Market Commentary

PORTLAND INVESTMENT COUNSEL™

October 31, 2011

News Highlights on Current Holdings

Financial Services Companies

Aon - report 69c EPS versus consensus estimate of 72c. Source of miss principally weak growth in HR solutions with was -2% and margins at 11.2% versus 15%. Retail brokerage organic growth was up 4% inline, reinsurance brokerage was -1% (below). Although the brokerage segment's revenues and margins were ahead of forecast, the consulting margin (HR) missed badly, explaining the overall shortfall. More restructuring is ongoing at AON Benfield. Aon bought back 3.8 million shares in the quarter, a slight slowdown from the 5.8 million shares pace of the 2Q but slightly above forecast. We would expect a continued buyback program as the company tries to offset the dilution from share issuance related to the Hewitt deal.

Ameriprise : EPS of $1.04 versus consensus of $1.21 but excluding one-offs the underlying run rate of $1.30 (ROE of 13.5%). Strong cap position even with significant buybacks. Positive Advisor trends: retention at all-time high, productivity +14% & near record, advisor count +51 (most since 2Q09)… but net outflows of $4.8B in Asset Mgmt, including -$1.9B in Columbia retail . Excess capital over $2B, despite $447M in repos in 3Q. AMP ests RBC ratio over 600% vs 585%+ in 2Q. Some RBC benefit from hedge. Feel capital position suggests high free CFs. EITF 09-G charge est at $1.3-1.4B (15% of BV), w/ modestly pos impact on '12 EPS

AXA released their 9 month activity indicators last week:

Eur mln	**9month**	**Consensus**
Life and Savings		
- Annualised Premium Equivalent	4,255	4,248
- NBV	1,147	1,109
- New Business Margin	27%	26.1%
P&C Revenues	21,087	21,387
Int'l Insurance	2,288	2,329
Asset Management	2,443	2,428

The company said that they were on track for their 2015 targets and will treat sovereign debt valuation with the same approach as before. The numbers look good with an encouraging New business margin figure however Axa flagged that in current market conditions, the new business margin would be negatively affected at year-end. Solvency 1 ratio was 190% (186% 1H11) and Economic Solvency Ratio ">150%". Improvement in ESR will have been driven by interest rates up and spreads contracting since 1H11. In our opinion, a moderately reassuring release and should alleviate to some extent concerns over balance sheet strain and dividend payment capacity in current market conditions.

Barclays has confirmed the sale of its Russian unit to Russian banker Igor Kim for an undisclosed figure. Kim can use the Barclays brand for up to another 9 months.

Group stated 3Q profit before tax came in at £2.4bn, above estimates of around £2.1bn. This included several one offs: a £2.9bn gain on own debt, a £224mn mark on credit market assets and an impairment of £1.8bn on the Blackrock stake. Adjusting for these, profit before tax was £1.6bn, compared to estimates of about £1.3bn. Income (pre Fair Value on Own Debt and credit marks) was £7.2bn (expectations were about £6.8bn). Costs were £4.7bn. Group bad debts (excl the Blackrock impairment) were £1.0bn, slightly ahead of forecasts. Fixed Income Currency & Commodities was down 26% YoY on a stated basis, but 22% if we adjust for marks on credit market assets. This implies that QoQ, BarCap FICC revenue was actually up by 4% - a strong performance versus peers, given the environment over 3Q. Equities revenues were down 6% YoY. The core tier 1 ratio was flat vs 1H11 at 11.0%. Total RWAs were £390bn, vs £395bn as of 1H11. Group stated T/NAVPS was 372p, vs 353p as of 1H11, although this includes the benefit of own debt gains – which could reverse if spreads tighten. Nonetheless, Barclays' shares trade at just 0.6x Tangible net asset value

BBVA: Net profit of EUR804m in 3Q11 was 6% below consensus (which had moved down c.10% coming into results). However, bulk of the miss was driven by weaker trading revenues, which has been witnessed across the entire industry. Key line items of net interest income and provisions look broadly in line with our expectations. However, the Non Performing Loan ratio at Group level ticked up for the first time since end-2009 (as the bank's Spanish Non Performing Loan ratio resumed an upward trend) to 4.1% (from 4.0% last quarter). Spanish result looks to be driven by the trading loss. On the conference call management did not give guidance on the potential impact of new capital tests/sovereign writedowns, but were confident about the bank's ability to generate capital without a rights issue, in particular, highlighting that risk weighted asset optimisation could generate EUR4.7bn of capital over the next year (equivalent of c.140bp core capital) which would push its Core Tier 1 ratio well above the required 9% threshold.

BBVA , following the Euro-wide decision , for banks to have stronger capital adequacy, BBVA have said that they will not need a capital increase, but will get to 9% via organic capital generation and have Eur7.1bln of current capital buffers

Deutsche Bank : Deutsche's Q3 results presentation shows the bank's estimate of how the EBA recapitalisation exercise will be carried out. Under this methodology, Deutsche emerges with a 9.1% H1 2012 core tier 1 ratio and therefore won't need capital under the mandatory recapitalisation plan. However, Deutsche's capital position is relatively weak compared to its strongest peers. Using Deutsche's Basel III methodology, Deutsche has a year end 2012 fully phased in Basel III core tier 1 ratio of 7.0% which is within guidelines but still suggests the bank will need to do more deleveraging or enjoy better earnings if it wishes to avoid an equity raising and have a capital strength on a par with leading rivals. Its CB&S division reported a pre-tax profit of €70 million with an estimated underlying €210 mn of pre-tax profit, somewhat better than other investment banking rivals that lost money in 3rd quarter (i.e. Goldman Sachs).

MetLife reported 3Q operating EPS of $1.11 (vs. $0.99, up 11%), above consensus ($1.08). Adjusting for above-trend variable investment income, the one-time impact associated with the 3Q equity market decline, previously disclosed unusual items and miscellaneous unusuals, the run-rate EPS in the 3Q was $1.36, well above consensus.

National Australia Bank: reported FY11 cash earnings (company defined) of $5,460mn (up 19% on $4,581mn FY10), which was in line with the $5,485mn consensus average. Final Dividend Per Share of $0.88 (up 13% on the $0.78 pcp) was in line with consensus. Whilst the headline was in line, compositionally revenues were weaker than expected (i.e. trading income – ditto most other banks), offset equally by better-than-expected costs and a lower-than-expected bad debt charge (improving asset quality, lower provision coverage). By division in 2H11, Business Banking, the UK and New Zealand were better than expected; MLC was softer; the revival in Personal Banking was more modest than expected; Wholesale Banking declined (but by less than expected). Ongoing ROE expansion and strong improvement in capital ratios (Tier 1 ratio 9.70% vs. 9.19% 1H2011) and a corresponding book multiple of 1.5x. all, in our view, highlight value.

Santander, Europe's largest bank by market value, reported a 10% rise in third-quarter net profit, as smaller loan-loss provisions in Spain and a boost from recent Polish purchase offset weaker profits in Brazil. The bank also said it won't need to issue shares or cut its dividend to cover a €6.47 billion shortfall needed to meet new and higher capital requirements imposed by the European Banking Authority

Swedbank reported a strong quarter with SEK3,475m net income, 15% ahead of the consensus estimates. The beat came from all line items, with revenues beating 3% (Net Interest Income +4%, fees +6%), costs 1% lower (incl. SEK100m restructuring charge) and, as expected, more credit reversals (10bp vs. 7bp QoQ) in the Baltics & large corporates. Overall, Swedbank achieved a strong 17.5% Return on Net Asset Value (+50bp QoQ, ex one-offs). Volume trends were stronger, especially +4% in deposits, and the bank once again generated 0.30% of capital pushing up Basel II Core Tier 1 Capital to 15.1%. Net Asset Value/share grew more than expected by 4.4% to SEK76 (+1%).

UBS reported 3Q11 'headline' net profit of CHF1.0bn, some way ahead of the "modest net profit" guidance and expectations but with a myriad of distorting items – adjusting for those items, pre-tax profits were broadly in line with our 'underlying' expectation. Nonetheless, notwithstanding the rogue/ unauthorized loss of CHF2.3bn with accounted for a substantial part of the drop in profit, the quarter was broadly reassuring, confirming Wealth Management inflows, and resilient Wealth Manangement gross margin. Tangible book value per share grew from CHF 10.2 last quarter to CHF 11.3 this quarter (+11.2%). Despite its large unauthorised trading loss UBS also managed to grow its core tier 1 ratio from 16.1% to 16.3%. However meaningful strategic guidance will likely have to wait pending settling in of the new CEO.

Willis : 3Q11 adjusted EPS of $0.41 beat consensus of $0.37. Currency helped by $0.01 and an un-modeled tax benefit helped by a $0.05. A reserve release related to potential legal liabilities helped EPS by $0.02 per share. Therefore the $0.33 per share underlying number was well below consensus. Organic growth of commissions and fees was 2% (3% last quarter, 4% in the 1Q11), against estimates was of 2.8% and given the commentary around a stabilizing commercial insurance pricing environment, the shortfall is somewhat disappointing. North America was down 4% on an organic basis due to "disappointing" loan protector results. Excluding the loan protector result, North American organic growth would have been flat, similar to the 2Q11. Willis' adjusted operating margin was 13.9%, about 2% below consensus estimates. The real test of the company's actions will be in 2012 as from restructuring it is expected to take $115-$125 million out of expenses. The company reduced its earnings outlook for 2011, but still expects to achieve significant margin expansion and growth in adjusted earnings in 2012, albeit from the lower base. Willis is a pure play global insurance broker. Despite worse-than-anticipated 3Q11 results, the company should benefit based on our improving outlook for P&C prices.

Financial Infrastructure

Dun & Bradstreet 3Q'11 beat expectations: core revenues grew +8% y/y to $439M, an acceleration on Q2's +5%. North America grew +2% vs. +1% in 2Q (all organic). International grew organically +5%, driven by China and better performance in Europe. Margin improvements continued due to ongoing financial flexibility initiatives. Operating Income of $119M (+14%) beat consensus $106M (margins were up 100bps y/y); and adjusted EPS of $1.42 (+17% y/y) beat consensus $1.35.

DNB reaffirmed FY 2011 guidance and was optimistic about its prospects going into 2012. FY'11 core guide: (a) +5%-8% (before FX) revenue; (b) +2%-6% operating Income; (c) +6%-10% EPS; and (d) FCF of $240-$270M (flattish) including $55-$65M of technology investments. Current FY12 guidance includes: (1) mid-to-high single North American revenue growth; (2) low double-digit International growth (1/2 organic); (3) +100bps in operating margin from 2009, or 30%+; and (4) FCF of $325M+.

DNB announced a new $500M share buyback program (largest in recent history; prior $200M) citing its shares as a "great investment opportunity." Other notable commentary on this topic are: (1) acceleration from the $100M/year to "take advantage of current prices;" (2) "plenty of capacity available to easily accommodate $500M of repurchases" without the new line of credit (+$150M to $800M); and (3) look to spend $25M remaining from prior program in 4Q (vs. $33M in 3Q at $66.20/share).

Equifax credited solid internal execution for its +7% y/y growth in non-mortgage core revenue; 3Q'11 EPS $0.65 (vs. $0.61-$0.65 guidance), despite a continuously sluggish business environment. 24.8% operating margin (+150bps y/y) beat the 24-24.5% guidance range albeit future guidance was tempered down to ~24.8% vs. prior 25-25.5% expectations due to drags from (a) the faster growing, lower margin EFX Settlement Services business and (b) the eThority, Datum and DataVision acquisitions. They key take away from the conference call though was managements early read on 2012, which is shaping up to be "equal to or better than 2011 performance."

First American Financial (FAF) recorded a higher provision expense than we had expected, driving a $0.20 miss on EPS. Adding back $3.3mn in net realized investment losses, $14.7mn in title claim reserve additions for prior years (namely 2007) and $13mn in reserves for the Bank of America lawsuit, EPS were closer to $0.37. Results benefitted from $40mn in annualized expense saves, which were almost fully implemented in the quarter. Early signs on 4Q11 volumes were weaker than previously expected but we expect HARP volume (see reference to HARP below in Financial Conditions) should prevent a significant drop-off in volumes for 2012. Also resolution of the Bank of America lawsuit should come in 4Q11, with FAF expecting (and offering as settlement) $13mn in cost. On their conference call, FAF management discussed conversations with CoreLogic about maximizing the value of CoreLogic's stock. While FAF indicated they don't think a sale at current valuations would be in the best interests of shareholders, they indicated a willingness to buy all/part of the business should CoreLogic shed assets.

Dividend Paying Companies

ABB – announced third quarter results which slightly missed expectations as the unclear global economic outlook impacted confidence and capital goods expenditures. Orders, although 20% higher, at $9.8bn, missed expectations for a $10.0bn level. Net profit, although 2% higher, at $790mm, missed expectations of $860mm. Most affected at this stage were orders for early-cycle products and services, such as low voltage products and automation, while continued economic uncertainty could delay the implementation of capital projects. In the quarter the group booked a number of major orders, including a $1bn order to connect wind farms in North Sea to the German grid. The company continued its cost-cutting efforts, with $750mm realized so far being on track to reach the budgeted $1bn in savings. At the end of the reporting period, ABB still boasted $1bn of net cash, prompting speculation that further acquisitions are still likely.

Bayer – third quarter results beat the estimated consensus expectations, with adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) rising 8.5% to €1.8bn, ahead of the expectations for a €1.66bn adjusted EBITDA, as the emerging markets business continued its strong growth. The company confirmed its full year outlook of a group EBITDA exceeding €7.5bn, while cautioning though on the outlook for its Materials Science division (plastics and foams) where it had to lower outlook due to its higher raw materials and energy pricing.

Novartis – announced a 7% increase in its third quarter core earnings, in line with expectations, helped by better than expected demand for its newly launched drugs, such as the multiple sclerosis pill Gilenya. The group profitability has been suffering from an increased pricing pressure, which the group's chief executive, Joe Jimenez, estimates at about -5%, as well as from an increasingly stronger Swiss currency, which has made the cost of doing business in Switzerland increasingly expensive. As a result the company announced a program aimed at saving some $200mm a year by slashing some 2,000 jobs in both Switzerland and US. Some research and development jobs would be transferred from Switzerland to the United States, while some 700 new jobs will be created in low cost countries. Novartis still expects low double-digit sales growth in constant currencies this year, driven chiefly by the full consolidation of the eyecare business Alcon.

Schindler Holdings – a global leader in elevators and escalators technology announced in line results, reaching revenues of CHF5.7bn, while the earnings before interest and tax (EBIT) of CHF691mm translated into a 12.1% EBIT margin, underlying the strength of its business model given the mostly challenging environment. The group revealed an investment of CHF130mm in productive capacity in Asia as well as the launch of a restructuring program aimed at improving the growth rate and the competitiveness of the company. As it was the case with other Swiss companies reporting, the currency impact was major during the period, subtracting some 12% from the top line.

Shell reported 3Q adj Net Income of US$7bn, 7% ahead of consensus (US$6.5bn), driven by a strong Downstream performance. Downstream earnings of US$1.8bn (+70% QoQ and 40% ahead of consensus) benefitted from improved refinery utilisations and a particularly solid Chemicals contribution in Europe and the US. Upstream production came broadly in-line at 3.01 mmboe/d (-1.5% YoY), helped by improved LNG contributions. The US$0.42/sh 3Q dividend (flat QoQ) was in line with expectations. We believe the outlook for Shell remains solid with project ramp ups underpinning the growth targets (both in terms of volumes and cash generation). Management's indication of a slower pace of disposals to a normalised US$2-3bn pa (from well over US$5bn this year) should not impact Shell's ability to increase cash returns to shareholders. Cash generation continues to improve (US$11bn in operating cashflow, +15% QoQ, despite a slight sequential fall in Brent oil price) and so we expect FY11 results (due 2 Feb) to bring the long awaited increase of dividends.

Vivendi – initiated a strategic partnership with TVN, a Polish media group, and ITI, TVN's main shareholder, with the goal of gaining control of Poland's largest private broadcaster. The partnership is mediated by Canal+, Vivendi's leading pay TV unit. Time Warner had been previously seen as the front-runner in the race to secure control of the TVN. TVN operates Poland's third pay-TV platform, has a number of free-to-air channels and is the owner of Onet.pl, Poland's biggest web portal. The move it our view makes good strategic sense, as Vivendi is known to be interested in acquiring access to strong content in key emerging markets.

In a non-related announcement, Vivendi, through its music arm, Universal Music Group (UMG) revealed it had dropped out of the auction for the EMI, on sale by Citigroup.

Economic Activity, Consumer and Business Conditions

EU deal - under the terms of the deal announced last Thursday -

- Greek bondholders will take a 50% haircut

- The European Financial Stability Facility (EFSF) will be increased to €1trillion ($1.4 trillion) using a combination of an insurance scheme and an Special Purpose Vehicle

- The IMF said it is ready to pay the next €2.2 billion-euro share of the next installment of Greece's original bailout

- There will be a June 30, 2012, deadline for lenders to reach core capital reserves of 9% after writing down their sovereign debt holdings. Banks below that target will face dividend and bonus constraints

- European Banking Authority (EBA) estimates Greek Banks Need EU30bln (although this is the size of the rescue package not the actual EBA estimate), Spanish Banks EU26.2bln, French banks EU8.8bln, German banks EU5.2bln, Italian banks EU14.8bln and Portuguese banks EU7.8bln,

- Banks in the UK, the Netherlands, Finland, Hungary, Ireland, Luxembourg and Malta do not need to raise capital.

- EBA, Commission, EIB to explore options for coordinated guaranteed bank term funding. We believe this is a big positive - politicians realize banks' funding had to be guaranteed. Politicians also realized what is at stake - not just being re-elected but the future of the euro/ Europe, with massive global repercussions….of course more details are needed – to understand how such measures will enable banks not to delever more than they need to meet the higher capital thresholds – so enabling loan growth to facilitate economic growth.

Financial Times reports that China is very likely to contribute to the EFSF but the scope of its involvement will depend on European leaders satisfying some key conditions and Beijing must be given strong guarantees, according to two senior advisers to the Chinese government. With $3,200bn in foreign exchange reserves, roughly a quarter of which are believed to be held in euros, China could be willing to contribute between $50bn and $100bn to the

EFSF or a new fund set up under its auspices in collaboration with the IMF, according to one person familiar with the thinking of the Chinese leadership. Sarkozy welcomed the prospect of a Chinese contribution to the eurozone rescue package. "Our independence would not be put into question by this," he said in a television interview. "Why would we not accept that the Chinese had confidence in the eurozone and place a part of their surpluses in our funds or our banks. Would you rather they placed it with the US?"

United States – The US consumer was at the centre of economic announcements last week as it, somewhat surprisingly, turned out to be a key contributor, alongside business investment, to the economic growth in the third quarter of the year. The personal consumption expenditures contributed 1.7% to the economic growth in the quarter, while the non-residential fixed investment added another 1.5% to the overall 2.5% GDP third quarter growth. A main detractor (by 1%) of economic performance was the change in private inventories, while the other sectors of the economy had a more muted influence. In a separate report we learned that the personal consumption expenditures increased, as expected, in September by 0.6%, to the detriment of the savings rate, as the personal income inched higher by only 0.1%, short of the expectations for a 0.3% improvement. The consumer sentiment, as measured by the University of Michigan, improved in October, to a 60.9 level, ahead of the expectations for a lower, 58.0 level, with both current conditions and expectations components contributing to the improvement. Earlier in the week, the consumer confidence, a similar gage, maintained by the Conference Board, had indicated a drop in confidence for October. Such swing in the confidence readings could be explained to some extent by the degree of volatility in the markets recently as investors swung between optimism and despair as they follow the European saga.

Durable goods orders dropped in September by 0.8%, much as expected, yet when adjusting for transportation orders, notoriously volatile, they actually gained 1.7%, well ahead of the expectations for a 0.4% improvement, breathing new life into the manufacturing sector.

The core personal consumption expenditures (PCE) price index, the Fed's favourite inflation gage, retreated to 1.6% in September from 1.7%, offering more head room to the Fed's accommodative monetary policy.

On the housing front, the pending home sales, usually a good leading indicator for the all important existing home sales series, dropped in September by 4.6%, continuing its slide as the new home sales improved only marginally to 313,000 units annualized in the month. The housing pricing continues to be weak, at negative 3.8% year on year in August, ahead of July's reading, yet short of the expectations for an only negative 3.5% rate.

Canada – the consumer also took centre stage on this side of the border, with August's retail report ahead of the expectations, higher by 0.5%, compared to a 0.5% retreat in July. Even when excluding sales of motor vehicles the retail sales in August where 0.4% higher, as expected.

The economic output (GDP) for August, growing by 0.3% beat expectations for a 0.2% improvement, chiefly due to the energy sector rebound and on top of an upwardly revised July rate of 0.4%.

Inflation in Canada, as measure at the raw materials and producer pricing levels, moved higher than expected in September, by 1.4% and 0.4% respectively, certainly something for BoC to keep an eye on, alongside the perky consumer price indexes.

Financial Conditions

US: Last Monday, the Federal Housing Finance Agency (FHFA), with Fannie Mae (FNM) and Freddie Mac (FRE), announced a series of changes to the Home Affordable Refinance Program (HARP).

The FHFA and the Treasury introduced HARP in early 2009 as part of the Obama Administration's Making Home Affordable program. HARP provides borrowers, who may not otherwise qualify for refinancing because of declining home values or reduced access to mortgage insurance, the ability to refinance their mortgages into a lower interest rate and/or more stable mortgage product. HARP is the only government refi program that enables borrowers who owe more than their home is worth to refinance. Initially, the program was limited to borrowers who owed between 80% and 105% the value of their homes. In mid 2009, the program was opened to borrowers who owed up to 125% the value of their homes.

The new objective is to attract more eligible borrowers who can benefit from refinancing their home mortgage. The program is only for mortgages owned or guaranteed by FNM/FRE.

Given current interest rates, the FHFA estimates that by the end of 2013 HARP refinancings may roughly double, as of Aug 31, only 894,000 borrowers have refinanced through HARP (with only 72,000 of those borrowers having Loan to Value ratios between 105%-125%).

The FHFA said it will waive certain rep & warranties that lenders commit to in making loans owned or guaranteed by FNM/FRE. Still, it does not believe that eliminating seller and servicer rep & warrants on HARP loans will force FNM/FRE to take on additional risk since the loans are seasoned and made to borrowers who have demonstrated a capacity and commitment to pay, while typically defects show up in the first few years. More details are required but this could be of particularly benefit to Bank of America).

Specifically, the new program:

· Eliminates certain risk-based fees for borrowers who refinance into shorter-term mortgages and lowers fees for other borrowers (borrowers who owe more on their homes than their homes are worth will be able to reduce the balance owed much faster if they take advantage of current low interest rates by shortening the term of their mortgage);

· Removes the current 125% Loan To Value ceiling for fixed-rate mortgages backed by FNM/FRE;

· Waives certain rep & warranties that lenders commit to in making loans owned or guaranteed by FNM/FRE;

· Eliminates the need for a new property appraisal where there is a reliable AVM (automated valuation model) estimate provided by FNM/FRE (where there is not a reliable AVM value, a new appraisal will be required); and

· Extends the end date for HARP until Dec. 31, 2013 (beyond its current expiration date of June 2012) for loans originally sold to FNM/FRE on or before May 31, 2009.

Canada : As expected the Bank of Canada last week has held overnight rates at 1%, drops any mention of the need to reduce monetary policy stimulus and projects Euro area will have a brief recession. Bank says Canadian economy won't reach capacity until end 2013 and that inflation will fall to 1% by middle 2012 with growth forecast cut to 0.7% for 2012 and increased from 2.1% to 2.9% for 2013.

The advent of the US 'twist' means policymakers are no longer accommodating a recovery in bank profits (gained via them trading on a steep yield curve) . The U.S. 2 year/10 year treasury spread has been falling and is now 1.94 and the U.K.'s 2 year/10 year treasury spread is 1.95% - meaning investment banks will need to seek operational efficiencies, including job cuts, to maintain acceptable levels of profit – above their costs of capital.

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 (88 in 2011) compared to 157 in 2010 which was the highest annual tally since 1992 (140 in 2009). Franchises are being acquired/absorbed as convergence of the financial services industry accelerates – favouring we believe the stronger, better managed banks. Typically banks acquiring collapsed bank franchises from the Federal Deposit Insurance Corporation (FDIC) are paying little or no premium for deposits, assets are purchased at a discount and are covered by loss sharing agreements – so that such deals can be expected to be immediately accretive to earnings per share.

Influenced by the US 'twist', the U.S. 30 year mortgage market remains very low at 4.10% - albeit off its early October low of 3.94%(this is 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 has steadied at 8.5 months supply of existing houses – below its recent 9.4 months high but still higher than what we believe is 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 would be welcomed….particularly for those financial services companies holding such assets in their portfolios.

A concern which remains 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 expected to decline and that litigation reserves have been increased suggesting overall current levels of total provisions should suffice, enabling banks to continue to post increasing earnings per share (as credit improves) over the next 2 years 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.

The VIX (volatility index) is 27.56 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

Market Commentary

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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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