Market Commentary

PORTLAND INVESTMENT COUNSEL™

April 9, 2012

News Highlights on Current Holdings

Financial Services Companies

Deutsche Bank is expected to sell its asset management business to US institutional asset manager Guggenheim Partners for between €1.5bn and €1.6bn, according to two people familiar with the deal, reported by Reuter and which adds that Deutsche Bank declined to comment on the price but said talks for a sale remain "on track".

ING – Dow Jones newswire reported that Korean Kyobo Life Insurance, the third-largest life insurer by market share, is considering a bid for ING Asian insurance operations. "We have decided to participate (in the bidding process) and will name advisors soon. When ING unveils concrete details of the sale, we will review our options," a spokesman from the unlisted life insurer, Park Chi-soo, told Dow Jones Newswires. Kyobo, which has been pursuing "organic growth" so far, sees the ING purchase as a new expansion opportunity, and has no major problems in funding the deal, he said. "If needed, bidding as part of a consortium could be a possibility," he added. Keen interest in ING's Asian insurance operations also comes from KB Financial Group & Samsung Life.

Royal Bank of Scotland has agreed to sell most of its Asia-Pacific cash equities and investment banking businesses to Malaysia's CIMB Group for £88.4mn. CIMB will also inject another £85.5mn into the business.

UBS - must retain a global investment bank alongside its worldwide asset management business, Wealth Management head Juerg Zeltner told Finanz & Wirtschaft. Separately, Bloomberg reported that the New York Supreme Court ruled a German commercial bank cannot bring fraud charges against UBS AG & UBS Securities LLC over their alleged roles in a failed credit default swap transaction tied to the US real estate market. The Judge ruled the fraud claim should have been dismissed as "legally insufficient".

Wells Fargo opened its new Abbot Downing business, officially merging two of its wealth management units under a new brand it hopes will expand its market share of America's richest families. The new business, catering to ultra-high-net-worth individuals and families with $US50mn or more in investable assets, resulted from the combination of Wells' Family Wealth unit and its Lowry Hill subsidiary.

Royal Bank of Canada announced last week the acquisition of the remaining 50% of RBC Dexia that it does not own for $1.1 billion. The transaction values RBC Dexia at 14x trailing earnings and 11x 2013E earnings. RBC will pay Dexia in cash, and the transaction is expected to close within the next three to six months. It is estimated the deal is modestly accretive to 2013E of 1-2%. The transaction is expected to reduce Tier 1 capital by 25 basis points with RBC remaining very well capitalized with a Tier 1 common equity ratio of 8.5%. The custody business is a relatively high-growth, fee-based business that should be valued at attractive multiples.

Dividend Paying Companies

BHP – Labour actions continue to impact activity at the BHP Mitsubishi Alliance (BMA) coking coal venture in Queensland, as 93% of the unionised workers voted to strike again on April 12, planning to halt work for two days. Some 3,500 unionised employees, of the unit's 10,000 employees, completed a seven day-strike last week. The seven mines which are part of the venture have a combined output capacity of more than 58mm tonnes per year or about a fifth of the annual global trade of metallurgical coal. The strikes, as well as heavy rains, led BHP to declare force majeure on deliveries from the BMA venture. BHP has made an offer of a 5% per year wage hike for the next three years, plus a guaranteed A$15,000 bonus per year, yet union leaders said the focus is on improving working conditions, such as shift rosters and job opportunities.

Toyota – reported March US sales of 203,282 units, up 15.4%, and estimates that the total US March auto sales reached a 14.3mm vehicles annualized rate. The company also estimates the Q1 seasonally adjusted annualized rate to be at about 14.5mm vehicles and expects the momentum to continue, raising its sales forecast for the full year 2012 from 13.6mm units to over 14mm vehicles US market-wide.

Vivendi – announced the issuance of $2Bn of notes in three tranches; $550mm of three year notes yielding 2.4%, $650mm of six year notes yielding 3.46% and $800mm of ten year notes yielding 4.79%. The company intends to use the net proceeds to call $700mm of outstanding notes due 2013 and which pay a 5.75% coupon, as well as to refinance drawings under its bank facilities.

Economic Activity, Consumer and Business Conditions

US – The macro-economic situation was dominated by Friday's jobs report for the month of March, which depicted a less rosier employment picture than expected and is likely to meaningfully and negatively impact the trading on the US equity markets early this week. The non-farm payroll additions of 120,000 positions fell way short of the expectations for 203,000 job additions, as well as of the February's 240,000 reading. The private sector added 121,000 jobs, while the public sector was virtually flat, shedding 1,000 positions in the month. Hirings in the manufacturing sector actually surprised on the upside, up by 37,000 in March, while construction jobs lost another 7,000 positions, despite the warmer weather and retail jobs added 33,800 positions to the job losses' tally. The headline unemployment rate retreated in March to 8.2% from 8.3%, yet for all the wrong reasons, as the labour force registered 161,000 decline.

The consumer credit report for February indicated a further increase in the quantum of credit, albeit smaller than expected, at $8.73Bn compared to $12.00Bn, and a slow-down from January's $18.60Bn credit addition.

The Institute for Supply Management's (ISM) monthly survey for the non-manufacturing sector, the NMI, continues to indicate expansion, although at 56.0 index points, fell short of the 57.0 reading expected and was a retreat from February's 57.3 level. Business activity and new orders were the laggards of this diffusion index, while the employment component actually improved in the month. 16 of the 18 industries surveyed reported expansion.

Canada – In contrast with the US counterpart, the Canadian employment report was a knock-out, with 82,300 jobs being added in March, way ahead of the 10,000 additions expected and easily offsetting the 2,800 February jobs loss. Most of the jobs added were full time, some 70,000 positions, and the job creation was broad based led by the healthcare and the public sector. Jobs were added in manufacturing and construction as well, with some pointing out that the unusual warm weather might have been a factor too. The headline rate of unemployment retreated in the month to 7.2% from 7.4%, on par with last September's and the lowest since the end of the past recession.

European Central Bank : The ECB held rates steady at 1.00% for the fourth consecutive meeting, as expected, by unanimous decision. The ECB continues to see inflation holding above 2% this year, before falling below target in 2013. Risks to the inflation outlook are on the upside this year, due to higher energy prices, but there are downside risks further out "owing to weaker than expected developments in economic activity." Indeed, underlying inflation pressures are "limited". With respect to growth, the recent data show stabilization of economic activity, with a gradual recovery expected. However, downside risks to the outlook remain, which is not surprising considering the austerity measures that will weigh on growth over the next few years and the slowdown in China (a key export market). ECB President Draghi also not surprisingly stated that any talk of exit strategy from the Long Term Refinancing Operations is premature.

Financial Conditions

Spanish banks - Spain is accelerating consolidation of its banking sector, Economy Minister Luis De Guindos told Reuters last Wednesday. He said that Spain will start the process to sell Banco de Valencia SA and Catalunya Caixa after Easter and aims to close the sales before summer. He also said that all Spanish entities will meet European rules on capital requirements and that the size of some of Spain's 20 banks may be insufficient in the future.

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 is now 1.72% and the U.K.'s 2 year/10 year treasury spread is 1.74% - 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 3.98% - (3.87% 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 improved to 6.4 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 17 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 16.70 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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