News Highlights on Current Holdings

Financial Services Companies

Ameriprise's 4Q:11 EPS was $1.33 versus consensus at $1.40 due to higher expenses and lower share buybacks. EPS should improve on expense cuts & more buybacks. AMP's 4Q11 operating ROE of 13% is on track to meet its 2012 guidance of 15%. The 4Q11 earnings were lower than projected in Advice & Wealth offset by higher than expected Asset Management earnings. We believe Ameriprise has over $2bn of excess capital and could continue to aggressively repurchase its stock, unless its contemplating a M&A. Its return on equity profile is likely to improve as it transitions to become more of an asset manager than a life insurer, although results could be negatively impacted by volatile equity markets.

Deutsche Bank - Macquarie, JPMorgan, State Street and Ameriprise Financial are in the bidding for the bank' asset-management divisions according to Bloomberg. The deadline for second-round offers is this week, and Deutsche aims to reach an agreement by mid-March.

Deutsche reported a 4Q net profit of €186mn versus consensus of €601mn. This is boosted by a tax release of €537mn so the pre-tax loss number is -€351mn versus consensus of €601mn although there were many one offs as the outgoing CEO sought to clean up and so although the underlying result is still a miss its modest. The capital position is stronger helped by the tax release, with a Basel 2.5, Core Tier 1 of 9.5%. Risk Weighted Assets increased €44bn including a €54bn increase in relation to the implementation of Basel 2.5 requirements….although given Basel III requirements are to be addressed by year end it still seems this bank is more capital constrained than some of its global peers. Total revenues of €6.9bn are 3% weaker than estimates. Divisionally, Corporate Bank and Securities revenues of €2.4bn were 10% below estimates driven by a weaker Fixed Income, Currencies and Commodities result and slightly offset by a better equities result. Asset and Wealth management was up 4% QoQ while the Global Transaction Bank was broadly flat.

Franklin' s December quarter EPS of $2.20 was above consensus of $2.09. Investment management fees were 3.5% below forecast, but expenses were

11.9% below forecast, leaving margins flattish at 37.2%. Expense control was strong across the board, including a decrease in variable compensation, lower seasonal advertising, and lower than expected IT. Outflows of -$15.6bn. were disappointing but arguably better than expected. A previously announced $11.1bn low fee advisory redemption accounted for most, followed by an overseas drop in sales of over $11bn. which was only partly matched by a $5bn. drop in redemptions. Franklin bought back 3m shares in the quarter, continuing the acceleration over last 2 quarters. Franklin's Global Bond strategy has partly recovered (+5.9% YTD, in the top decile) and 75% of Franklin's assets are beating 3-yr. benchmarks. Franklin Resources is among the most global of the public asset managers, with $660 billion assets under management and about 32% of assets under management from non-US investors. Franklin is expected to outperform other managers based on: 1) its strong brand, varied product menu, and global distribution, 2) recent above-average performance of most products except for its large Templeton Global Bond strategy, and 3) the potential for accretive buybacks or an acquisition given a very strong balance sheet.

Intesa Sanpaolo - closed a €1.5bn (demand €2.5bn) senior unsecured for 1.5year at m/s+295bp. Good for the fact that it is the first unsecured issuance for an Italian bank since July 2011, but 3 year LTRO money at 1% (see below) does put it into perspective.

Royal Bank of Scotland : as expected Jefferies announced that it had agreed to acquire Hoare Govett and employ certain other professionals from RBS. The acquisition includes the entire senior Hoare Govett corporate broking team, as well as certain other corporate broking, equity research, sales, trading and capital markets professionals necessary to continue to serve the needs of Hoare Govett's large base of retained clients. In total, approximately 50 professionals will join Jefferies' London office, including all current Hoare Govett Managing Directors. The transaction is expected to complete in 1Q12. The sale was expected and forms part of the wider Global Banking and Markets (GBM) restructuring. These businesses contribute c4% to Global Banking and Markets income, so the above transaction is small relative to the scope of GBM restructuring.

Santander has reported a 35% fall in annual profits after the group took extra provisions for deteriorating real estate assets in Spain. The bank announced a net profit of €5.35bn for 2011, down from €8.18bn in 2010. Santander posted close to zero net profit for 4Q11, due to a net one off charge of €1.87bn. With extraordinary charges (net of taxes) for the full year for €3.183bn, which includes the pre-tax provision of €1.812bn to increase the coverage of real estate assets to 50% and a write down of goodwill in Portugal for €600mn, which has been partially offset with the extraordinary income of €1.512bn (sale of the Latam insurance business and Santander's Consumer business in the US) . The positive news came from (i) the revenues side with a gross operating income only 0.1% below the figure registered in 3Q11 (ii) The bank's solvency with a core capital of 10%, and 9.01% using the European Banking Authority criteria. (iii) The Non Performing Loan ratio at the group level has remained quite stable 3.89% vs. 3.86% of total loans. On the negative side is the growth in costs which has been well above 3Q11 although a large part of this can be explained by the incorporation of the Polish business and the decline in the loss reserves coverage ratio to 61% in the group and to 45% in Spain, where the Non Performing Loans have risen by 0.39% in 4Q11.

TD Bank - On January 30, 2012, TD announced a Cdn$255 million (pre-tax) legal provision relating to a fraudulent investment scheme. A former employee of TD allegedly helped a Florida lawyer execute his scheme and apparently TD was one of two banks used by the lawyer. The initial judgment found that TD must pay US$67 million for its role in the scheme but media reports in Florida indicate that additional civil claims from a group of 55 other investors remain outstanding, which, in aggregate, could total US$200 million. Therefore, TD decided that a legal provision for Cdn$255 million pre-tax, or Cdn$153 million after-tax, was appropriate. The charge will be recorded in Q1 2012.

Investment Banking:

Glencore and Xstrata are planning to merge to create a trading and mining giant. Deutsche Bank, Goldman Sachs, JP Morgan and Nomura are advising Xstrata on the deal. Citigroup and Morgan Stanley and possibly Credit Suisse are advising Glencore. Each bank is expected to be paid about $15 million each. As the lead underwriter,

Facebook's IPO : Morgan Stanley is Facebook's lead underwriter and so is likely to receive the most fees from the offering and have lead roles in future Facebook debt offerings or acquisitions. JPMorgan Chase beat Goldman Sachs for the second slot on the roster. Goldman Sachs took the third spot in the list of the company's key underwriters with the 2nd tier being Bank of America, Barclays, and boutique media and internet-focused investment bank Allen & Co.

Financial Infrastructure

Aon reported 4Q11 EPS of $0.97 ex unusual items (+15% vs. a year ago) ans slightly above consensus of $0.96 due to a lower than expected tax rate ($0.02/shr).

In Risk Solutions (formerly known as Insurance Brokerage), 4Q11 pre-tax earnings ex unusual items increased 3% y/y to $397 million. Organic growth was +3% in 4Q11. Retail Brokerage organic growth was 2% (down from 4% in 3Q11), and Reinsurance Brokerage organic growth improved to 4% from -1%. Brokerage total revenues increased 3% y/y to $1.8 billion. The Brokerage 3Q11 adjusted pre-tax margin was 21.8% versus 21.9% a year ago. HR Solutions (formerly known as Consulting) earnings were $147mn ex unusual items (-6% year-over-year). Total revenues were $1.2bn. Consulting organic growth was +3% versus -2% in 3Q11. The Consulting adjusted pre-tax margin was 12.4%, versus 13.6% a year ago. Aon did not repurchase stock in 4Q11 but has $1.2bn remaining in its share repurchase authorization.

CME - reported 4th Quarter eps of $11.25. Results included several one-time items (MF global charges, tax items). Excluding unique items, operating EPS of $3.55 was below consensus (CS $3.71) but this was overshadowed by news that they increased the dividend by 59% and introduced a new annual variable dividend (determined at year end based on operating results) on top of their quarterly dividend (which is currently $3) indicating a 5% implied yield. The current lower volume trajectory ([particularly in rates and equities) implies 2012 will have limited volatility. This could change quickly if turbulence with the Euro sovereign issues picks back up or if Iran starts causing problems in the gulf. While there are other financials with attractive yields, few in our view have the competitive insulation that CME has with its circa 60% operating margin. The group is also to create a $100m protection fund for farmers and ranchers as it attempts to restore confidence in futures markets after the collapse of MF Global and will be designed to protect those farmers / ranchers in the event of a failure of a clearing firm.

ICAP has provided a trading update for its 3Q 2012 to 31 December 2011.The group states that it expects pre-tax profits to be at upper end the consensus range of £336m-£358m for year to 31 March 2011. The one negative is a weaker outlook for electronic broking. Trading: 3Q12 revenue was 7% lower reflecting the clear outlook statement made at the time of the interim results in November. However, the group has reacted, demonstrating its flexibility, with cost reductions of c£20m p.a. which have already been effected. For voice broking, there is a tempering of the concerns highlighted at the interim results with the group referring to encouraging signs of improvement in voice broking revenues early in calendar 2012. However, electronic volumes have been impacted by lower currency volumes in particular, with overall volumes 19% lower compared to January 2011. In a wider context, the group has highlighted an upgrade in March 2012 to come on the Brokertec platform to increase capacity and speed suggesting the company expects increasingly volumes to shift electronic.

Mastercard delivered solid 4Q11 earnings, with EPS of $4.03 (when excluding a $770mn special charge related to the U.S. merchant litigations) ahead of the consensus estimate of $3.91. Revenues of $1.73bn (up 20.2% Y/Y) were relatively in-line with the consensus estimate. Excluding the one-time special charge (which was lower than earlier feared) 4Q11 operating margin was 44% with the company's full-year 2011 operating margin of 51.9% coming in well ahead of management's guidance. During 4Q11 Mastercard recognized a $770mn pre-tax charge ($495mn on an after-tax basis) based on progress to date in mediation related to the U.S. merchant litigations (representing an estimate of Mastercard's financial portion of a potential settlement in these ongoing cases). During the quarter global purchase volume growth was up 15.2% Y/Y (vs. 17.2% Y/Y in 3Q11), transactions processed growth was 23.2% Y/Y (vs. 20.5% in 3Q11), and cross-border volume growth was 17.5% Y/Y (vs. 19.3% in 3Q11), all on a constant currency basis. Purchase volumes remained relatively resilient, including Europe, which saw only a modest deceleration in the year-over-year growth rate to 12.6% y/y (versus 13.7% in 3Q11). The company's 2012 - 2013 guidance was encouraging since it's the same strong growth expectations (12% to 14% top line and 20% + EPS growth) as previously guided for 2011-2013.

NASDAQ OMX reported fourth quarter earnings of $0.45 per share. Reported results included $0.18 of one-time charges (debt refinancing, securities impairment, merger charges). Excluding this, core EPS of $0.63 was a penny ahead of consensus driven by better than expected revenues only partially offset by higher expenses. This quarter's results were marked by volume headwinds but continued expense and capital discipline. Looking forward, management introduced 2012 core operating expense guidance of $955-985 million (inclusive of investment spending). In addition, the firm re-engaged on the share repurchase front during the quarter, buying back $100 million.

NYSE Euronext announced last week that in light of the decision by the European Commission to prohibit its proposed combination with Deutsche Boerse, the companies are in discussions to terminate their merger agreement. NYSE Euronext announced its intent to resume a $550 million share repurchase program following the termination of the merger agreement and after the release of its fourth quarter and 2011 year-end results on February 10, 2012. The $550 million buy-back is being executed under a $1.0 billion Board authorization established in March of 2008.

Dividend Paying Companies

ABB – announced it had been awarded a $250mm power order in Saudi Arabia to expand grid capacity.

BHP – announced the approval of $917mm (BHP's share $779mm) in pre-commitment funding for the construction of an outer harbour facility at Port Hedland, associated with its iron ore operations in Western Australia. The facility would provide an additional capacity of 100mm tonnes per year and has an embedded option to expand by a further 100mm tonnes. Project review and full approval is expected by the fourth quarter of the calendar year 2012.

GEA Group – reported fourth quarter and full fiscal year preliminary results in Düsseldorf earlier today, which exceeded previous guidance and showed an accelerating trend in both order intake and margin expansion. Orders and revenues were higher by 23% to €5.6bn and €5.4bn respectively, when including the newly acquired division GEA Convenience Technologies (CT), and by 15% when excluding the new division. Order intake was strong across the board, with double digit advances in four of the five divisions, while profitability improved significantly in Mechanical Equipment, Process Engineering and Refrigeration Technologies in the last quarter. The improved profitability is the result of selective intake of orders, along with positive restructuring effects achieved in recent years. Across geographical areas, the biggest order gains were in North America and Asia Pacific.

Outlook of the current fiscal year is bright, as the company expects demand in its sales markets to match the high levels seen in 2011. The group expects order intake to increase by 5%, same as revenues, while pricing environment is expected to stay the same. Earnings before interest and tax (EBIT) margin is forecasted to increase slightly. On the back of the encouraging results, the company proposed an increased dividend, of €0.55 per share, up from €0.40 per share.

Johnson Matthey – the world's largest supplier of catalytic converters for vehicles guided for profits in the second half of its fiscal year to exceed the first's, as it announced third quarter results boosted by Chinese demand and North American truck sales. The underlying profit before taxes rose by 34% to £104mm in the quarter, meeting market's expectations, despite a challenging economic environment in Europe, which accounts for about a third of its sales. The heavy duty diesel business has seen high rates of growth which are expected to continue, as regulation in the truck market has been tightening. In the precious metals products trading and smelting business, the company saw a slowing down in the refining intake as the platinum group metals' (PGM) pricing weakened, offset though by increased intake of gold refining. A new active ingredient used in treating drug addiction helped lift sales in Johnson Matthey's Fine Chemicals business. Management confirmed that the company is looking at possibly raising yuan denominated debt as it seeks to expand its facilities in China. This would provide the company with precious insights in raising money in the Chinese markets, a pre-emptive move in uncertain capital markets.

Posco – the third largest global steel maker, reported a smaller than expected 33% gain in its quarterly profit for the last quarter of its fiscal year, yet it outperformed its Asian peers, such as Nippon Steel and JFE Holdings. The industry has been hit by weaker shipbuilding demand and uncertainty stemming from developments in Europe, while the raw materials pricing continued to stay strong. For the full fiscal year Posco reported a KRW4.2tn profit, lower by 12% than a year ago on sales which were 20% higher. However, during the year the group achieved record high production and sales and maintained the highest level of profitability in the industry. Despite cautiously cutting back on its planned investment of the year, Posco has a number of capital projects lined up and is expected to go ahead with one of the firm's three steel mills in India this year.

Wesfarmers – reported second quarter results in its retail divisions which were marginally lower than expected in a challenging environment. Coles, one of Australia's largest grocery chains and responsible for about half of the group's revenue, reported same store sales which were higher by 3.7%. By comparison, its arch-rival Woolworths grew only by 1.1% over the same time period. The trading in the quarter was marked by a severe price deflation as retailers slashed the cost of basic items such as milk and bread to attract shoppers. The group estimates that roughly two thirds of the price inflation is due to its own promotions. Same store sales at the firm's Bunning home improvement chain rose by 3.2%, while revenues at its department store Target retreated by 3.1% over the same period. The discount chain K-mart, which had seen a spectacular turn-around since taken over by Wesfarmers, also lost some 2.7% of sales in the quarter.

Vivendi – has won the dismissal of a ten year old lawsuit accusing the French telecom and media company of misleading its shareholders about its finances in connection with a giant merger. A US District Judge in Manhattan rejected claims by individual shareholders who had bought ordinary Vivendi shares on the Paris bourse. The ruling significantly restricts the amount at issue, to only a few tens of millions of dollars.

Hutchison Whampoa : the earlier reported acquisition of Orange Austria by Hutch 3G Austria has now been confirmed. After the sale of certain assets, the Economic Value of the transaction is estimated at Eu900 mn, representing an Economic Value/ EBITDA multiple of 6.9x.With the positive impact from the estimated synergies, its estimated the transaction multiple could be as low as 3.9x to 4.5x. The transaction price is therefore lower than originally anticipated and will also be earnings accretive immediately. The half-year EBITDA of Orange Austria is at Eu65 mn versus EBIT of Eu1 mn from Hutch 3 Austria. The transaction is expected to add about 2.7% of gearing to the company. However, it appears management recognize the best way to maximize the valuation of Hutch's 3G assets is the company continuing to look for this kind of consolidation opportunities in other major markets. Hutchison is still currently trading at a 49% discount to its underlying value.

National Grid's Interim Management Statement confirmed the intention to raise the dividend by 4% nominal in 2012/2013E. This equates to 1% real growth using Grid's assumption of 3% Retail Price Index for the forthcoming financial year and fulfils the company's objective to continue delivering above-inflation dividend per share progression. Building on the 8% nominal increase already committed for 2011/2012, next year's payment is estimated to be 40.85p, implying a prospective yield of 6.7%. As expected, the statement highlighted the recovery of $240m deferred costs in New York approved last December. This will boost EPS, and suggests an improving regulatory relationship.

Shell's adjusted net income for 4Q was US$4.8bn (consensus at US$5.2bn), due to weak Downstream performance (segment losses of US$278m). The drag in refining could not be offset by a decent performance in the Chemicals business. Upstream performance was broadly in-line with expectations with production of 3.3mm barrels of oil per day (-5.5% YoY). Management pushed organic capital expenditure to US$32bn pa (+28% over 2010-11) to drive a 30-50% increase in operating cashflow through 2015 and inject further growth: a 4mmboe/d prod target in 2017 (+3.7% CAGR 2011-17). This puts Shell well above the peer growth average of 2-3% pa. These long term growth ambitions may well take precedence over nearer term potential cash returns to share holders, although the dividend was increased by 2.4% to US$0.43/share per quarter but buybacks are absent due to regulatory/taxation restrictions.

Economic Activity, Consumer and Business Conditions

US – The macro-economic picture last week was dominated by the employment news, with the key employment report released last Friday for January exceeding even the most optimistic expectations. The American economy added 243,000 non-farm payrolls in the month, while the unemployment rate retreated to 8.3%, relative to a consensus non-farm payrolls additions of 150,000 and a flat unemployment rate at 8.5%. Some analysts were quick to point out how some statistical manipulations having to do with either the household count (done roughly once a decade) or seasonality might have skewed the reading. However, while the pace of it is debatable, there is a broadly shared view that there is some improvement in the pace of hirings sustained by other recent macro-economic releases. The private payrolls moved higher by 257,000 in the month, while manufacturing contributed 50,000 jobs. Earlier in the week, a reading of the US productivity for the last quarter of the 2011, showed a tempering of the productivity improvements, up by only 0.7%, short of the consensus for a 0.8% advance and the revised Q3 reading of 1.9%. Such a decrease is consistent with a pick-up in new jobs, as companies have extracted most of the marginal productivity improvements. Please see our Portland Insights, November 21, 2011 issue, "US Labour Productivity Growth..the Tipping

Improvements in the business activity are being reflected in the most recent reports of the Institute for Supply Management (ISM). The Purchasing Managers Index (PMI), and important manufacturing activity lead indicator, moved higher in January, to 54.1 from 53.1, albeit short of expectations for a 54.5 reading. Its, non-manufacturing counterpart, the NMI, actually jumped way above expectations, at 59.5 compared to 56.2 and ahead of December's 55.9 reading.

Unfortunately, unlike businesses, the consumer turned out to be less optimistic in the month, with the consumer confidence, as measured by the Conference Board, taking a tumble in January, to a 61.1 level, from December's 64.8 and short of a 68.0 level expectation. This retraces some solid gains in previous months and was caused mostly by the consumer views of the current situation, as opposed to the six month expectations. The housing sector could have been the source of the consumer worries, with the price of housing, as captured by the Case Shiller index, having dropped by 3.7% on year on year basis in November, lower than October's 3.4% retreat and significantly lower than expectations for an only 3.3% reduction.

Canada – The economic announcement in Canada were less up-beat last week, as the employment report revealed a meagre 2,300 jobs addition in January, deepening concerns in regards to the pace of economic recovery in the country. The unemployment rate inched higher to 7.6% in the month, unexpectedly. The services part of the economy is experiencing persistent weakness, as most job losses in the month came from professional and technical services, as well as from financial services and real estate.

On the inflation front, a higher than expected reduction in the producer prices, down by 0.7% in December, seems to underline the amount of slack in the economy, although an even steeper drop in raw materials pricing is also likely to be the driver.

Completing the picture of the sub-par performance, the November GDP by industry report revealed un unexpected 0.1% drop in output, jeopardising the fourth quarter expected rate of growth. The main performance detractor was the energy sector, although, it should be mentioned, affected by one-off events.

European leaders struggled to reconcile austerity with growth last Monday at a summit that approved a permanent rescue fund for the euro zone and was trying to put finishing touches to a German-driven pact for stricter budget discipline. (Reuters)

EU Summit - 25 EU governments, last Monday, agreed a pact to move to closer fiscal union and signed off on the details of a permanent bailout fund for the euro zone. The UK and Czech Republic did not sign the pact. There was little detail given on the pact itself which will be ratified and signed off in March, it becomes live once 12 Euro members have ratified it. The treaty aims to force eurozone countries with high debt levels to bring their budget deficits down to 0.5% of their economic output. The E 500m European Stability Mechanism fund will also be approved at the next eurogroup meeting and will start on July 1, as expected, a year ahead of the original schedule. It will run in parallel with the ECB's EFSF for a while.

Greece is still casting a shadow over Europe at the moment with no agreement made as yet. Greek Prime Minister Lucas Papademos said major progress had been made in the talks. French President, Sarkozy, said the German proposal for the EU to control Greece's budget decision-making "would not be reasonable, democratic or effective". However, German Chancellor, Merkel said she believed Greece needed stricter monitoring to stick to its bail-out targets, saying Greece's repeated failure to implement agreed reforms warranted more intensive intervention. Its expected Greek bondholders will receive a GDP-linked warrant as part of the planned debt swap, providing some chance for gains depending on the performance of the Greek economy. That will ease their pain at least modestly.

Financial Conditions

Moody's has changed the outlook of French P&C insurers to stable from negative reflecting the insurers smooth and successful management of the cycle, while life insurance outlook remains negative, reflecting continued pressures on life insurers profitability and the challenges in safeguarding solvency whilst preserving their products attractiveness in the context of elevated asset risk.

LTRO – At the end of next month, the ECB will offer unlimited 3-year money in the long-term repo operation (LTRO). The Financial Times believes that demand is going to be some multiple of that seen at the first operation in December when E489 bln was raised, as the new more liberal collateral rules will be in effect and the stigma of accessing this cheap funding appears much diminished. Destigmatising the ECB funding operation has been led by the President of the European Central Bank, Mario Draghi, although a frustrating impact is that all banks are being treated equally rather than differentiating the strong from the weak. It's understood that some of the money borrowed in December was invested into the high yielding european sovereign bonds but that more was retained to meet liquidity / funding needs in the absence of more normal markets. Banks have never been able to obtain external funding at 1% p.a. fixed for three years and provided they can find good quality credits should profit handsomely. Take residential mortgage lending, where Barclays now has its standard rate for a Lifetime Tracker mortgage set at Barclays Bank Base Rate +3.29, implying a current rate of 3.79% for loans with at least 20% of equity in the property. Whether banks lend to quality customers or to euro sovereigns, the banks, sovereigns and now the central bank will be more deeply entwined. Germany is winning the political move to a 'fiscal compact' but arguably in the more immediate future this is being overshadowed; with the ECB set to be on the hook for €1.5 trillion of exposure to the banks, the risk of contagion back to Germany, if a sovereign cannot meet its obligations is significant. The pressure to accede to the issuance of Eurobonds in such circumstances would in our view be irresistible. In such an event the ultimate benefit is the recovery of all Europe with a higher growth trajectory and strengthening of its banks – which still offers most gain to Germany albeit achieved by a route German politicians – for now at least – which to be seen as resisting.

'Volker' / Proprietary trading legislation: (i) More than half of the derivatives- trading business of Goldman Sachs, Morgan Stanley and three other large banks could fall largely outside the Dodd-Frank Act if they succeed in lobbying regulators to exempt their overseas operations, government records show (sourced from Bloomberg) (ii) Bank of Canada Governor Mark Carney said last week that US efforts to prevent deposit-taking banks from trading with their own money could damage markets in government bonds and other securities unless the plans are revised.

Federal Reserve policymakers appear determined to flatten the yield curve as much as possible, having indicated they expect 'exceptionally low levels' of interest rates "at least through late 2014". which is still an "exceptionally low level" in the grand scheme of things. Fed Reserve Chairman Ben Bernanke has indicated 1% or less would be considered exceptionally low. The advent of the US 'twist' (whereby the Federal Reserve is selling 3 year and less maturities to buy 6 years and longer) means all parts of the yield curve will benefit from a near-zero anchor for essentially the next 3 years. The U.S. 2 year/10 year treasury spread has been falling and is now 1.69% and the U.K.'s 2 year/10 year treasury spread is 1.73% - 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 3.87% - (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 fallen / improved to 6.2 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. 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 is 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 beginning 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.

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 7 in 2012 (compared to 95 in 2011 and 157 in 2010 which was the highest annual tally since 1992). Franchises are being acquired/absorbed as convergence of the financial services industry accelerates – favouring we believe the stronger, better managed banks. 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.

The VIX (volatility index) is 17.10 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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