Market Commentary

PORTLAND INVESTMENT COUNSEL™

February 16, 2010

Current Recirculation

We are this week concluding our recirculation of some shares of Copernican British Banks (CBB) and on behalf of Manulife, some shares of Copernican World Financial Infrastructure (CIW). In our view this recirculation offers an opportunity particularly to investors looking to hold a position in CBB for at least 4 years – as, at that time, there will be no retraction fee.

News Highlights on Current Holdings

- Syngenta, the leading global provider of agricultural inputs, announced their full year 2009 and Q4 results Friday, February 5th, in Zurich. Earnings were slightly ahead of the expectations as well as revenues. One year prior comparison earnings per share were 3% lower from 16.26 USD/share to 15.76 USD/share on exceptionally tough comparatives in 2008, a record year.
- Results were boosted by a strong Q4 result in both crop protection, with a significant pest pressure in Latin America, and seeds, where the company made significant market share improvements, in particular in Latin America and Asia. A significant currency and raw materials headwind in 2009 is expected to revert in 2010, boosting company's operating earnings by about 200MM or 2.1USD/share.
- In a challenging economic environment, with lack of credit towards the farmers in emerging markets, the company managed to maintain its level of sales (up 1%) at constant exchange rates. While sales volume was down 3%, the company reached its stated price appreciation target of 4%. The company also succeeded in increasing its seeds division's profitability from 5.5% EBITDA margin to 9.5% EBITDA margin which leaves the division well on track for reaching a 15% EBITDA margin target in 2011. The overall outlook for 2010 is positive with sales volume as well as earnings growth being targeted.
- The company announced it maintains its current dividend of 6 CHF/share and announced its intention to initiate a share buy-back program of about 200MM USD in 2010.
- Roche Holdings, the Swiss leading pharmaceutical and biotechnology firm, announced results broadly in-line with the expectations for 2009. Sub-par results in some of the key cancer treatment drugs, caused by large inventory reductions in the distribution channel, were offset by better than expected sales of the flu medication, Tamiflu.
- The company guided for double digit earnings growth in 2010, unchanged from the previous guidance. The firm also guided for increased sales of Tamiflu in 2010, up to 1.2B CHF as well as for a reduction in R&D expenditures.
- Unlike many of its large pharmaceutical rival, Roche boasts a significant number of drugs in development with good selling potential. The major cancer drug Avastin, already estimated to reach peak sales of 8-9B CHF, is on the way to receiving approval for additional indications (ovarian, prostate and gastric cancer), which would add 1.5-3B in potential revenue.
- The world's largest banks, including JPMorgan (JPM) and HSBC (HBC), are moving their heads of private banking to Asia in order to focus on opportunities on that continent, according to the Financial Times. JPMorgan's head of international banking relocated to Hong Kong this week, while HSBC is seriously considering moving its private banking head to Hong Kong as well.
- Barclays buys Citigroup's Italian credit card business: Barclays is buying Citigroup's Italian credit card business as the UK bank continues to snap up assets for sale in the wake of the financial crisis. Per the Daily Telegraph, the Citigroup business comprises 197,000 credit card accounts and gross assets of about £204m. Barclays, which did not disclose the price it will pay, will combine the business with its Italian retail banking operation, which includes credit cards and more than 200 branches.
- Barclays' reports it has started the year well after beating forecasts with 2009 profit of 11.6 billion pounds ($18.2 billion), adding it had reined in payouts for staff after a public backlash over banker pay… Barclays reports 2009 net GBP9.4B vs. Bloomberg estimate GBP8.6B.
- Overall, a very positive set of numbers with upbeat guidance. Barclays Capital saw stronger revenues than peers (underlying revenues flat quarter-on-quarter), driven by Equities and Investment Banking franchises. Impairment charges falling half-on-half with improved guidance for 2010. Core Tier 1 at 10%, ahead of market expectations. The Net Tangible Asset (NTA) per share also came in better than expected at 337p per share even after today's move puts the stock on less than 0.9x. With provisions falling and revenues likely to prove more sustainable than peers we believe the return on equity will strengthen with a likely 11% Return on NTA in 2010 and 14% in 2011.
- Not only was the headline impairments figure better (GBP8.1B) vs. previous guidance of at the lower end of GBP9-9.6B and the consensus (GBP8.8B) – the outlook

improved as well with the company expecting a moderate fall in 2010 impairments at the group level (previously expecting a peak in 1Q10). The company singled out 'stress' portfolios – mainly commercial books, Spain (mainly commercial, less retail), India and UAE.

- Core Tier 1 ratio at 10% was driven by the 12% reduction in risk weighted assets as the company reduces the size of the balance sheet.
- Dividend policy to be 'conservative and progressive' – final dividend was at 1.5p compared to 3Q09 at 1p. The company says that Risk Weighted Asset evolution will largely depend upon regulatory reviews underway – Barclays intention is to be conservatively positioned in anticipation of the changes and so we should expect moderate dividend increases for a while.
- JPMorgan is close to an agreement to buy the non-US units of Royal Bank of Scotland Sempra Commodities LLP for about $1.7B in an effort to expand its energy and metals trading units, according to Bloomberg.
- Nokia and Intel said they are teaming up in top-end smartphone software and Microsoft finally unveiled its new phone operating system, Windows Phone 7, as they race to keep up with Apple and Google. And, taking aim at rivals like Apple Inc., BlackBerry-maker Research in Motion Ltd. as stated that smartphone manufacturers must start developing less bandwidth-guzzling products or risk choking already congested airwaves.

Economic Activity, Consumer and Business Conditions

- DUBAI… Dubai World considering offering creditors 60 cents on the dollar, according to the London Times. News of the idea emerged 14-Feb; the company's creditors think the offer is so unacceptable that it is unlikely to actually be made. Dubai World is also thinking about a proposal that would see banks repaid in full, but 40% of the repayment would come in the form of property, and the agreement would not have a sovereign guarantee. A source says banks are focused on achieving an agreement in which the governments of Dubai and Abu Dhabi agree to fund state-backed companies if they run out of cash, and such an agreement could be reached within two weeks.
- GREECE… EU official says Greece must do more to reduce deficit, Financial Times reports Greece has to take steps to cut its budget deficit further and could face penalties from other EU members if EU governments aren't convinced that Greek austerity measures are adequate, said Luxembourg Prime Minister Jean-Claude Juncker, who is also the president of a committee of all 16 EU finance ministers. Taxpayers in other EU countries aren't willing to pay for Greece's fiscal mistakes, Juncker added.
- A number of long due positives showed up in the economic reporting over the last couple of weeks in US, in particular the ones related to the all critical consumer sector:
- The personal income grew at 0.4% over the previous month for the month of December, continuing a six month streak of improvements, albeit relatively modest. The number also exceeded the expectations of a 0.3% month on month growth.
- The Consumer Confidence Index by the Conference Board registered a further improvement in January to 55.9 from 53.6 in December, with both the Present Situation Index and the Expectations Index showing positive changes month on month.
- University of Michigan Consumer Sentiment index final reading also improved in January, with the headline index up to 74.4 versus 72.8 preliminary reading and versus December 72.5 reading. As for the Consumer Confidence Index, both the current and the expectations components of the headline index improved in January. Unfortunately the improvement was not followed up by a further advance in February as the preliminary reading indicated a small retrenchment to a 73.7 reading, but we'll have to wait for the final reading in a couple of weeks to get a clearer picture.
- The unemployment rate unexpectedly declined to 9.7% from 10%, despite a reduction in the non-farm payroll employment of 20K jobs (likely to be revised significantly as these initial payroll numbers are notoriously volatile), which was in itself an improvement from the December 85K jobs drop. Moreover, improvements in average hourly earnings as well as in the number of weekly average hours, including the manufacturing workweek hours, point to stabilization in the labour market. The Thursday, January 11th, initial unemployment claims were 440K, significantly better than the 465K expected.
- The consumer credit outstanding is also showing signs of stabilization, with a drop of only 1.7 billion USD for December, compared to an expected reduction of 9 billion USD and a 17.5 billion USD for the month of November. At this pace we might just get an expansionary reading in the

month of January, to interrupt an eleven month slide in the consumer credit.

- As a corollary of the above, the retail sales posted a 0.5% improvement for the month of January, above the consensus 0.3%, a significant accomplishment given the bad weather south of the border.
- Business-wise, the ISM manufacturing index is increasingly bullish for the manufacturing conditions, with the February reading up to 58.4, over the 55.5 consensus and the 54.9 prior reading, reaching its highest level in more than 5 years. The ISM non-manufacturing index also improved, although to a lesser extent, reaching 50.8 compared to 50.1 for the previous month.
- On the inflation from, the Core Personal Consumption Expenditure (PCE) number, part of the personal income report, came in at 1.5% versus previous number of 1.4%, which is likely to moderate concerns of deflation. As a reminder, the Fed's comfort zone for the core PCE reading, their main inflation gage, is in the range of 1.5% to 2%.
- The quarterly Loan Officer Opinion Survey on Bank Lending Practices conducted in January, pointed to an easing of the lending standards, the first such reading since Q2 of the 2007. The US Bank Lending Conditions as reflected by the Loan Officer Opinion Survey is known to be a very good leading indicator of real GDP growth.

Financial Conditions

- Policymakers continue to accommodate a recovery in bank profits. The U.S. 2 year/10 year treasury spread is 2.87% and the U.K.'s 2 year/10 year treasury spread is 2.87% - enabling financial services companies' assets booked at these levels, to be very profitable, so enabling them to accelerate the absorption of 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 (16 to-date in 2010 and 140 in 2009) but their 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.
- 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 VIX (volatility index) is 22.8 substantially below the levels experienced last August/September (and well off the highs of 70-80 witnessed late September/October). 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 next few years will highlight the growing polarization between strong and weak institutions. Financial services companies that have capital strength will buy assets from those required to divest. Companies that have a strong presence in emerging markets will likely grow quicker than those that do not. Banks that have strong retail deposit franchises will take market share from those that rely on wholesale markets to fund loan growth at attractive margins. Financial services companies that have breached client trust will keep losing business to those reputations that have been enhanced by the crisis. We believe all the Funds are extremely well positioned to benefit from the strength of their portfolios of strong, dominant, attractively priced financial services companies.

Market Commentary

PORTLAND INVESTMENT COUNSEL™

February 16, 2010

Closed-End Funds

Spreads on the closed-end funds are narrowing but remain wide and so in our view are very attractively priced to purchase.

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.portlandinvestmentcounsel.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.

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

PIC10-0035-E(02/10)