



News Highlights on Current Holdings

Financial Services Companies

Aviva, the UK's second-biggest insurer by market value, named Mark Wilson CEO, six months after Andrew Moss stepped down. Wilson, a former CEO of AIA Group, takes over in January, when Chairman John McFarlane, 65, relinquishes his executive powers,

Barclays - named Richard Taylor head of its investment banking division for EMEA, replacing Tom King. Taylor will also remain as head of investment banking for the UK & Ireland.

Barclays - placing today by Goldman Sachs & Deutsche Bank of up to 303.3mn shares by way of an accelerated bookbuild offering to institutional investors. This is in relation to a monetization of warrants held by Qatar holdings. Placing price was said to be 244-248p, a 2.4-4% discount from Friday's closing price of 254.20p.

Credit Suisse - have announced a new organizational structure, splitting the investment bank into two units to focus on equities advisory and fixed income. Brady Dougan CEO stated they have made good progress in adapting the business to create an integrated wealth management business and one of the first global investment banks aligned to the new regulatory environment. Eric Varvel will continue to lead and oversee the management of the Equities & Investment Banking Department businesses. Gael de Boissard will focus on the management of the Fixed Income Department. Asset management and private banking are being combined to form a Private Banking & Wealth Management Division lead by Hans-Ulrich Meister and Robert Shafir. Hans-Ulrich Meister will be Head of Private Banking with responsibility for running the Swiss franchise and the Private Banking client businesses in EMEA and Asia Pacific and Robert Shafir will be Head of Private Banking & Wealth Management Products. The Investment Banking securities platform in Switzerland will be moved into Private Banking & Wealth Management and report to Robert Shafir and to Hans-Ulrich Meister.

Separately, the Financial Times reports The New York

attorney-general is preparing to file a lawsuit against Credit Suisse, alleging the Swiss bank misled investors who lost more than \$11bn on mortgage-backed securities.

HSBC - approached Citi Group as early as last year as a buyer of its Ping An insurance stake, 21 Century Business Herald reports. The Financial Times earlier highlighted HSBC were weighing a sale of their \$9.5bn stake in China's 2nd biggest insurer by assets. Separately, HSBC disclosed 5.4% stake in Amadeus shares worth some €410mn after a block sale of 23.61mn shares failed to attract enough demand. HSBC was the sole book runner on the deal. The bank has made no subsequent filing to show it has reduced its holding to below 5 per cent. Both HSBC and Amadeus declined to comment on the deal.

ING - have agreed an amended restructuring plan with the EU which allows ING more time to sell its European Insurance operations and to repay Dutch state aid (i.e. to repay €3bn state capital in 4 equal tranches at a 50% premium consisting of principal, premiums, accrued interest and coupon payments only triggered by potential future dividend payment so likely avoiding the expensive 8% coupon payments). ING have pledged to repay all state support and a premium by 2015 (had been 2013). The European Commission said it extended the deadline for ING to divest its insurance business because of the current difficult market situation. While an agreement had been expected this perhaps comes slightly earlier than hoped and the extended timeline removes some concern regarding an early sale of the insurance business at a low price.

ING - Bloomberg reports that ING will eliminate 60 jobs at its commercial bank in Asia by the end of June as part of its three-year plan to reduce costs by €460mn. Earlier, ING said it will eliminate 1,350 insurance jobs by 2014 and another 1,000 in commercial banking to make the savings by 2015.

Intesa Sanpaolo, of Italy, raised €1.25bn in the latest of a series of bond issues from eurozone peripheral banks as issuers seek to tap into strong investor demand for higher-yielding assets. (Source : Financial Times)



JPMorgan Chase announced that Marianne Lake would succeed Douglas Braunstein as CFO at the bank. Mr. Braunstein, who has been CFO since 2010, will become a vice chairman of the company. Ms. Lake, who is the CFO for the consumer and community banking business, will take up her new post early next year.

Lloyds Banking Group is selling a £1.46bn portfolio of distressed Irish property loans to a private equity group linked to Apollo Global Management for a tenth of their face value in the latest phase of its exit from the Irish market. The lender, which is 40% owned by the UK government, said it is selling the loans to Risali Limited, an entity affiliated with Apollo Global Management, for a cash consideration of £149m. Also, the Financial Times reports Lloyds is preparing to sell £1.2bn of distressed mortgages tied to European real estate. The sale would be one of the largest disposals of non-domestic property debt by a UK bank. The sale process, called Project Chamonix, is a portfolio of German commercial property mortgages with a face value of between €850-900mn. Separately, Lloyds is looking to sell £500mn of non performing UK property loans.

Royal Bank of Scotland - The Sunday Telegraph reports that RBS are concerned it could receive a double hit of separate fines from FSA and US regulators over its alleged involvement in Libor-fixing. Barclays was fined £290m but in one hit by both the British and US authorities. It is understood that regulators within the FSA felt undermined by the Barclays settlement, which critics said showed the British watchdog to be considerably weaker than its US counterparts. Of the £290m the FSA's portion was only £60m. It is unclear when a settlement will be reached but RBS, who have yet to make a provision, said fines are likely to be material.

Santander – on Friday the Financial Times reported that Santander is considering spinning off its US consumer finance business, Santander Consumer USA, which has a loan portfolio of €18bn. Santander sold a 35% stake in the unit to their private equity groups, Warburg Pincus, Kohlberg Kravis Roberts and Centerbridge Partners in 2011, which included a provision to give them the right to sell back their minority stake or take part in an IPO of the

unit at a later date. No final decision has been made and it is not clear whether Santander would opt to maintain majority control. Reports suggest Santander is seeking up to \$6bn valuation of the No. 8 US auto financing lender.

UBS, Switzerland's largest bank, faces a fine of about £45mn for failing to detect billions, in unauthorised trades by the imprisoned Kweku Adoboli. The bank could get a maximum penalty of as much as £50mn from the U.K.'s FSA. A fine of that amount would be the UK's second-highest ever. (source :Bloomberg)

Dividend Payers

Bayer –walked away from the bidding competition with Reckitt Benckiser for Schiff Nutrition, a US vitamin maker, a show of financial discipline in our opinion; at 16.5 times earnings before interest, tax and depreciation, the Reckitt offer was valuing the target twice as richly as recent acquisitions in the industry. In Bayer management's own words 'entering a competitive bidding process...would result in a price outside Bayer's set financial criteria'. Since Schiff had already agreed to Bayer's offer, it will pay Bayer a \$22mm fee to terminate the earlier deal.

Bayer announced its Xarelto blood-thinning pill won approval by the European Union for the treatment of dangerous blood clots of the lung, a condition known as pulmonary embolism. Xarelto was also approved for use in preventing recurrent deep vein thrombosis.

Johnson Matthey – reported first half profit which, although down by 6% because of weaker platinum prices, met the consensus expectations. The company warned, however, that the second half of its fiscal year would be 'similar' to the first, somewhat contrary to the expectations, which were penciling in an improvement on the back of strengthening platinum prices. The company's precious metals division, a key contributor to its operating profit, saw a 33% dip in its operating earnings as lower prices and volumes over the last six months affected its platinum marketing, distribution and refining businesses. Johnson Matthey's environmental technologies unit, a leading global manufacturer of auto and industrial catalysts, increased its operating result by 17%, helped by a more than 25% improvement in the US sales of heavy



duty diesel (HDD) catalysts, usually installed on trucks. Management warned though that the HDD market tends to exhibit significant volatility, while earlier in the year, Cummins, the US engine maker, had lowered its 2012 forecast citing delays in customer spending.

Novartis – announced the approval by the US Food and Drug Administration (FDA) of its seasonal flu vaccine, which is produced using animal cell culture rather than the traditional manufacturing using chicken eggs. The animal cell culture technology is a speedier process that could help build stockpiles in the event of a pandemic. The vaccine, named Flucelvax, is approved to prevent season influenza in people aged 18 and over. Flucelvax will eventually be manufactured at a new US plant in Holly Springs, North Carolina, once that facility is ready for full-scale commercial production.

Siemens – Reuters reports that Osram, Siemens' lighting unit is planning a restructuring including thousands of job cuts before it is spun off next year. The programme is expected to cost about €500mm and will affect mostly sites outside Germany. Osram, which generates annual sales of about €5Bn, has 44 factories in 16 countries and has already shrunk its workforce by 2,000 to 39,000 over the past year. Siemens' supervisory board is likely to sign off on the timing and details of the spin-off at its next meeting later this week, followed by a shareholder approval at the group's annual general meeting in January of next year. Siemens, which has shown it is unwilling to invest in the new LED technology, a highly competitive market, plans to keep less than a fifth of Osram while transferring the rest to its own shareholders.

Syngenta – announced the acquisition of Sunfield Seeds, a US-based provider of sunflower seeds production and processing services to more than 30 countries for an undisclosed financial consideration. This bolt-on acquisition is meant to strengthen Syngenta's global leadership position on a market worth around \$1Bn of which more than 75% of the value comes from emerging markets, where the transition towards high-value hybrid sunflower seeds continues.

Toyota – revealed it would launch two China-only brands through its two Chinese joint ventures starting next year.

Toyota maker cars in partnership with FAW Group and Guangzhou Automobile Group Co in China. Other foreign car makers that also have China-only brands include Nissan Motor and Honda Motor.

Economic Activity, Consumer and Business Conditions

US – The US housing sector continues to show signs of improvement as the US housing starts for October rose to 894,000 units annualized, above September's 863,000 units annualized and surprising most observers which expected a slow down to a 840,000 units annualized rate. The increase was chiefly driven by an increase in the level of multi-unit housing starts. A leading indicator of the US housing starts, the building permits retreated from September's 890,000 units annualized loftier levels, albeit in line with the expectations, at 866,000 units annualized. Meanwhile, the US consumer confidence as measured by the University of Michigan consumer sentiment index, recorded a largely flat reading in November, at 82.7 index points, a retreat from the much higher initial level of 84.9 and some ways off the expected 84.5 index points. Of the two sub-indexes, it was the 'expectations' component which disappointed, this time around. Undoubtedly, the US consumer is aware of the 'fiscal cliff' talk and its tax repercussions in just a few weeks' time.

Canada – The Canadian retail sector recorded a muted performance in September, up only 0.1% against expectations for a 0.5% improvement at the headline level and it fared even worse when adjusting for auto sales, which were up 0.9% in the month. The retail sales were dragged down by weakness in the general merchandise, furniture and sporting goods, somewhat offset by sales of clothing and electronics.

Price inflation in Canada continues to be relatively benign as the consumer price index (CPI) at both headline and core levels attested in October. The headline CPI year on year rate held steady at 1.2%, a tad higher than the expected 1.1% rate. The core CPI reading, which excludes eight of the most volatile series, including food and energy prices, held steady as well, though at a slightly higher level of 1.3%. Such tame inflation provides



little scope for any hawkish action of the Bank of Canada.

Bank of England : Mark Carney will be the next governor of the Bank of England, Chancellor George Osborne told the House of Commons today.

France : Moody's, as expected, aligned with S&P's earlier decision and downgraded France's Government Bond rating to Aa1 from Aaa.

Ireland : Almost two years since Ireland was forced to accept an international bailout to prop up its ailing banks, private equity groups are seeking out bargains amid hopes the country's economy has stabilised. Last week Apollo Global Management, Kennedy Wilson and Blackstone invested almost €400mn acquiring distressed loans and commercial properties in Ireland at a fraction of their face value. Several other private equity groups including Oaktree Capital Management, Lone Star, Carlyle Group and KKR are also eyeing €50bn in non-core assets, which are targeted for sale as banks shrink their balance sheets. (source : Financial Times)

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 1.39% and the U.K.'s 2 year/10 year treasury spread is 1.52% - 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 3.31% - (3.31% 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 5.4 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 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 50 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 15.14 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>.

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Market Commentary



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