Market Commentary

PORTLAND INVESTMENT COUNSEL™

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News Highlights

Special Meeting of Unit holders of Global Banks Premium Income Trust, Copernican British Banks Fund and Copernican International Premium Dividend Fund

Financial Services Companies

Barclays – reported results for the second quarter and for the first half of its fiscal year and announced a number of equity and debt raising measures which would help it meet the requirements of British bank regulators. The bank reported a pretax profit of £1.7 billion for the six months ended June, almost double its £871 million profit a year ago. Its adjusted pretax profit was £3.6 billion, just below the average forecast of £3.7 billion. Barclays said it was pushing back its target to deliver a return on equity above its cost of equity - previously 11.5% - to 2016, a year later than CEO Jenkins set out in a far-reaching restructuring unveiled in February. But it bumped up its dividend payout expectations, saying it planned to distribute 40%-50% of earnings in 2014 compared with the 30% previously predicted.

The Bank of England's Prudential Regulation Authority (PRA) said last week Barclays needed an extra £12.8 billion to strengthen its capital reserves against potential market shocks. That was higher than an estimate of about £7 billion a month ago. Barclays is raising £5.8 billion from its shareholders. Barclays Chief Executive Antony Jenkins said he was reacting "quickly and decisively" to the PRA's demands and the regulator was happy with his plan. It also includes selling £2 billion of bonds that convert into equity or are wiped out if the bank hits trouble, and shrinking loans by a further £65-80 billion or more, notably in the investment bank.

South Africa's Absa Group has received the regulatory approval to acquire Barclays' African operations, clearing the final hurdle in the deal worth 18.3bn rand (US$1.9bn). Under the deal, Barclays will relinquish ownership of its African operations to Absa in exchange for an increase to 62.3% shareholding of the South African lender.

HSBC – reported second quarter and first half earnings on Monday and said it might have to pay $1.6 billion in damages over a U.S. lawsuit. A slowdown in emerging markets contributed to a steeper than expected 12% drop in revenues in the first half of the year. HSBC's pretax profit rose 10% in the first half year as the bank's three-year cost-cutting plan paid off and losses on bad debts declined. Profits from Latin America more than halved to $466 million as losses from bad loans jumped in Brazil and Mexico, continuing its troubled run in the region. The bank continued to expand in mainland China and had 169 outlets there at the end of June, up from 124 two years ago. Hong Kong and the rest of Asia accounted for $8.1 billion of first-half profit, or 62 percent of the group total.

Lloyds - Britain could soon start selling its stake in Lloyds Banking Group after the country's largest retail bank accelerated a turnaround and flagged a return to payouts for shareholders.

Lloyds said it was ahead of schedule on its goals for cost savings and capital strength. It raised guidance for profit margins after beating forecasts with a near trebling of first- half underlying profit to £2.9 billion pounds. Performance was driven by higher margins and lower impairments on loans and puts Lloyds in position to start talks with regulators about resuming payouts to shareholders, which is seen as an important step towards a stake sale. CEO Horta-Osorio said he expects Lloyds to be "a high dividend paying stock" in the future, based on its strong cash generation.

Credit Suisse – reported second quarter results which were, in terms of profit before tax, 15% better than the consensus had expected, driven by equities trading and investment banking. Profit before tax for the quarter was CHF3.4Bn. Like Wall Street rivals, including Goldman Sachs and JP Morgan, Credit Suisse benefited from strong trading in stocks and bonds, which resulted in a more than doubling of the pre-tax profit from a year ago. Credit Suisse said it had seen recent signs of its major markets stabilising and an expected rise in interest rates should help profit margins. Credit Suisse's private banking and wealth management division's pre-tax profit rose 4% on the quarter. Credit Suisse's core capital ratio, a measure of financial strength, rose to 10.4% n the quarter, past a 10% target. This could trigger higher cash dividend payouts to shareholders, as the bank said it would start paying cash dividends, as opposed to stock dividends, when it met its capital targets.

Standard Chartered - reported a pretax profit of $3.3 billion for the six months to the end of June, down from $3.9 billion a year ago due to the writedown in Korea. The UK-listed bank, which makes more than 90% of its profit in Asia, Africa and the Middle East, said excluding its Korean woes it would still meet consensus forecasts for a full-year operating profit of $7.9 billion, up 15% from last year, and buoying its share price. Revenues have risen by an average 15% a year over the last decade, slowing to 8% last year. While pretax profit rose in Hong Kong and India, it fell in Singapore, Malaysia, Indonesia and mainland China.

JPMorgan Chase : two directors who sat on the board's risk committee in the run-up to the London Whale trading debacle have retired, the bank said, and a source said the company expects to name replacements who are risk or finance experts soon. With the bank lining up two new directors, long-time board members David Cote and Ellen Futter felt comfortable stepping down. (Source Reuters). JPMorgan Chase is also giving more power to its senior independent director in a concession to shareholders who have demanded a greater check on the authority of Jamie Dimon.

JPMorgan Chase & Co agreed to pay $US410mn to settle allegations of power market manipulation in California and the Midwest, the latest in a series of high-profile inquiries by US federal energy regulators.

ING Group has entered exclusive talks with Seoul-based private-equity fund MBK Partners for the sale of ING's Korean life-insurance operations, a news report said.

The Swiss National Bank is selling back to UBS the once-toxic assets it shouldered at the height of the financial crisis and parked in a fund, which made a US$830mn profit in the first half. The so-called stabilisation fund contributed 316 million Swiss francs (US$339.35mn) to the central bank's consolidated result, the SNB said on Tuesday. The SNB took on some US$39bn in assets as part of a government bailout in 2008, putting them in the so-called Stabilisation Fund. Under the terms of the rescue deal, UBS can repurchase the fund after the SNB loan to finance the fund has been paid in full. Reuters

Dividend Payers

Cheung-Kong Infrastructure – The infrastructure conglomerate, part of Li Ka-shing business empire, reported a 10% rise in net profit for the first half of the fiscal 2013, in line with the consensus expectations, driven by a 10% year on year rise in Power Assets' earnings and a 5% year on year increase in UK earnings. The strong results were achieved despite a decline in the Australian dollar and the British pound against the Hong Kong dollar. The interim dividend was higher than expected, rising by 25% to HKD0.50.

Vivendi – is selling most of its stake in Activision Blizzard, a game-maker best known for the online multi-player games World of Warcraft and Call of Duty, for $8.2Bn. The company said it would use part of the proceeds to pay off some of its €13.2Bn of debt. The move significantly increases the financial flexibility of the firm, potentially allowing it to act on the goal of spinning of SFR, the French telecom operator, its largest division.

Syngenta – reported sales for the first half of the 2013 which were higher by 2%, to $8.4Bn, yet short of the consensus expectations, as the company's volumes were affected by cold and wet spring weather in the Northern Hemisphere, particularly in Germany and the United States. The company said it was confident relatively high commodity prices would encourage farmers to invest in crops in the second half of the year, when demand is driven by South American farmers, and help its 2013 sales surpass last year's record of $14.2Bn. Syngenta said it planned tactical share repurchases of about $100mn for the rest of the year, but emphasised that mergers and acquisitions still remained its priority.

GlaxoSmithKline – reported second quarter results which were broadly in line with the expectations, as the group's worldwide sales rose by 2% to £6.6Bn, while its core earnings per share were up 1% to 26.3 pence. The earnings announcement, however, was overshadowed by the corruption allegations out of China. GSK believes the alleged corruption involved senior Chinese staff working around its systems to potentially defraud the company, as well as cheating the Chinese healthcare system. GSK repeated that it planned to buy back between £1Bn and £2Bn of shares in 2013.

Novartis – The European Medicines Agency (EMA) recommended the approval of Ultibro Breezhaler. Also known as QVA149, the once-daily medicine belongs to a new type of dual-action treatments that are expected by analysts to become major sellers and is the first in the class to receive the recommendation. The company said that the UK Joint Committee on Vaccination and Immunization (JCVI) has made an interim decision not to recommend Bexsero for inclusion in the National Immunization Programme, based on the cost effectiveness grounds.

Pearson – reported results for the first half of the year, which exceeded the consensus expectations in so far as the top line is concerned, reaching revenues of £2.8Bn, at constant currency, up 5%. The firm has seen good growth in digital, services and developing-market businesses, which continues to offset though conditions in traditional publishing. John Fallon, Pearson's chief executive, who replaced Marjorie Scardino at the beginning of the year, is reorganising Pearson to focus on fast-growing economies and digital services. Pearson also used the occasion to re-state that Financial Times is not for sale.

Roche – reported sales for the first half of 2013 up 4% to CHF23.3Bn, roughly in-line with the consensus expectations and earnings per share of CHF7.58, ahead of the consensus, supported by better-than-expected operating costs and lower financial expenses. The company said it expects full-year sales to grow in line with 2012 when they rose by 7% and core earnings to rise ahead of revenues. Roche expects to further increase its dividend in 2013.

Johnson Matthey - Catalyst maker Johnson Matthey's profits rose 8% in the first quarter of its financial year, boosted by stronger sales of catalysts for trucks in Europe before new environmental regulations take force. Underlying profit before tax came in at £106mn in the three months, at the higher end of analyst expectations. Sales rose 13% to £745mn, also stronger than forecast.

ABB – Swiss engineer ABB's more selective approach to projects and delays by utilities in starting new schemes drove a fall in second-quarter orders below expectations. ABB said it is offsetting some market uncertainty by being geographically and technologically diversified, allowing the company to tap opportunities for profitable growth. Higher orders in northern European markets such as Germany and Sweden helped to offset some of the weakness in southern Europe, ABB said. Second-quarter net profit rose 16% to $763 million.

Amcor - Australia's Amcor Ltd said it plans to list its glass and beverage can packaging unit, a business valued at around $1.8 billion, so that it can better focus on its core global business of plastics packaging. The world's third-biggest packaging company stressed it had businesses with very different product and geographical segments, with the plastics packaging business deriving 95% of its sales outside Australia. Ken MacKenzie will remain the CEO and managing director of Amcor. Nigel Garrard, the current president of Australasia and Packaging Division (AAPD) will be appointed CEO of the new company.

Barrick Gold – Barrick reported a loss of $8.56 billion, or $8.55 per share, in the second quarter, compared with a year-earlier profit of $787 million, or 79 cents per share. Excluding one-time items such as an impairment charge, earnings were 66 cents a share, above the analysts' average estimate of 56 cents. Barrick Gold Corp posted an $8.7 billion writedown on Thursday, the largest yet in a series of charges taken by gold miners. About $5.1 billion of the latest charge stems from the company's delayed Pascua-Lama gold mine in South America, with the rest linked to other assets and goodwill. Revenue fell 1.3% to $3.20 billion.

Bayer AG - Germany's largest drugmaker Bayer reported second-quarter adjusted earnings before interest, tax, depreciation and amortization (EBITDA) of €2.2 billion euros, just shy of the average estimate. Bayer said its three new pharmaceuticals - stroke prevention pill Xarelto, eye drug Eylea and cancer treatment Stivarga - would have combined revenues of about €1.4 billion this year, up from a previous forecast of €1 billion.

Enbridge Inc, Canada's largest pipeline company, reported a 12% rise in second-quarter adjusted profit due to higher contracted volumes and increased contribution from the Seaway pipeline. Enbridge's net income attributable to common shareholders rose to C$42 million, or 5 Canadian cents per share, from C$8 million, or 1 Canadian cent per share, a year earlier. Enbridge said on Thursday it is on track to meet its adjusted earnings forecast range of $1.74 to $1.90 per share for the year.

Siemens - German engineering giant Siemens named finance chief Joe Kaeser, a 33-year company veteran, as its new boss after replacing Chief Executive Peter Loescher four years before the end of his contract following a series of profit warnings. Kaeser has earned a reputation as a hands-on pragmatist during more than three decades at Siemens, seven of them as CFO. He said he would lay out a more detailed outlook for the company and its 400,000 employees, a third of whom are in Germany, this autumn.

Toyota Motor – took a cautious stance on its profit outlook, worried over currency moves and a slowdown in Thailand and other emerging markets. Toyota posted its second best quarterly operating profit at ¥663.4 billion. Currency moves, mostly the yen's depreciation, accounted for more than 80% of the rise.

Economic Activity, Consumer and Business Conditions

US – Second quarter gross domestic product (GDP) growth in the US exceeded expectations by a wide margin, up 1.7% relative to the consensus 1.0%, despite taking in the full brunt of the budget cuts and tax increases. The first quarter's performance was revised downwards, to 1.1%. The consumer sector continued to support economic growth, with housing and business investment adding as well. The build up of inventories also helped stimulate economic growth, while net exports and government spending were net detractors of economic growth in the quarter. However, combined with the lower rate of growth in the first quarter, the second quarter's relatively modest 1.7% improvement is unlikely to lead to a more reserved Fed stance, thought economic growth is expected to pick up in the second half of the year.

The other macro-economic data release dominating the news last week was the US employment report for July, which showed a lower than expected 161,000 increase in US non-farm payrolls. The expectations had been for a 189,000 non-farm payrolls addition. The private payrolls grew by 161,000 positions, short of the expected 189,000 additions, while manufacturing added 6,000 positions, exceeding expectations for just a 1,000 jobs improvement. The US headline unemployment rate retreated two tenths, better than expected, to 7.4%. The improvement was also due to a lower participation rate, though. Released the same day, the personal income and consumption report revealed a lower than expected 0.3% growth in personal income in July, which translates in a just 0.1% rate of growth in real terms. Core personal consumption expenditures (PCE) price index, the Fed favourite inflation gage, moved two tenths higher, to 1.2%.

Canada – Canadian retail sales for May surprised on the upside, up 1.9%, with widespread gains across the retail categories. The headline reading was helped by a 4.3% jump in sales of vehicles and related, yet the core categories also saw a 1.2% advance. Building materials, furniture and even hospitality contributed in the month. The strength in the consumer sector was not translated into a similar reading for the Canadian real GDP for the same month, which grew a more muted 0.2% in the month, short of the expected 0.3% rate of improvement. The main culprit for the subpar performance was the resource sector. Unfortunately, the June report is unlikely to provide a lot of improvement given the impact of the Alberta floods for that month.

New data show Spain's unemployment level unexpectedly fell for the first time in two years, suggesting the country may be turning a corner. The jobless rate in the second quarter still stood at an eye-catching 26.3%, but that's an improvement from the previous quarter when unemployment stood at 27.2%. CNN

Cyprus's central bank said on Tuesday 47.5% of deposits exceeding €100,000 in Bank of Cyprus would be converted into equity to recapitalise the troubled lender as part of an international financial bailout for the island. Reuters

Financial Conditions

The European Central Bank left interest rates at a record low 0.5% and affirmed that they will remain there for some while to come and could yet fall further. ECB President Mario Draghi hinted that policy would not be tightened until well into next year at the earliest, although the central bank will give no time horizon for when rates might move. Reuters

The Bank of England kept its powder dry at a policy meeting on Thursday, leaving investors to wait for the expected announcement next week of a new strategy to get Britain's economy back to strength. At its second meeting under new governor Mark Carney, the central bank maintained interest rates at 0.5% and opted not to revive its bond-buying program, as expected. Reuters

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% (July 7.4%) 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 2.23% and the U.K.'s 2 year/10 year treasury spread is 2.09 % - 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 possibility of the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has recently increased at 4.39% - (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.

The VIX (volatility index) is 11.84 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

Open-End Mutual Funds

Portland currently offers 4 Open-end products:

Portland Advantage Fund

Portland Canadian Balanced Fund

Portland Canadian Focused Fund

Portland Global Income Fund

Private/Alternative Products

Portland also currently offers 4 private/alternative products:

Portland Focused Plus Fund LP

Portland India Select Business Portfolio

Portland Private Income Fund

Portland CVBI Holdings LP

Net Asset Value:

At the close of business each day we publish the Net Asset Values (NAV) of our funds onto our Portland website at http://www.portlandic.com/prices/default.aspx

Closed-End Funds

Spreads on the closed-end funds remain, in our view, very attractively priced to purchase.

The Portland Investment Counsel's 2013 Second Quarter Fund updates are now available on the website.

At the close of business each day we publish the Net Asset Values (NAV) of our funds onto our Portland website at http://www.portlandic.com/prices/default.aspx

The price details published are replicated here below from which you can see we also highlight whether the funds share prices are trading at a pre mium or discount to their respective NAV.

Source: Thomson Reuters, Bloomberg, Company reports

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