Market Commentary

PORTLAND INVESTMENT COUNSEL™

November 30, 2009

Last week the UAE government said it would take charge of restructuring its corporate flagship, Dubai World and asked creditors to accept delayed payments. Dubai World has $20 billion of loans and bonds coming due in the next 18 months and although the UAE has stated it does not guarantee Dubai World's debt its Central Bank has said it 'stands behind' the country's local and foreign banks offering them access to extra liquidity in need. We believe the contagion related to the threat of a Dubai World default appears to be contained as Dubai is simply not large enough to threaten the global banking system. Leading foreign banks with exposure to the UAE region (HSBC, Standard Chartered, Barclays) have indicated relatively modest exposure with no or little expected impact on impairments this year. And we expect Abu Dhabi to play a lead and lucrative participating role in rescuing its debt-laden neighbour.

Sentiment across the global credit markets has remained calm with TED spreads (the rate at which banks lend to each other) at approximately 0.22% well off the highs of 4.6% witnessed late September/early October and back to pre-crisis normal levels. Please see chart below.

In addition, the U.S. 2 year/10 year treasury spread is 2.54% and the U.K.'s 2 year/10 year treasury spread is 2.35% - enabling financial services companies' assets booked at these levels, to be very profitable, so enabling them to absorb anticipated consumer credit losses.

Our concerns are mostly focused around the later cycle issues facing financial services companies – particularly commercial real estate and unsecured consumer loans/credit card loans. However, commercial real estate exposure is more acutely held by US regional banks – rather than larger more diversified global financial services companies. The number of small U.S. banks failing continues to grow (124 year-to-date) but their franchises are being acquired/absorbed as convergence of the financial services industry accelerates – favouring we believe the stronger, better managed banks. A concern which remains is the extent to which loan modifications are an exercise in loss deferral but 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 U.S. 30 year mortgage market has remained low at 4.78% (it first dropped below the psychologically important 5% in late March before rising to 5.59% in June and fell back in October) as the Government and Fed continue to incentivize new home owners (the U.S. administration extended and expanded the first-time home buyer tax credit until April of next year) and support/reschedule existing stressed mortgagors (through lower rates) U.S. housing inventory is being slowly reduced (7.5 month supply of new houses and 7.0 month supply of existing houses – which we believe are now in a more normal range) as both new and existing house sales show significant month on month gains as a result of these massive government incentive programs. We believe it is premature to consider a recovery in house prices but a measure of stability from which to build is to be welcomed….particularly for those financial services companies holding structured assets in their portfolios.

The amended Federal Reserve Stats for large domestically chartered commercial banks in the US shows that the quantum of net unrealized losses on available for sale securities peaked in December at -$87.4 billion …improving to -$21.7 billion by end September and as at November 18 was reported as -$6.7 billion (see chart below). The pricing of these securities will in our view become increasingly volatile as liquidity now drives more normalized prices but the positive trend is much welcomed.

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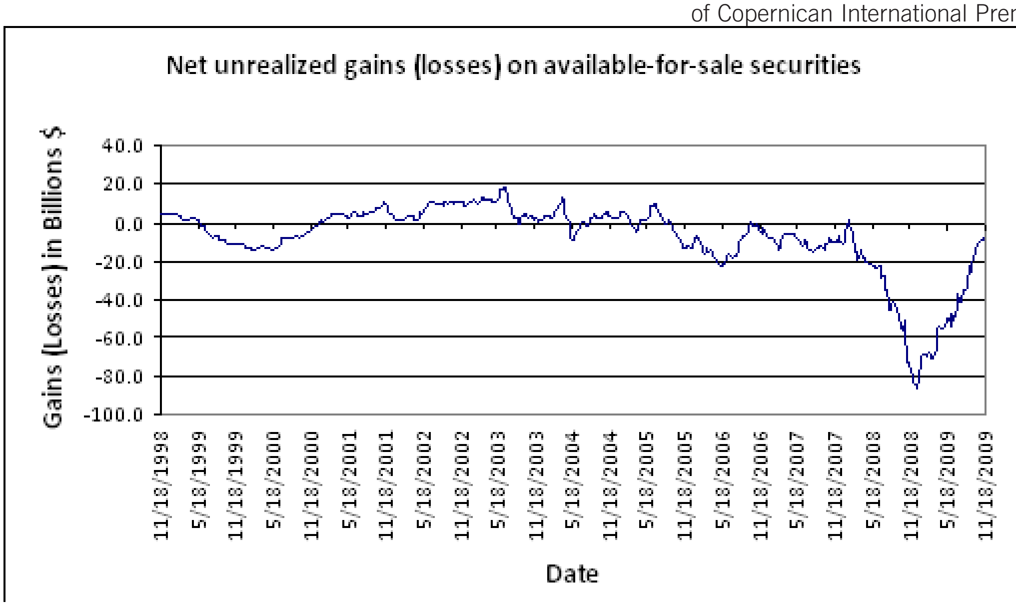
The writing back up of these assets feeds through to the book value and endorses the strategy of many large financial services companies to hold rather than trade such assets.



The VIX (volatility index) is 25.1, below the levels experienced last August/September (and well off the highs of 70-80 witnessed late September/October). Last week's rise in the VIX can be attributed to Dubai World's announced attempt to reschedule its debt. While, by its characteristics, the VIX will remain volatile, it is we believe further evidence of markets reacclimatizing to risk – typically we believe a VIX level below 25 augurs well for quality equities. And credit default swaps across most leading financial companies are trading in a gradually improving range of 1%-2% (compared to 5%-7% late September/early October).

We believe the largest impediment to a sustainable rally remains government intervention, not the global economy. We believe that as signs of stabilization gain traction the market will become more discerning, favouring quality franchises rather than the apparent recovery of weaker franchises. Quality is likely to embrace those franchises with attractive market footprints, stabilizing returns on equity (and credit in the case of financials), efficient operating platforms and robust net margins based on solid core franchises.

Spreads on the closed-end funds are narrowing but remain wide and so in our view are very attractively priced to purchase. We will this week and next be looking to re-circulate some shares of Copernican International Premium Dividend Fund (CPM.UN); and some Class A Shares of AIC Global Financial Split (ASC) and some Class A Shares and Preferred Shares of Copernican World Banks Split Inc. (CBW and CBW.PR.A) on behalf of Manulife.

At the close of business on Fridays and at the end of each month we publish the Net Asset Values of our funds onto our Portland website at http://www.portlandinvestic.com/Funds/WeeklyPricing.aspx.

The details published last Friday are replicated here below from which you can see we also highlight whether the funds share prices are trading at a premium or discount to their respective Net Asset Value.

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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