



News Highlights

Financial Services Companies

Bank of America Merrill Lynch has launched the \$1.5 billion sale of its final 1% stake in China Construction Bank, ending an investment that bolstered the US lender during the financial crisis and has brought it almost \$15 billion in trading profits. Bank of America has also agreed to pay \$US39 million to settle a gender bias lawsuit by female brokers who claimed they were paid less than men and deprived of handling their fair share of lucrative accounts, court papers made public last Friday show.

Barclays will launch a £5.8bn rights issue next week to help meet a regulatory demand to plug a hole in its balance sheet, the British bank says. The terms are 1 new share at a cost of £1.85 for every 4 current shares held as at record date of 13th September.

JPMorgan Chase & Co and former Bear Stearns Cos managers Ralph Cioffi and Matthew Tannin have won the dismissal of a lawsuit in which Bank of America Corp accused them of lying in an attempt to prop up two failing hedge funds.

Lloyds Banking Group today confirms the creation of two strong banks – TSB and Lloyds Bank – which will increase choice and competition into the UK banking sector. From today TSB will launch across 631 branches right across Great Britain, and will bring a credible, new competitor to the market. TSB will build on its 200 year heritage to bring local banking to communities across Great Britain and will be a challenger bank offering current accounts, savings, mortgages, insurance and loans as well as supporting small businesses. At the same time Lloyds Bank marks another milestone in its 250 year history serving the people and businesses of Britain. The new Lloyds Bank brand will be revitalised across almost 1300 branches on the UK high street from 23 September. Lloyds Bank which is already the UK's leading retail and commercial bank will focus on providing exceptional service to customers, helping them buy their homes, save for the future and grow their businesses. As part of the change, customers of both Lloyds Bank and TSB will be able to use both branded banks for their everyday banking needs for some time to come. The creation of the two new brands follows a ruling by the European Commission in 2009 that said Lloyds Banking Group should transfer part of its business to a new owner. The creation of TSB is the next step in meeting this obligation and the bank is now prepared for flotation in 2014.

Royal Bank of Scotland : The Financial Times reports Standard Life and Legal & General are considering suing RBS over the

2008 capital raising. Preliminary enquiries only have begun, but a corporate litigation firm has been hired to assess whether shareholders were misled over the bank's financial strength in the cash call prospectus.

Standard Chartered and HSBC - The new governor of the Reserve Bank of India (RBI) announced that it will liberalise banking and spread services. Indian banks will no longer have to receive RBI permission for new branch openings. He also suggested easing the "priority sector lending requirements" and to reduce the requirement for banks to invest into government bonds. Foreign banks will be encouraged to operate in India as a wholly owned subsidiaries and would enjoy "near national" treatment. The RBI said yesterday that it will provide concessional swaps for banks' foreign-currency deposits. India accounts for 3.5% of HSBC's and 11% of Standard Chartered's total earnings.

Standard & Poor's blasted a \$US5bn fraud lawsuit by the US government as retaliation for its 2011 decision to strip the country of its "AAA" credit rating. The McGraw Hill Financial unit was the only major credit rating agency to take away the United States' top rating, and the only one sued by the US Department of Justice for allegedly misleading banks and credit unions about the credibility of its ratings prior to the 2008 financial crisis.

Dividend Payers

Barry Callebaut, the world's leading manufacturer of high-quality cocoa and chocolate products, last week announced that the EU Commission approved its health claim submission on cocoa flavanols, following the positive Scientific Opinion issued by the European Food Safety Authority (EFSA) in July 2012. The company received the right to use the health claim that "cocoa flavanols help maintain the elasticity of blood vessels, which contributes to normal blood flow" - the first in the cocoa and chocolate industry. Barry Callebaut was able to provide evidence that the daily intake of 200 mg of cocoa flavanols (provided by 2.5 g ACTICOA® cocoa powder or 10 g ACTICOA® dark chocolate) supports a healthy blood circulation by helping to maintain the elasticity of the blood vessels.

Economic Activity, Consumer and Business Conditions

USA : Nonfarm payrolls rose 169,000 in August, below expectations, and disappointing in light of downward revisions tallying 74,000 in the previous two months. Payroll gains averaged 148,000 in the past three months, slowing from



172,000 in the previous three months. Construction was flat and has risen only once in the past five months, suggesting the housing recovery has yet to spur a jobs boom. Manufacturing rose for only the first time in six months. Local governments hired 20,000 workers, the most in a year, but the pace does not appear sustainable. The results from the household survey were even more disappointing. Employment fell 115,000, reversing half of the prior month's gain and dropping the employment rate a tenth to 58.6%, close to three-decade lows. It was encouraging to see the unemployment rate fall further to 7.3%, although this was because the participation rate, the share of working-age Americans who either have a job or are looking for one, dropped 0.2% to 63.2% - its lowest level since August 1978. The average duration of unemployment rose for a second straight month to 37.0 weeks. While the "all-in" jobless rate, which includes discouraged workers who left the labor force and part-time workers for economic reasons, fell moderately to 13.7%, it remains historically high.

For August, we've witnessed steady readings for the manufacturing sector in China and the Eurozone, big gains in the U.K. and finally the U.S. has shown a pickup in activity as well. The manufacturing ISM edged up 0.3 pts to 55.7 in August (consensus was for a decline), the highest level in 26 months (or June 2011). This is the third rise in the ISM in a row, and was boosted by a sizeable 4.9% jump in new orders to 63.2. That's the best reading since April 2011 and is very encouraging for future production. Current production, isn't quite as strong, as it fell 2.6 pts (first decline since April) although it is still expanding at close to its fastest level in nearly 2½-years.

The ECB has improved its outlook for the eurozone economy this year. It now expects the single-currency area to shrink 0.4% compared to its previous forecast in June of a 0.6% contraction. With respect to inflation, the 2013 forecast was lifted a touch to 1.5%, while 2014 was unrevised. The ECB continues to see inflation risks as broadly balanced.

Italy - Italy's government is set to revise down an official forecast for the economy to contract by 1.3% in 2013, according to a Treasury report sent to parliament. Consensus is for a decline in output for the whole year of almost 2%. Separately, a Senate committee meets today to decide whether to expel the country's former leader Silvio Berlusconi from parliament from 14:00 UK time.

Financial Conditions

The ECB held rates steady at a record-low 0.5% last Thursday, as expected. ECB President Draghi took a more upbeat tone with respect to the economic outlook, highlighting that rising confidence indicators confirm the improvement in growth. He also repeated that policy rates will stay low for an "extended period of time", and that underlying price pressures are expected to remain subdued.

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% (Aug 7.3%) 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 2.44% and the U.K.'s 2 year/10 year treasury spread is 2.44% - 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 to 4.57% - (was 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 5.2 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 15.86 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.

Market Commentary



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Source: Thomson Reuters, Bloomberg, Company reports

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