which led a customer to push back an order until a later date. Just the week prior the company had announced the replacement of its CEO, David Price , with Mark Papworth. Meanwhile, the US private equity group Carlyle is required to make an offer for Chemring or walk away by November 9. We are concerned with the recent set-backs and we'll continue to monitor the situation carefully, yet we continue to believe that, at 6.5x 2013 earnings, the company is valued attractively and also believe that the relatively lower cost of its products, compared to the value of equipment and human lives they help protect, should provide it with a more solid footing even in a lower defence spending scenario.

GEA Group – reported organic order growth of 2.3% year on year for the third quarter, which keeps the company on track to achieving its self-imposed target of 5.0% year on year order growth. The order growth was largely being driven by the food end market, while base/small orders remained at a healthy level in the quarter. The adjusted EBITDA margin was 9.7%, while the adjusted underlying EBITDA margin (which controls for the effect of a non-recurring €6mm costs related to its newly acquired food solutions business) reached 10.2%, ahead of expectations. We believe GEA Group, a leading German engineering group focused on food industry equipment, is well positioned to benefit from a structural change in developing economies, in particular China, where we see significant demand increase for food and beverage equipment as the economy moves towards a more consumption driven model from an export oriented model.

Toyota – reported results for the first half of its fiscal year which exceeded expectations, while it also raised its guidance for full-year net profit by 2.6%, to $9.7Bn. The company managed to raise its guidance, even as it had to cope with consumer backlash in China, following often violent disputes over ownership of islets in the East China Sea. Others, such as Honda and Nissan, which have a larger exposure to China, had to revise their earnings estimates downward. Second quarter profit more than trebled to $3.2Bn, driven by solid sales in North America and Southeast Asia. In the US, Toyota sales rose 16% in October from a year ago, as its brands reached a 13.9% market share, up from 12.3%. The Camry is the third-best selling vehicle year to date in the States, behind only Ford's F-series pick-up truck and GM's Chevy Silverado, while leading the mid-sized family sedan category, ahead of Accord and Altima. The group is also on track to be the top selling carmaker worldwide, as it reached a total of 7.4mm vehicle from January to September. The group expects sales for the year to reach 9.66mm vehicles.

Vivendi – Maroc Telecom, a majority controlled subsidiary of Vivendi, reported its third quarter consolidated results last week. Revenues declined by 3.0% to MAD(Moroccan dirham)22.5Bn, while cash flow from operations improved in the quarter to MAD8.3Bn. Business in Morocco continued to exhibit strong growth in the customer base, up 22% in post-paid mobile, 57% in 3G internet and 18% in ADSL. Operating expenditures were reduced by 1.6%, while the voluntary redundancy plan, meant to reduce company's costs in front of increased competition, had 1,330 signing-up thus far. Business continued to grow internationally (Mali, Mauritania, Gabon, Burkina Faso) with 43% growth in customer base, 17% improvement in revenues and 42% improvement in earnings from operations. The company maintained its 2012 guidance of EBITA margin of more than 38% and stable cash flow from operations, at MAD11.5Bn.

Pearson & Bertelsmann have announced the planned merger of Penguin & Random House (RH). Pearson also released its 9m Interim Management Statement, reiterating its Full Year outlook for growth in sales & operating profits despite a deterioration in Education in Q3. It expects to report adjusted EPS broadly in line with current Bloomberg consensus of 84.9p. Under the terms of the agreement, Pearson would have a

47% shareholding of the new Penguin Random House, implying a premium valuation for Penguin (Random House 2011 EBIT c£160m vs Penguin £111m). The JV excludes Bertelsmann's German trade publishing business & Pearson would retain rights to use the Penguin brand in education markets worldwide. Importantly, Pearson has secured minority protections & neither partner is allowed to sell for 3yrs with an IPO permitted after 5yrs. The merger is subject to regulatory approvals, & is expected to complete in 2nd half 2013. The merged entity would have a c25% market share in the US & UK. Its estimated a deal could generate a total of £115m of cost savings (c5% of the combined cost base). This could be worth a net c£250m to Pearson post restructuring charges.

Shell: Royal Dutch Shell's 3Q adjusted net income of $6.56bn was 4% ahead of the company consensus of $6.3bn. Income was down 6% y/y but up 15% vs 2Q. Shell's adjusted income was $0.2-0.3bn ahead of consensus, with the variance coming from Oil Products (R&M). Upstream net income of $4.89bn was down 10% y/y, and E&P volumes of 2.98mbd were down 1% y/y. Within this total, the good news was the integrated gas profit of $2.57bn, +35% y/y and +24% q/q thanks to strong LNG margins and a good contribution from Pearl GTL. The bad news was the Americas upstream business which remains very weak, producing a small ($0.1bn) underlying loss vs $0.7bn profit a year ago due to weak liquids and gas realisations in the US/Canada and higher depreciation. Shell's three big startups (AOSP, Qatargas 4 and Pearl GTL) produced volumes of 340kbd in the quarter, still well short of their combined capacity of 450kbd; its expected it will be 1Q/2Q 2013 before the full potential of these projects can be appreciated. Elsewhere, R&M profits were 26% higher y/y, with refining returning to a $0.5bn profit vs a $0.2bn loss in 2Q. Its estimated Shell's cash flow was $11.4bn for the quarter excluding working capital movements, or $33bn for the 9-months YTD. On this basis, Shell's YTD free cash flow was $12.9bn, easily covering dividends of $6bn. Announced disposals of ~$6bn YTD have broadly matched similar levels of acquisitions.

TOTAL announced 3Q 2012 adjusted net income of €3.35 Bn, 8.3% ahead of consensus estimates of €3.08 Bn. Operating income at €6.38 Bn was 3% above forecasts, with each of the business segments above expectations. Upstream operating profit of €5.54Bn was +1.1% vs forecast of €5.48 Bn. Reported production of 2,272kboed was -2.0% y-o-y, but +1% ex. effects of UK and Nigeria disruption. Upstream Net Income per boe of $14.3/boe, ahead of estimates of $13.4/boe. In the quarter TOTAL started production from the Atla field in Norway. TOTAL

expects production growth in 2013 due to start-ups at Angola LNG, Sulige in China and Kashagan as well as the re-start of Elgin. Production in 4th Quarter will be impacted by the effects of flooding in Nigeria. The company has also added new exploration acreage in Iraq, Bulgaria, Mozambique, Papua New Guinea, Philippines, Myanmar and Indonesia all in 3Q. In 4Q TOTAL will continue to appraise discoveries in Azerbaijan and French Guiana as well as drilling exploration wells in the Gulf of Mexico, Iraq, Ivory Coast, Kenya and Gabon. Downstream operating profit of €1,003M was ahead of estimate of €816M due to improved refining margins. TOTAL has generated net free cash of €4,582M year to date.

We continue to believe that TOTAL will deliver production growth in 2013, meeting company guidance of +3% per year, with start-ups at Angola LNG, Kashagan and Sulige all to come next year plus the resumption of production from Elgin / Franklin. In the Downstream, TOTAL benefitted from improved European refining margins as expected. We believe that high European margins can be maintained through 2013.

Economic Activity, Consumer and Business Conditions

US – A week rich in macro-economic releases culminated with the employment report for October, which had many positive under-tones despite an increase in the headline unemployment rate from 7.8% to 7.9%. The US non-farm payrolls grew by 171,000 positions in the month, well ahead of the expected 125,000 positions advance, supported by robust growth in the private sector, which added 184,000 employees in the month. One notable surprise was the addition of 13,000 new position in the manufacturing sector, reversing some of the 14,000 jobs loss in the month prior. Construction and retail jobs also recorded a strong rebound in the month. On the negative side, the real average earnings were flat in the month compared to the expected 0.2% improvement, while the average workweek hours, at 34.4 fell just short of the expected 34.5 hours level.

The Institute for Supply Management's (ISM) Purchasing Managers Index (PMI), a leading indicator of manufacturing activity, improved in October to a 51.7 index level from September's 51.5, indicating growth ahead, although barely so. Just as a reminder, a reading of the index above 50 tends to be followed by an improvement in the manufacturing activity, while, conversely, a reading below 50 is usually followed by contraction. The PMI's services sector counterpart, the NMI, failed to excite when released earlier today, as its 54.2 level reading fell short of expectations and indicates a slower rate of growth than the 55.1 September reading. Business activity continued to show signs of productivity improvement in the third quarter of the year, as productivity improved by 1.9% in the quarter, similar to the second quarter. While encouraging, such rates of productivity improvement are a far cry from the rate of growth earlier in current economic recovery.

Consumer confidence, as recorded by the Conference Board, improved in October to a 72.2 index level, albeit short of the expected 72.5 level, helped by a break at the pump and improved outlook for the US housing. Earlier in the week it had been revealed that the US personal income improved, as expected, by 0.4% in September, while consumption expenditures, up by 0.8% in the same month, were ahead of the expected 0.6% rate of growth. Part of the same report, the key core personal consumption expenditure (PCE) price index, the Fed's favourite inflation gage, moved higher to 1.7%, closer to the newly favoured inflation target of 2.0% than August's 1.5% read.

Of note, on the housing front, the Case-Shiller price index for the 20 US metropolitan areas continued to improve, indicating a 2.0% year on year price improvement in August, supported by an incipient, yet broadly based, housing market activity recovery.

Canada – Macro-economic news were considerably less up-beat over the last week. The Canadian GDP retreated by 0.1% in August, dragged down by mining and manufacturing, but also because of a weak showing in utilities and construction. GDP growth estimates for the third quarter are likely to start coming down. The employment report for October was similarly disappointing, as it revealed a meagre 1,800 jobs addition, light years short of Septembers 52,100 jobs added. Agriculture and utilities were the main culprits in the month, but the hospitality sector was also underwhelming.

The long awaited cool off in the Canadian housing activity seemed to finally have arrived on Monday, when the building permits for September were revealed to be 13.2% lower, significantly overshooting the expected 3.0% drop.

Hurricane Sandy is expected to cause $5-$15bn of insured damage, according to initial estimates by catastrophe modelers Eqecat and AIR Worldwide. Notably, a significant portion of the economic losses are flood related, which is not covered under private market homeowner's insurance, although flooding could result in some covered claims for commercial lines and business interruption losses. Its therefore anticipated these losses should be an earnings event rather than a capital event for P&C insurers. Insured losses from Sandy of $5-$15bn would be equivalent to a modest 0.9%-2.6% of U.S. industry capital. At the midpoint of this range, Sandy could be the 5th largest insured hurricane loss in the U.S. As a note of precaution we believe that while flood damage is not covered by private insurance, if mold becomes an issue which makes areas uninhabitable, then insurers will be responsible to make good on claims. New York City area is now scheduled to be out of power for up to 10 days and so although the expert estimates are of 'only' $5-20bn economic damages in total, the damage to the NY/NJ/CT transit systems alone could be in the tens of billions. Hence, as with Katrina, the true scope of damage and losses is unlikely to emerge until days after the storm has passed at which time we may well see upgrades to consensus insured/economic loss estimates.

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 through 2015 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 1.41% and the U.K.'s 2 year/10 year treasury spread is 1.59% - 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 3.39% - (3.36% early October 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 5.9 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 is easing 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 should suffice, enabling banks to continue to post increasing earnings per share (as credit improves) over the next 18 – 24 months 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 49 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..

The VIX (volatility index) is 18.26 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
Certain statements included in this document constitute forward-looking statements, including those identified by the expressions "anticipate," "believe," "plan," "estimate," "expect," "intend" and similar expressions to the extent they relate to the Fund. The forward-looking statements are not historical facts, but reflect the Portfolio Management team's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Portfolio Management team has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise.

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

PIC12-0139-E(10/12)