News Highlights on Current Holdings

Financial Services Companies

Barclays posted adjusted full year 2012 Profit Before Tax of £7048million versus £7175mn consensus. BarCap was in line whereas European retail was slightly light. Adjusted ROE came in at 7.8%. Its 4Q 2012 group 'adjusted' Profit Before Tax was £1.1bn (ex -£0.6bn own debt/£1.0bn pre-announced provisions). BarCap reported £2.6bn revenues in 4Q12 (-2% QoQ, +43% YoY) and PBT of £0.9bn (consensus £0.8bn), with the cost/net income at 66% (as expected). Outside BarCap, revenues were -3% QoQ at £4.1bn (cons £4.2bn), with a £0.4bn QoQ cost uptick reflective of the UK bank levy (£345m) in 4Q12. After impairment charges of £0.8bn, ex-BarCap 'adjusted' profit before tax was £0.2bn (cons £0.4bn). Of themselves, the 4Q 2012 numbers are slightly weak on a one-off of £50m in Retail (income) and c£0.2bn cost increase in Head Office. The strategic review is of more importance.

Barclay's strategic review beat expectations- The bank outlined a strategy that will see Barclays refocus investment in Africa, the US and the UK targeting ROE >11.5% by 2015 with cost cutting and Risk Weighted Asset reductions. It announced £1.7bn cost cuts from 2012 base of £18.5B (9% of 2012 costs) giving 2014 cost target of £16.8bn versus consensus estimate of £19.4bn. Cost cuts include cutting about 3,700 jobs, mostly in its investment bank. Risk Weighted Assets are to reduce by £75bn to £440bn versus 2014 estimates of £489bn. Also, there are plans to accelerate the dividend payout to 30% by 2014 which is backed by Financial Service Authority and importantly signals that the FSA won't be punitive on capital. Absolute cost savings of £1.7bn (9% of 2012 costs) over three years and £75bn of RWA reductions that will largely negate £81bn of Basel III RWA inflation will leave Barclays capable of organic RWA growth, while at the same time increasing capital ratios and moving towards a 30% payout ratio. The cost targets are ambitious and less clear is how revenues can grow 10% concurrently but with the cost cuts in isolation enabling a >10% RoNAV even if revenues remain stagnant at 0.87x 2013 Estimated NAV, little credit appears incorporated in the share price which we believe should trade to Book Value of 375p over the near term as execution of its plans gains traction.

BNP posted a net profit below expectation at EUR 514M but adjusted for goodwill impairment (EUR 379M of which EUR 298M on its Italian unit BNL) the result is in line at EUR 893M. At pre tax level before goodwill there is a 5% miss due to weaker revenues from markets (-27% QoQ against -21% expected), still high expenses (cost ratio of 94%) and to higher provisions (+7%) in Italy (137bps) and at consumer finance (195bps). These disappointments were partly offset by a strong French Retail and better than expected asset management revenues. BNP officially announced its streamlining plan which was anticipated in the press in January, following talks with unions. The aim is to reduce cost by EUR 2bn in 2015 at a cost of EUR 1.5bn spread on 3 years. Group has a cost ratio of 68% of which 60% in retail and 63% at CIB but this excludes the cost of the liquidity buffer (a negative in revenues) which was given at EUR 1.3bn per year under current conditions. The second part of the plan is to gain EUR 1bn of revenues in Asia (EUR 2bn in 2012 i.e. 5% of group revenues). Core Equity Tier 1 ratio under Basel 3 stands at 9.9% (expected 9.8%) due to good Risk Weighted Asset management at EUR 552M (down x% on 2012). Dividend at EUR 1.5 will be paid in cash and the payout ratio is currently just 30%.

ING Group reported an underlying pre-tax profit in 4Q 2012 of €455m (€1,028m in 3Q12) which compares to market expectations of €681m. The reason for the earnings miss related primarily to ING Bank which published weaker than expected revenues. ING Bank reported a pre-tax profit of €184m in 4Q12 (€983m in 3Q12) and missed market expectations of €437m. Retail banking in the Netherlands is particularly weak (4Q €145mn versus consensus of €200mn). ING Insurance reported a pre-tax profit of €272m (€44m in 3Q12) which is above market expectations of €244m. Notable items for ING Bank – which were largely known – include €175m Dutch bank tax, €188m negative credit adjustment on value of own debt and €126m in de-risking losses. ING announced additional cost savings. Headcount at ING Belgium will decline by 1,000 by 2015. ING guides for total cost savings by 2015 of €840m for ING Bank and €200m by ING Insurance Europe. In this context, ING has taken €452m after tax restructuring charges through 2012. But no improvement in Net Interest Margin which is down to 133 bp in 4Q12 from 134 bp in 3Q12. Non Performing Loan ratio continues to go up to 2.5% in 4Q12 from 2.3% in 3Q12 and Non Performing Loan coverage at 37% looks light. "ING expects risk costs to remain elevated amid weak economic climate".

Lloyds Bank – The UK Sunday Times reported CEO Antonio Horta-Osorio may have his £4.4mn bonus deferred until the bank's share price rises above 74p, the average price the UK government paid in the 2008 bailout.

Morgan Stanley said that it would reduce its fixed income and commodities risk-weighted assets by 35% to roughly US$255bn by 2014, compared with US$390bn of those assets at 30 September 2011. Its new target is more aggressive and further out than originally targeted.. Now, the bank said it aims to get those risk-weighted assets down to less than US$200bn by 2016. (Source : Reuters).

RBS – Bloomberg reports that the Abu Dhabi Investment Authority is close to buying 42 hotels managed by Marriott International Inc and controlled by RBS. The sovereign wealth fund has been a preferred bidder since last summer and may pay £640mn for the hotels which RBS acquired after the borrowers defaulted on a loan in 2011, the Times of London reported Feb 16.

Dividend Payers

ABB – announced a 4% increase in its orders intake for the fourth quarter of its fiscal year, when it reported its quarterly results in Zurich last week. Orders for the quarter reached $10.5Bn, ahead of the forecasted $9.8Bn, as orders in the Americas region jumped 41%, partly explained by the integration of the Thomas&Betts, and business started to improve in China, up 10% in the quarter, with progress across the divisions. However, given the near-term uncertainty around Europe and the United States, the management said the company would continue to focus on cost cutting. The group would also carefully assess growth prospects relative to capital investment, which is likely to be capped around the inflation rate. The fourth quarter net profit retreated 27% to $604mm, yet ahead of the expected $532mm, impacted by a one-time charge of $350 for the restructuring of its power systems unit, which was flagged in December. The company announced a dividend of CHF0.68 per share, up from last year's CHF0.65 per share level.

Separately, ABB announced it had won a $110mm power order to inter-connect the electrical networks of Poland and Lithuania.

BHP- Cerrejon, Colombia's largest coal exporter, of which BHP owns one third, has declared force majeure as a labour strike entered its third week and the preliminary talks between unions and the management stalled at the weekend. Clients affected include utilities in Spain, the US, Canada and Turkey. Relatively large supplies from the US, Russia and South Africa and weaker demand in Europe helped avert a major impact in the market. Prices for physical coal delivered into northwestern Europe reached $88.25/tonne, around $2 higher than before the strike. The Colombian coal sector faced a series of strikes last year at its main coal railway and a mine owned by Glencore's Prodeco unit.

Carnival Corp – More than 4,200 passengers and crew aboard of Carnival Triumph arrived in Mobile, Alabama late last Thursday. The vessel had been without propulsion and running on emergency generator power since Sunday, when an engine room fire left it adrift in the Gulf of Mexico. Carnival said it had initially planned to tow the Triumph into Progreso, Mexico, the closest port to its location early on Sunday when the engine room fire occurred. But the ship drifted about 90 nautical miles North, due to strong currents, before the towing got under way and that left it stranded roughly midway between Progreso and Mobile. Carnival has offered passengers $500, reimbursed their transportation and many onboard costs and given them a credit toward a future cruise equal to the amount they paid for the Triumph vacation. Although at least one passenger from the Carnival

Triumph is suing the company, legal experts in the field, such as Miriam Lebantal of California and Jim Walker, partner at Walker&O'Neill in South Miami, say such cases have little merit, as reported by Reuters. Unless passengers suffered major injuries or other losses due to negligence by the cruise operator, they would be better off accepting compensation from Carnival Corp.

Johnson Matthey – concluded the re-negotiation of it supply agreement with Anglo American Platinum, on which it lost the discounts previously awarded on the platinum group metals (PGM) distributed for Anglo, which was largely expected. The company said it would retain a deal to buy platinum from Amplats as well as a new contract with the mining company to provide market research with respect to platinum. A previous market development activity was left out of the scope of the contract. The negative impact of the new contract terms is estimated at around £35mm, with a potential savings offset of up to £5mm, we estimate.

Nestle – reported organic growth of 5.9% in its sales, up to CHF92.2Bn, when it revealed its full year 2012 results in Vevey, Switzerland, last week. While the 5.9% organic growth is in line with its famous model of year on year 5%-6% increase in organic sales and improvement in underlying earnings, trading trends in the last quarter of the year were below expectations and the company had a cautious tone in its 2013 outlook. Nestle's good exposure to emerging markets helped it outperform rivals such as Danone and P&G, yet its emerging markets sales, the equivalent of 43% of group sales, slowed down last year to 11% growth from 13.3% in 2011. In particular, the group was affected by weaker than expected growth in the last quarter in the Americas and the Asia, Oceania and Africa regions. Some one-off events, such as typhoons in the Philippines and social unrest in Egypt played a role in the company's emerging markets sales. The company proposed a 2012 dividend of CHF2.05 per share, mildly below the expectations for a CHF2.09 per share payout, but higher than 2011's CHF1.95 per share dividend. Peter Bulcke, the group's CEO, re-iterated the company's standard forecast of underlying sales growth between 5% and 6% and underlying earnings per share growth in constant currencies for the 2013, even as he cautioned of tough trading conditions.

In a separate announcement, Nestle said it had removed beef pasta meals sold under its Buitoni brand from sale in Italy and Spain after finding traces of horsemeat, becoming the latest victim of a food scandal still spreading across Europe. Lasagne a la Bolognaise Gourmandes, a frozen product for catering businesses produced in France, will also be recalled. The company's spokesman said the withdrawals would have no material financial impact on the company. Nestle said it was suspending deliveries of all products using beef from a German company called H.J. Schype, a subcontractor to one of its suppliers, JBS Toledo NV. Governments across Europe have stressed that horsemeat poses little or no health risk, but the scandal has damaged the confidence of consumers in supermarkets and fast-food chains since horsemeat was first identified in Irish beefburgers.

Novartis – cancelled its 'golden handcuffs' offered to its departing chairman Daniel Vasella, which would have seen him cash in CHF12mm a year for the next six years, CHF72mm in total, in order to prevent him from working for competitors. The decision to cancel the package addresses concerns of shareholders and public pressure. The announcement marks an important moment in the run-up to a March 3 Swiss referendum, which, if successful, would give shareholders a binding vote on compensation and ban 'golden handshakes' for new hires and 'golden parachutes' for departing managers. Roughly 65% of Swiss voters favoured the initiative mid-January.

Wesfarmers – beat expectations with a 9.3% rise in the first half of its fiscal year net profit and provided a cautiously optimistic outlook for the remainder of the year. Net profit in the six months to December 31 reached A$1.3Bn, ahead of expectations for a A$1.2Bn profit level. First half earnings before interest and tax (EBIT) at Coles supermarkets, the group's flagship retail operation, rose 15% to A$755mm. EBIT for home improvement chain Bunnings grew 7%, while EBIT for Officeworks climbed 12% and at discount store Kmart 25%. Earnings fell at discount department store Target, with EBIT down 20%, while lower export coal prices, flooding and a strong Australian dollar impacted profitability in the group's resources division.

Vivendi – Etisalat, the Abu Dhabi telecom company, is reported to be talking with banks about a syndicated loan of up to $8Bn to finance a bid for Vivendi's 53% stake in Maroc Telecom. At $8Bn, the loan would be the largest to be advanced in a merger and acquisition context in the Gulf area in the last six years.

Thomson Reuters : 4Q 2012 adjusted EPS of $0.60 was $0.05 above consensus. Revenue from ongoing operations of $3.358bn was up 2% YoY (+2% in constant currency). 4Q's organic constant currency revenue was flat year-on-year. Underlying operating margin from ongoing operations of 19.6% was up 10bp year on year. Underlying free cash of $698mn and management's 2013 revenue and adjusted EBITDA guidance was largely in line with expectations, though operating margins were below. Management gave initial 2013 guidance for low single digit revenue growth, adjusted EBITDA margins between 26-27%, underlying operating profit margins of 16.5-17.5% and $1.7-1.8bn in free cash flow.

TOTAL reported net income of €3.08Bn for 4Q, 3.3% ahead of consensus although the operating profit was 7% below expectations due to a miss in the Upstream, where lower volumes, LNG sales & higher exploration expense led to a miss. TOTAL's cashflow generation continues to improve, with 2012 dividend covered. Guidance for 2013 is for stable net investment, with $6Bn of divestments already in place. The 2013 outlook also reaffirms guidance for 3% production growth CAGR 2011-15. This will be supported by projects on which we believe there to be a high degree of visibility, with 90% of new volumes by 2017 under development versus 70% in Sept.

Economic Activity, Consumer and Business Conditions

US – US retail sales slowed down in January, up only 0.1%, in line with the expectations, on the back of a robust 0.5% advance in December. Retail sales excluding autos were up by 0.2% in the month, slightly ahead of the expectations for a 0.1% improvement, as sales of motor vehicles and parts slipped 0.1% in the month. Other retail categories affected were furniture, health and personal care and clothing, while sales of food, home improvement, electronics and sporting goods improved in January. Released later in the week, the University of Michigan measured consumer sentiment index continued to improve in February, at 76.3 index points ahead of the expected 74.8 index points level, supported by a rosier consumer view of both the 'current conditions' as well as the mid-term 'expectations'.

On the business side, the US industrial production took a breather as well, down 0.1% in January, from a strong 0.4% improvement in December, undershooting the expectations which were calling for a deceleration to a 0.2% monthly growth. Industries affected were autos, consumer goods, construction and materials, somewhat offset by a recovery in the utilities' activity. The US capacity utilization slipped to 79.1% in January, from December's 79.3% level, yet it managed to stay ahead of the expected drop to a 78.9% level.

On the housing sector, the just released US housing index by the US National Association of Homebuilders (NAHB), retreated one point to 46, maintaining an overall pessimistic view on the new housing activity (a level of 50 is considered neutral), yet has seen a marked improvement over the last several months.

Canada – Canadian existing home sales improved marginally by 1.3% in January, offsetting some of the 17.4% December drop and helping alleviate worries of a hard landing.

The Bank of England, as expected, maintained the official Bank Rate at 0.5% and kept the programme of asset purchases paused at £375bln. However in an unusual move, the policy decision was accompanied by a statement. The central bank announced that it would reinvest the cash flow arising from £6.6bln of gilts in its portfolio maturing in March. By doing so, it'll ensure the stock of asset purchases is not reduced and is kept unchanged at £375bln. Beyond that, the MPC also talked about how to set policy in an environment of weak growth and stubborn inflation, and concluded that it should look through the temporary rise in inflation. The central bank also highlighted about downside risks to growth and the risks of derailing the recovery by removing the current policy stimulus more quickly.

The European Commission has tabled its controversial financial transaction tax, despite the fact that only 11 member states out of 27 support it. The levy, set at 0.1% for shares and bonds and 0.01% for derivatives, will apply to all transactions "with an established link to the FTT-zone", the European Commission said in a statement, and could raise €30-35bn a year.

The Bank Of Japan as expected announced nothing new in its monetary policy decision on 14 February although it did provide a better assessment of the Japanese domestic economy which "appears to stop weakening" and the outlook is for the economy "to level off more or less for the time being, and thereafter, it will return to a moderate recovery path as domestic demand remains resilient partly due to the effects of various economic measures and overseas economies gradually emerge from the deceleration phase." The BOJ kept its inflation target to 2% and the pledge to adopt an open-ended asset-purchase program starting in 2014 (starting with monthly buying of JPY 13trn) after the JPY 101trn programme ends in 2013.

Financial Conditions

The Swiss National Bank (SNB) has submitted a proposal to the Federal Council, requesting the activation of the countercyclical capital buffer (CCB). The proposed capital buffer is targeted at mortgage loans financing residential property located in Switzerland. The proposal sets a level of 1% of associated risk-weighted positions, and a deadline for compliance with the CCB of 30 September 2013. Total volume is ~CHF3bn. Major drivers for the residential real estate market are i) robust net immigration resulting in around 1% net population growth in 2012, ii) continued low level of interest rates and therefore in-expensive financing conditions. The introduction of the capital buffer should in our view increase the cost of lending for low risk profiles but not change lending conditions for good risks. In addition, life insurance companies have and will further reinforce their mortgage offerings, being in a better position now to compete with banks. Therefore, we do not expect a major impact from the introduction of the capital buffer on the positive residential price trend, at most a dampener but not a change in this positive trend. Most strongly impacted will be regional and cantonal banks such as ZKB, Genfer KB and Valiant (with lower cap positions and higher relative residential mortgage exposure). But even ZKB stated this morning, that they have already applied the capital buffer by the end of 2012 anticipating such a move by the SNB already. Implications for UBS & Credit Suisse should be rather modest.

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% (January 7.9%) 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 1.72% and the U.K.'s 2 year/10 year treasury spread is 1.89% - 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 3.53% - (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 4.4 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. A recovery in house prices appears increasingly sustainable 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 is easing 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 should suffice, enabling banks to continue to post increasing earnings per share (as credit improves) over the next 18 – 24 months 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 3 in 2013 (compared to 49 in 2012, 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..

The VIX (volatility index) is 12.46 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.

Chris Wain-Lowe
Executive Vice President
Portland Investment Counsel Inc.
Phone: 905-331-4250 Ext. 4232
Fax: 905-331-4368
www.portlandic.com

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Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel.:1-888-710-4242 • www.portlandic.com • info@portlandic.com

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