



## News Highlights on Current Holdings

### Financial Services Companies

Bank of America and the National Credit Union Administration reached a US\$165mn accord to cover losses on purchases of RMBS by credit unions that failed, the agency said. The bank didn't admit fault in the agreement, according to a statement from the NCUA. Bank of America, the second-largest US lender by assets, ranked as the biggest mortgage provider before the housing market bubble burst. (Source : Bloomberg).

Bank of America has won a federal US judge's approval for a \$US2.43bn settlement with investors who said the lender hid crucial information when it bought Merrill Lynch. The accord, among the largest investor settlements stemming from the recent global financial crisis, was approved by US District Judge Kevin Castel in Manhattan.

Barclays plans to add branches in Egypt this year as Britain's second-biggest bank by assets seeks to expand in the North African country after rivals from France sold local units. Barclays Bank Egypt SAE will boost its branch network by 10% in 2013 and is preparing to offer Islamic banking services, Omar Baig, consumer banking director at the Cairo-based lender, said in an interview. Barclays may consider acquiring another lender in the Arab country "should the opportunity present itself," he said. Bloomberg

Barclays - Les Echos says that Barclays plans to cut 243 jobs in France out of a total of 1,500 jobs in France. 206 of the jobs will be in retail banking with 37 out of 113 branches to close, Les Echos says. Barclays France declined to comment.

Barclays successfully issued / sold another \$1 billion of contingent capital notes, rewarding investors who can accept being wiped out in a crisis at the U.K.'s second-largest lender. The 10-year bonds, which will be written down to zero if Barclays's capital ratio drops below 7% of risk-weighted assets, priced last Wednesday to yield 7.75%. ( Source : Bloomberg).

Barclays/UBS/Deutsche - the Financial Times reported that, banks including Barclays and UBS, won a partial

victory in a civil court case where investors claimed they'd been hurt by manipulation of LIBOR. A federal judge in New York threw out a large portion of claims from investors, including an 'anti-trust injury' claim & part of a separate claim on grounds it was "time-barred", saying 2008 newspaper articles reporting the distortions, gave investors the opportunity to sue at that time. However, other claims against the banks, can move forward, the judge ruled.

ING - Bloomberg reports that ING's US insurance unit expects to get gross proceeds of about \$600mn from a planned U.S. initial public offering. ING Groep will also sell stock in the offering, according to a regulatory filing on Friday. The filing didn't specify how much in proceeds the parent expects. ING filed for the IPO in November using a \$100mn placeholder amount.

Prudential : The U.K. Financial Services Authority fined Prudential \$45.5 million, the largest regulatory penalty of its type, and censured its chief executive for failing to inform the regulator about plans in 2010 to buy AIA.

RBS – RBS investors yesterday demanded up to €4bn in compensation as they launched a class-action lawsuit against the bank and four former directors including Fred Goodwin who presided of the collapse of RBS. The former chief executive is named as a defendant in the lawsuit filed by a group representing 100 institutional shareholders including Deutsche Bank and 12,000 private investors.

The shareholders claim that the bank tricked investors by misrepresenting the underlying strength of the bank when it made a £12bn rights issue in April 2008, months before it collapsed. The claimants, say the bank failed to admit that it was forced to raise the new capital by the regulators and should have admitted that it was struggling following a disastrous 2007 deal to buy Dutch bank ABN Amro.

Swedbank : Announced last Monday plans to discontinue its Russian operations and sell its Ukrainian subsidiary. The bank will book SEK340m of provision in 1Q13 as a result. The move is not a surprise and is a confirmation of the bank's plan to focus on its 4 home markets – i.e. Sweden and the Baltics. We believe successful refocusing



is a step which is likely to be welcomed by investors.

TD Bank: Announced its succession plan for President and CEO Ed Clark, a process that will play out in steps over the next 19 months and will culminate with current US Banking chief Bharat Masrani assuming the top spot at TD to begin November 2014. Given our belief that TD's strategic vision has been dominated by its leader, news of the elongated transfer and replacement points towards a continuum.

## Dividend Payers

Barry Callebaut – the largest cocoa processor and chocolate manufacture in the world, reported its half year results earlier today, which included a 7.4% retreat in its half-year net profit, affected by adverse moves in cocoa prices, as well as costs related to the purchase of Petra Foods cocoa business last year. Sales volumes, however, grew a robust 7.8% to 745k tonnes, including a 5.8% advance in Europe, the group's largest market, as people are reluctant to give up on one of their favourite treats in the age of the austerity. The bottom line was also impacted by an unfavourable combined cocoa ratio, meaning that the prices for the group's cocoa ingredients, like cocoa butter and powder, fell more than prices for cocoa beans. This trend is expected to reverse in the second half. The group's CFO, Victor Balli said that chocolate demand went up in recent weeks, with prices following, which would help results in the second half of the year. He also said that the cocoa bean crop outlook was relatively good, which should keep cocoa bean prices stable or send them slightly lower. The group's CEO said the completion of the major Petra Foods acquisition and integration were well on track. The company stressed the importance of the emerging markets, in particular Asia, for the growth of the business. With emerging markets consuming a lot of cocoa powder, this market is growing faster than the chocolate market, by 2% to 5%.

Johnson Matthey – announced it had bought Formox, a Sweden-based specialty chemicals company, for £107mm. Formox, which was sold by Perstorp Specialty Chemicals, produces catalysts linked to the chemical formaldehyde and its technologies complement the company's existing activities in producing process

catalysts and licensing.

Seven&i – the parent company of the 7-Eleven stores, reported its end of year results for its fiscal year ending February 28, 2013, which included a 1.2% increase in its operating profit, to ¥295.7Bn, its second consecutive year of record profits. The group has been expanding its domestic convenience store network and offerings of higher-profit brand names as it is working to offset the shrinking of Japan's retail market, the world's second largest. For the current year, the group projected a 15% operating profit rise, to ¥340Bn, ahead of the consensus projection. The results and the outlook were very well received by the market.

Toyota – Toyota Motor Sales USA Inc. reported 529,444 vehicles sold in the first quarter of 2013, an increase of 10.1% on daily selling rate bases.

Vivendi – The Abu Dhabi state-owned telecoms company Etisalat, has lined up an \$8Bn dual-tranche loan facility to finance its bid to acquire Vivendi's 53% stake in Maroc Telecom. Etisalat is working with BNP Paribas as financial adviser. Separately, Qatar Telecom is also talking to banks about a loan facility to finance its bid for the stake. KT Corp of South Korea, the third suitor, is being advised by Credit Suisse, Societe Generale and Citigroup on the transaction.

Vivendi plans to name its senior executive vice-president in charge of telecoms, Jean-Yves Charlier, as head of French telecoms division SFR. Charlier would replace Stephane Roussel, the former Vivendi HR chief who took over running SFR last summer, after the departure of group Chief Executive Jean-Bernard Levy. Roussel will become chairman of SFR and will take on a new strategic role with Vivendi. Charlier was previously responsible for Europe at BT Group and was later CEO of Colt Telecom. Since 2007, Charlier also served as head of Promethean, a company specialising in interactive educational products and media for teachers.

Vivendi said it completed the early refinancing of a €1.5Bn bank line over a five-year period.

Wesfarmers – has appointed Stuart Machin as managing director of Target, one of Australia's biggest department



store chains. Machin has been stores development and Operations director at Coles since August 2008, where he has led various departments including IT, Coles online, central and store operations.

## Economic Activity, Consumer and Business Conditions

US – A disappointing week in terms of macro-economic news in the US was initiated by a 2.9 index points drop in the Purchasing Managers Index (PMI) of the Institute for Supply Management (ISM), a leading manufacturing indicator, in the month of March, as a number of key components, including new orders, production and inventories retreated in the month. The reading compares to consensus expectations which were pencilling in a flat number, at 54.2 index points. A couple of days later, the NMI, the non-manufacturing equivalent of the PMI, measured by the ISM as well, also fell short of expectations, at 54.4 points relative to 55.8 and signalled a retreat in the sector relative to February, which recorded a 56.0 points reading. While such effects are very difficult to measure, we believe that the current slow-down in activity and outlook is likely the result of the recent US budget cuts and earlier payroll tax increases, with potentially more bad news down the road as the US politicians continue to show indecisiveness.

Also, the March non-farm payroll report fell short of expectations, as only 88k jobs were added in the month, relative to 200k expected, with weakness across the board: the private payrolls up by 95k, compared to the expected 209k, manufacturing shed 3,000 jobs, government reduced its payroll by 7,000 positions, while average weekly earnings stayed flat. The ‘positive’ element was a reduction in the headline unemployment rate, to 7.6% from 7.7%, which masks a roughly 500k reduction in the US labour force, to one of the lowest participation rate in modern times. Absent a lift in earnings (see above), the consumer has been resorting to credit, as consumer credit grew by \$18.14Bn in February, continuing a streak of higher than expected credit additions. Finally, the US foreign trade balance shrunk slightly in February, to \$43.0Bn from \$44.6Bn, as exports improved marginally while imports remained flat

in the month.

Canada – 54,500 jobs were lost in March in Canada, more than offsetting the surprisingly strong growth in February, as job losses affected all the sectors: manufacturing lost 24k, construction dropped by 9k and services shed 25k positions. The unemployment rate moved two tenths higher to 7.2%. Canada’s visible goods trade balance opened up to \$1.02Bn in February, from \$0.75Bn in January, counter to the expectations for a \$0.2Bn surplus, as the exports retreated by 0.6%, dragged lower by the minerals exports, while imports rose by 0.1%.

Eurozone inflation cooled to 1.7% y/y in March from 1.8% y/y in the prior month, though the decline was less than expected (consensus call was for 1.6% y/y). Expectations are for it to remain “significantly” below 2% next year.

Portugal : the Constitutional Court decided over the weekend to strike down c.€1.3bn of austerity measures included in the government’s 2013 budget plans (c.0.8% impact on deficit). Amid opposition calls for the government to step down the PM has subsequently announced further cuts to spending on welfare and education to keep the budget plan on track. This news is not entirely unexpected but will increase fears about cohesion and ability to keep deficit reduction plans on track.

Australian trade deficit came in at A\$178 million in February versus expectations of A\$1 billion, though the prior month was revised to a deeper A\$1.2 billion from A\$1.1 billion. Exports jumped 3% in the month, outpacing a 1% increase in imports.

China’s service-sector PMI rose to 55.6 in March, reversing a good portion of the prior month’s drop to 54.5.

## Financial Conditions

The Bank of England held rates at 0.5% and left its Asset Purchase Facility unchanged at £375 bln, as expected.

Bank of Japan announced aggressive new easing measures. The Bank is shifting its policy target from



the overnight interest rate to the monetary base, with the intention of increasing the latter by ¥60-to-¥70 trillion annually. The cap on the Bank of Japan's bond purchases—equivalent to the currency in circulation—has been temporarily suspended and the Asset Purchase Program, which was the BoJ's main easing vehicle and seen as temporary, is being folded into the Bank's balance sheet. Japan government bond (JGB) purchases will be expanded and the maturities purchased extended. Annual JGB purchases will total about ¥50 trillion—around ¥7 trillion (about US\$75 bln) per month—with maturities of up to 40 years. The average maturity of JGBs in the BoJ's portfolio will be extended to about 7 years from under 3 years currently. Also, ETF and REIT annual purchases will rise by ¥1 trillion and ¥30 billion, respectively. The Bank of Japan's goal is to reach the 2% inflation target “with a time horizon of about two years” ...very ambitious given the deflationary trend over most of the past two decades.

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% (March 7.6%) 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 1.48% and the U.K.'s 2 year/10 year treasury spread is 1.47 % - 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 3.54% - (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 4.7 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 5 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 13.92 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](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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