Market Commentary

PORTLAND INVESTMENT COUNSEL™

May 13, 2013

News Highlights on Current Holdings

Financial Services Companies

AXA : 1Q 2013 Interim Management Statement small beat on revenues, bigger beat on sales and margin. Total revenues €28.9bn v. consensus €28.8bn. Life Annual Premium Equivalent €1.8bn v. consensus €1.7bn. New business margins increased to 32% +3pp YOY, life net flows €3.5bn compared to 1Q12 of €2.2bn and asset management net flows €8.4bn positive v. prior year outflow of €5.4bn and consensus of positive flows of €4.5bn (and positive flows in both asset management companies). All top line performances in line, higher margin product mix, with welcome turnaround in asset management business. P&C benefiting from 2.7% average rate increase. Mature markets +1%, high growth +14%, direct channels +10%. Life Business saw 'growth in both mature and high-growth markets'. Net inflows into life products key positive number driven by very strong protection & health gross volumes (Switzerland, China, Thailand and Japan featuring) and a doubling of unit-linked sales and a 25% increase in Annual Premium Equivalent (corporate pensions, US accumulator products, French group business). Solvency: 228% (Solvency I) and 210% (economic capital surrogate).

Bank of America and Bond insurer MBIA have reached a settlement in an ongoing legal dispute, and BofA will pay MBIA $US1.6bn, ($0.10 per share) in cash and a $500 million line of credit. This was about $1.0 billion below the estimated cost for the settlement. Additionally, Bank of America will receive warrants to purchase 4.9% of current MBIA common shares outstanding.

As part of the settlement, Bank of America will pay MBIA $1.6 billion in cash and remit to MBIA all of the outstanding MBIA 5.70% senior notes due 2034 that Bank of America acquired through a tender offer in December 2012. The bank will also terminate all outstanding credit default swap (CDS) protection agreements purchased from MBIA on commercial mortgage-backed securities (CMBS) and will terminate other trades in order to close positions between the two institutions. MBIA will issue warrants to Bank of America to purchase 9.94 million shares of MBIA common stock at an exercise price of $9.59, which can be exercised any time prior to May 2018. The $1.6 billion charge to be reflected in 1Q13 results includes $1.3 billion related to the settlement and the remainder related to other monolines. As a result of these actions, the bank's estimated Basel III Tier 1 common capital ratio benefits by 0.10%, increasing to 9.52% (compared to 9.42% reported with 1Q13 results). The increase is driven by the reduction in risk-weighted assets (RWA) associated with terminating the CDS contracts, partially offset by the additional litigation expense. In addition to affecting this capital measure, the settlement results in a $0.10 decrease in the reported tangible book value per share to $13.36 and an $0.11 decrease in the reported book value per share to $20.19.

Also, last Friday was the deadline for opponents to Bank of America's June 2011 $8.5bn settlement to resolve nearly all of its legacy CFC-issued 1st lien RMBS repurchase exposure. While state Attorney General's from both New York and Delaware, as well as the Federal Housing Finance Agency, initially opposed the settlement, they withdrew their objections. Still, we believe other parties, including AIG, remain opposed. A hearing is scheduled to begin on May 30 on whether the settlement should be approved.

HSBC: Reported $8.4bn pre-tax profit ($7.6bn underlying mainly relating to $1.1bn gain on reclassification of Industrial Bank and $0.2bn Fair Value of own debt) and $6.8bn by adj. for further notable items (+$0.6bn Ping An, +$0.5bn Debt Value Adjustment, -0.2bn UK customer redress programs and -$0.1bn restructuring costs). Market expected $8.1bn reported pre-tax profit and $6.7bn adj. Beat in loan loss provisions mainly a result of "notable improvement in US Consumer and Mortgage Lending portfolio". Core tier I ratio capital ratio (Basel 2.5) was up to 12.7% from 12.3% end 2012. HSBC continues to undergo self-help restructurings to keep earnings growing in an environment where top-line growth is hard to find, is geared to the improving US Housing Market and more than 70% of its earnings are from Asia / faster growing markets. Stuart Gulliver, HSBC CEO stated : " We're probably as an industry, moving into calmer waters"….he remains " fixated on costs" and has promised a further $1bn of savings in 2013….. which is expected to translate into 5,000 more job cuts…. The bank has stated it has identified a total of $4bn sustainable annual cost savings, up from $3.6 billion at the end of 2012.

ING: ING Group reported €1.17 underlying pre-tax profit (€1.10bn consensus) and €0.80bn underlying net profit (€0.79bn consensus). The earnings beat was primarily a result of higher than expected investment and other income but also Net Interest Margin was above expectations. ING Bank ahead of expectations – ING bank reported underlying pre-tax profit of €1.17bn (consensus €0.96bn). Loan loss provisions were €0.56bn in 1Q13 (consensus €0.58bn). ING Retail Banking reported €0.61bn underlying pre-tax profit (consensus €0.50bn) and ING Commercial Banking reported €0.59bn underlying pre-tax profit (consensus €0.49bn). The Non Performing Loan ratio increased slightly by 0.10% to 2.6% and write-downs still don't not reflect macro reality in our view. ING Insurance – ING Insurance reported a break even result before taxes (consensus 0.2bn). ING will reduce double leverage from €7.1bn to €5.1bn in 2Q 2012 and over the mid-term to €1.5bn. In this context an IPO of the European Insurance activities looks more likely in our view. The core tier I capital ratio atio (Basel 3 fully loaded) continues to look solid at 10.4% after the planned dividend upstream of €1.5bn to ING Insurance to reduce the double-leverage.

Lloyds Bank - Sir Win Bischoff, who has overseen a radical restructuring and return to profitability at Lloyds Banking Group, is stepping down as chairman of the part-nationalised bank this year, according to the Financial Times. He is expected to announce his decision ahead of Thursday's annual shareholder meeting. – Also, J Sainsbury Plc said it's in advanced talks with Lloyds Banking Group Plc to take full ownership of Sainsbury's Bank

National Australia Bank : NAB reported (company defined) cash earnings of $2,915mn (up 3% on $2,828mn 1st Half 2012) which was 1% ahead of the $2,881mn consensus average. Interim Dividend Per Share of $0.93 (up 3% on $0.90 per comparable period) was $0.01 better than the consensus average. Compositionally the result saw better-than-expected results from each of the domestic banking and wealth businesses offset by a poor UK run-off business result (-$226mn); Group revenues were in line with expectations (supported though by strong trading income), costs 1% worse (resulting in flat sequential pre-provision profits), with better-than-expected bad debts (0.44%) the reconciling item.

Standard Chartered said its first quarter operating profit was likely to be slightly lower than a year ago as an increase in hiring, and wages, pushed up costs. Standard Chartered said group expenses were up by a low single digit percentage. The bank said it had hired an additional 560 staff. Income would be slightly higher compared to the same year-ago period, the bank said, thanks to client volume growth. Loan loss provisions are above the level of 1Q 2012; "operating profit in 1Q 2013 was slightly down year on year" versus double-digit EPS growth target. Margin pressure (particularly in trade finance) was a key reason for the disappointment. However, the bank said that they "remain comfortable with consensus for profit before tax for the full year".

Dividend Payers

ABB - has announced the surprise departure of its chief executive, saying the move was for private reasons. The Swiss company, the world's biggest supplier of industrial motors and power grids, said Joe Hogan, 56, would be leaving after nearly five years in the post. It said no date had been set for his exit and a successor would be named in due course.

Hogan took the helm at ABB in September 2008, since when the group has invested some $20 billion to strengthen its operations, including making the major acquisitions of U.S. groups Baldor and Thomas & Betts and, in April this year, solar energy company Power One. Credited with bringing costs under control, Hogan invested heavily in research and development to strengthen ABB's power and automation businesses, raising R&D spending to almost 3.7% of revenue from 3% when he joined. ABB Chairman Hubertus von Gruenberg said Hogan had done a remarkable job in leading the company through the economic crisis. “ABB today is in a much better position than it was when he joined ... the board sincerely regrets that Joe will be leaving the company.”

Earlier today, the company has announced a second senior executive departure, saying its chief technology officer (CTO) was quitting. ABB said Prith Banerjee, who joined the group in 2012, would leave for family reasons in the next few weeks after less than a year in the post. A spokesman for ABB said the timing of the announcement was pure coincidence and that Banerjee was leaving to be closer to his family in the United States.

GEA Group AG – The leading mechanical engineering and food processing German firm reported first quarter results in Düsseldorf, last week. In the first quarter of 2013, GEA received orders worth €1,447.1 million (previous year: €1,544.9 million) and generated revenue of €1,232.7 million (previous year: €1,263.7 million). Order intake in the prior-year period was significantly influenced by an exceptional large order worth more than €70 million in the food and beverage end market. Adjusted for this large order, organic order intake declined by around 1.0 percent year-on-year only. In addition, demand is on a level with the average for the last three quarters of 2012 (€1,452.1 million). The unadjusted order intake was down 6.3% against the very high prior-year level. Revenue decreased slightly by 2.4%. The main reasons for this are the reduced willingness of the power plant industry to invest, which has been reflected in order intake for several quarters now, and the resulting absence of large orders.

In the first quarter of 2013, earnings before interest, tax, depreciation and amortization (EBITDA) rose by 51.6% to €98.1 million (previous year: €64.7 million). As a result, the EBITDA margin increased by 284 basis points to 8.0% of revenue. At €66.2 million, earnings before interest and tax (EBIT) in the first quarter of 2013 also significantly exceeded the prior-year figure (€32.6 million). The EBIT margin rose to 5.4% of revenue. Consolidated profit in the first quarter amounted to €40.8 million (previous year: €12.1 million). This corresponds to earnings per share of €0.21, after €0.07 in the comparable prior-year period. “Thanks to our systematic cash flow management, we have reduced our net debt as against the prior-year reporting date by €141.5 million to €494 million,” said Jürg Oleas, CEO of GEA Group Aktiengesellschaft.

Nippon Telegraph and Telephone (NTT) – announced plans to increase the amount of share buybacks to up to ¥250 billion in the fiscal year ending March 2014 from ¥150 billion in the fiscal year ending March 2013, when it reported on its full year results in Tokyo last week. NTT will buy-back up to 50 million shares, worth 4.2% of the company’s total shares outstanding. NTT reported consolidated operating profit for the fiscal year ended March 2013 of ¥1.2 trillion, in line with the consensus expectations, and guided for an operating profit level for the fiscal year ended March 2014 of ¥1.23 trillion, up 2.3%, also on par with the consensus expectations. The group sees earnings per share rising to ¥503, on the strength of rebounding profit and share buybacks. The company also projects a ¥205 billion decrease in costs in the next fiscal year and aims to lower the capex-to-sales ratio from 18.4% to 17% in the next fiscal year and 15% by the 2015 fiscal year. The company also announced it intends to keep the annual dividend at ¥160 per share. The ultra-stimulative measures rolled out by the prime-minister Abe resulted in a more favourable real estate environment in Japan and NTT is in a privileged position. The company updated the estimated value of its fixed assets (not including leasing assets) rose to about ¥1.5 trillion, while the book value of those assets is ¥400 billion. Consolidated unrealized gains on leasing and other real estate assets amounted to ¥631 billion. The company aims to boost asset efficiency by streamlining facilities and bases over the medium term.

POSCO – POSCO’s planned $12 billion steel project in India moved a step forward on Friday after a court handed a decision on a mining licence to the federal government, raising the South Korean firm’s chances of getting preferential access to iron ore. The world’s fourth-largest steel producer has waited eight years to get necessary clearances, land and an iron ore mining licence to start work on the project, billed as India’s largest foreign direct investment.

While the project planned in eastern Odisha state may still face hurdles from protesters over issues such as land ownership, a supportive federal government is expected to clear the path for POSCO's top concern - a captive mine that will give it steelmaking raw material iron ore. India was concerned about the delays and Prime Minister Manmohan Singh himself is monitoring the project's progress, Trade Minister Anand Sharma had said in January. In Friday's order, Justice Sudhansu Jyoti Mukhopadhaya of India's Supreme Court also overruled a lower court's ruling that prohibited POSCO from mining iron ore.

The company signed an agreement with Odisha in June 2005 to set up the steel plant on 4,004 acres of land. It is seeking 2,700 acres to begin the project's first stage, which involves setting up two 4-million-tonne plants in two phases. POSCO says that if it gets the required land in the current year, the first-phase of the plant may be commissioned sometime in 2018. At full production of 12 million tonnes, POSCO's project would have accounted for 16 percent of India's total current annual steel output of 76.7 million tonnes. The project is one of several in Odisha facing protests and delays. Investment plans of ArcelorMittal and Vedanta Resources in the state have been similarly delayed.

Royal Dutch Shell – said on Wednesday it will go ahead with the world's deepest offshore oil and gas production project, pushing the boundaries of technology to produce from nearly 2 miles (3.2 km) down in the Gulf of Mexico. Shell targets first production by 2016, demonstrating confidence in big offshore projects in spite of a downturn in oil prices.

Shell's 100 percent-owned Stones field was discovered in 2005, some 200 miles southwest of New Orleans. It encompasses eight lease blocks in the Gulf of Mexico's Lower Tertiary trend, which is the Gulf's deepest, most challenging and most promising play, estimated to hold up to 15 billion barrels of oil. The Anglo-Dutch company's Perdido platform was the first to start up in the Lower Tertiary in 2010. Perdido, in 8,000 feet (2,438 meters) of water, is at present the world's deepest producing offshore project. Stones is deeper than Perdido at 9,500 feet (2,896 meters).

Production during the first phase of Stones is expected to peak at 50,000 barrels of oil equivalent (boe) per day, Shell said, but the project is multi-phase, and is estimated to have 2 billion barrels of oil equivalent in place. Shell will build a floating production, storage, and offloading (FPSO) vessel and subsea infrastructure. It will be the company's first in the Gulf of Mexico, and the second to operate there, after Brazil's state-oil company Petrobras' Cascade/Chinook vessel about 30 miles (48 km) northeast of Stones.

Toyota – posted on Wednesday an annual operating profit of 1.32 trillion yen with an operating margin of around 6%, beating a market that had expected ¥1.26 trillion profit. Toyota Motor Corp more than doubled its fourth quarter net profit, as the yen's depreciation helped the automaker export more profitably and U.S. sales of the Avalon sedan and Tacoma truck were strong. In the quarter ended March 31, the world's best-selling automaker posted net profit of ¥313.9 ($3.17 billion), compared with ¥121 billion in the same period last year.

The company has exceeded the target President Akio Toyoda set two years ago: to make ¥1 trillion in annual operating profit, and do so with a 5% margin. Its manufacturing arm in Japan also made a profit for the first time in five years, a symbolic triumph for a titan of Japanese industry. This year, the company will concentrate on sharpening productivity in order to become more competitive, Toyoda said. Toyota expects to make operating profit of ¥1.8 trillion ($18.17 billion) in the fiscal year that ends March 2014. Powering that will be another year of record group sales in calendar year 2013, the company believes, reaching 9.91 million vehicles. It could become the first carmaker in history to sell more than 10 million vehicles in a year. It said it expects to sell 2.2 million vehicles in the United States in 2013, up from about 2.1 million in 2012. The company is expected to release the Corolla compact car in the United States this year.

Economic Activity, Consumer and Business Conditions

United States – It was a relatively light week for macro-economic data releases in the States last week, with the most noteworthy report released this morning, the retail sales report, showing a better than expected state of the all-important US consumer sector, albeit, at 0.1% month on month improvement, a hardly impressive number. Nevertheless, the consensus expectations were for a continued re-trenchment of the US consumer, factoring in a 0.3% month on month pull-back for April, on top of March's 0.5% retreat, as the consumer is adapting to more austere conditions imposed by the beginning of the year payroll tax hikes and the US budget sequestration. A key driver of the improvement was a 1% gain in sales of motor vehicles and parts, absent which, the retail sales ex-autos actually retreated 0.1% in the month, as expected. Sales were dragged down by a drop in gasoline sales, as well as a reduction of consumer expenditures on food, health and personal care. Discretionary retail categories, such as electronics, clothing, sporting goods and hospitality actually rose in the month. The mild improvement should likely be credited to the wealth effect of an improving housing market and an improving equities market, rather than employment and real earnings and consumer credit actually took a breather in March, up 'only' $7.97 billion, compared for expectations for a $16 billion increase, ending a streak of stronger than expected consumer borrowings.

Canada – The April employment report, which indicated a 12,500 gain in jobs, was broadly in line with the expectations, factoring in a 15,000 positions improvement. The headline unemployment rate held steady at 7.2%. Details of the report were mixed, as a 36,000 improvement in full time positions was partly offset by a 23,600 loss in part time jobs. More worryingly, the private sector cut 20,000 positions, meaning that the growth was supported by the public sector, which is difficult to reconcile with a declared need to reign in federal and provincial government deficits. The participation rate surprisingly retreated to a 66.50% level, against expectations for an advance to a 66.70% level.

Housing starts in Canada for the month of April retreated to about 175k units annualized from 181k units annualized in March, much as expected, with multi-units starts leading the retreat. New housing price for March inched higher by 0.1%, as expected and consistent with the regulators desire for an orderly cool-down of the market.

German factory orders unexpectedly rose in March, with the 2.2% run-up the second like-sized gain in a row and is much needed encouraging news for the Euro region. The German release overshadowed a much weaker-than-expected report out of France, where industrial production dropped for the second time this year. Headline output fell 0.9% while manufacturing production took a 1.0% dive. The setback was broadly based across nearly all sectors except the automotive industry. But at least France's trade deficit narrowed in March, to €4.7 bln from €5.6 bln in the prior month, thanks to a 1.4% pop in exports (the first increase in three months), while imports declined for the 3rd straight month (-1.1%).

Portugal - Portugal's first bond issue since its bailout two years ago saw strong demand, with the 10-year debt that raised €3bn over-subscribed by three times according to finance minister Vitor Gaspar. He said the country's financing needs for this year were already met and last Tuesday's issue (May 78th) was "pre-financing" for 2014. The yield was fixed at the mid-swaps market rate plus 400bps, offering a return of about 5.7%.

The Bank of England decided to keep its benchmark interest rate unchanged on Thursday amid doubts about the strength of Britain's economic recovery. The central bank left its interest rate at 0.5%, a record low, and also held its program of economic stimulus at £375 billion, or about $566 billion.

The Reserve Bank of Australia reduced the cash rate by 0.25% to 2.75%. With the majority predicting rates to stay on hold, the latest move by the central bank came as a surprise. The interest rate had remained at 3.00% since it was last cut in December 2012. In the accompanying statement, the RBA said that the below-trend economic growth from the second half of 2012 continued into 2013. The RBA also said that the global economy is also likely to record growth a little bit below trend.

Bank of Korea followed Reserve Bank of Australia and

ECB to ease its monetary policy. The central bank surprised market with a 25bps cut to its benchmark Base Rate last Thursday. This was the first cut since October 2012 and brought the rate down to 2.50%. Investors were widely expecting the central bank to stay on hold after the announcement of a US$15.8 bn stimulus spending package in mid-April which targets to create 40,000 jobs and raise full-year growth by 0.3% point. The rate cut highlighted pressure from the government to boost growth and could also be in part to stem the currency strength. In its monetary policy statement, the Bank of Korea said that it will “closely monitor the effects of the Base Rate cut and the economic policies of the government including the supplementary budget”.

Financial Conditions

The scandal-plagued Libor benchmark is likely to be replaced by a dual-track system with survey-based lending rates running alongside transaction-linked indices as soon as next year. Martin Wheatley, the UK regulator leading efforts to reform the Libor, told the Financial Times that a parallel system would provide continuity for holders of US$350tn in existing contracts that reference Libor while also paving the way for a new benchmark tied more closely to objective data.

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 until the unemployment rate falls below 6.5% (April 7.5%) which is likely to be through 2014. Fed Reserve Chairman, Ben Bernanke has indicated 1% or less would be considered exceptionally low. In September 2012, the Fed announced it would buy $40 bn per month of agency mortgage-backed securities and in December 2012 that it would also buy $45 bn per month of treasuries (4 year maturity and above) which means all parts of the yield curve will benefit from a near-zero anchor until late 2014. The U.S. 2 year/10 year treasury spread is now 1.69% and the U.K.’s 2 year/10 year treasury spread is 1.57 % - 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 3.42% - (3.31%, end of November 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 4.7 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. A recovery in house prices appears increasingly sustainable 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 14 – 20 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 12 in 2013 (compared to 49 in 2012, 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 12.52 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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