News Highlights on Current Holdings

- **Sarasin and other Swiss private banks –** The Financial Times wrote on the Swiss Private Banks, last week (March 9) with the headline, "Swiss banks still have right combination." The article looked at the recent challenges to the bank's business models, including calls for greater transparency, the Italian tax amnesty, reputational problems / Inland Revenue disputes at UBS, the rows over foreign governments buying stolen client data from banks, and less forceful responses from the Swiss government in defence than in recent years. But the article goes on to highlight that 2009 asset inflows for most banks – even if this was aided by weakness at UBS – were good, while traditional values such as the broad product offering, stability etc. remain very much intact for clients. The article also mentioned our own view that Swiss banks expansion internationally – particularly into Asia – has also been beneficial. The article highlighted Sarasin for its performance last year. Sarasin's traditionally limited exposure to Italian clients left it relatively unscathed by the amnesty and its push into Asia – aided by its strong Dutch 'AAA' rated parent, Rabobank has to date been very successful. Even UBS, despite its tarnished reputation was able to register positive net new money from Asia in the fourth quarter, the first upturn for some time and in our view a possible sign of improvements to come.
- **Australia New Zealand Bank** has received regulatory approval to buy Royal Bank of Scotland's businesses in Singapore and Taiwan, part of the required sign-off for their proposed acquisitions RBS's retail, wealth management, commercial and institutional banking businesses in six countries for US$550m, announced last August.
- **Santander,** the Wall Street Journal has reported, has hired Credit Suisse as an advisor on a bid for the ~320 UK branches of RBS that are up-for-sale. Article says that indicative bids for the network are due early next month.
- **Barclays –** The Financial Times and The Wall Street Journal both carry front page stories last week indicating that Barclays is looking at buying a large US retail bank in order to rebalance its business post the quantum leap in the investment banking side post the Lehman deal. Barclays has a long standing strategic objective for Retail and Commercial Banking to account for 65% of its business, something which has increasingly been moving the opposite way post the Lehman deal. The reports indicate that an internal team has been set up to assess possible acquisition targets in the US and Antony Jenkins, the new head of Barclays' retail banking activities, is preparing a strategy paper that will go to the board in the next two to three months. Given the higher capital requirements under Basel III to support investment banking it makes obvious sense in our opinion to grow the Retail and Commercial business now albeit we don't believe Barclays has identified a firm target for a US retail bid or begun any talks.
- **Visa** reports February US aggregate payments volume growth 12% y/y ($91.52) US credit payments volume growth was positive 2%; and… debit payments volume growth was positive 20%.
- **GEA Group of Germany,** the engineering group leading the heat and mass exchange applications markets, announced their full year results in Bochum on Friday. Both revenues and earnings met the expectations and the company commented on the stabilization of key markets such as food and beverages, energy, climate and environment and chemicals. Last quarter was the first one to register an improvement in order intake in the last two years, while order cancellations were down 86% year on year. The company also announced significant successes in restructuring, with over 100MM EUR saved in 2009 and over 160MM EUR savings expected in 2010, at the expense of 65MM EUR restructuring costs. The company reorganization in five technology oriented business segments is also expected to lead to savings of 65MM. The company guides for a 12% underlying earnings before interest and taxes (EBIT) sustainable margin, up from 9.7% in 2008. The outlook for the 2010 business year is stable with improved order intake and improvements in profitability being targeted. The company also managed to significantly improve its cash flows, with the result of being in a 47.1MM EUR net cash position at the end of 2009 from 60.2MM EUR net debt at the end of 2008. A 0.3 EUR/share dividend was announced.

Economic Activity, Consumer and Business Conditions

- Good news out of the US on the retail front, where the headline number advanced 0.3% in February versus the previous month. Consensus expectations were calling for a 0.2% contraction. Sales increases were present in most retail categories, one exception being the auto sales which were reported flat. So far it seems that the consumer expenditure will be a net contributor to the Q1 GDP growth, but with the painfully slow recovery in the job markets it remains to be seen how the retail story will unfold in the coming quarters. The Consumer Sentiment Index by the University of Michigan which slipped to 72.5 in the March preliminary reading, from the 73.6 level a month ago, came as a reminder of the difficult employment outlook stateside.

- In Canada, the capacity utilization has improved significantly in Q4 of 2009, to 70.9%, coming off the historically low levels of 68.7% in Q3 and 68.5% in Q2. However, there is a lot of room for improvement as the capacity utilization 'normally' runs from 80% to 85%. The Canadian trade balance turned positive in January, being the highest in ten months at 800MM, despite a drop in auto exports. The job creation in Canada has been surprisingly strong, with 60,200 new full time jobs being added in February, leading to an 8.2% unemployment rate, an improvement over the 8.3% rate the month prior. The growth has been supported by the goods-producing and the public sectors.

Financial Conditions

- Policymakers continue to accommodate a recovery in bank profits. The U.S. 2 year/10 year treasury spread is 2.75% and the U.K.'s 2 year/10 year treasury spread is 2.85% - 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 (30 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 18.5 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.
- 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™

March 15, 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 beginning of business on Mondays 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.

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.

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